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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 OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Paul Y. Engineering Group Limited (the “**Company**”) will be held at JW Marriott Ballroom on Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions, in the case of resolution 1 and resolutions 3 to 6 inclusive, as ordinary resolutions and, in the case of resolution 2 as a special resolution:

ORDINARY RESOLUTION

(1) “**THAT:**

- (a) conditional on resolution (2) contained in this notice being duly passed as a special resolution, the Distribution in Specie (as defined in the Company’s circular dated 24 October 2011, of which this Notice forms part (the “**Circular**”)) and all documents, agreements and other actions necessary or, in the opinion of the board of directors of the Company, desirable to be issued, entered into or taken in connection with the Distribution in Specie or for the purpose of giving effect to it be and are hereby approved; and
- (b) conditional on the various conditions applicable to the Distribution in Specie as set out in the Circular, the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Distribution in Specie and matters relating thereto for the benefit of all members of the Company whose names appear on the register of members of the Company on 25 November 2011 or such other date as is determined by the board of directors of the Company and duly announced in accordance with the Listing

* *For identification purposes only*

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.”

SPECIAL RESOLUTION

- (2) “THAT, conditional on (i) resolutions (3) to (6) contained in this notice being duly passed as ordinary resolutions of the Company; (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of the Company in issue on the Capital Reduction (as defined below) becoming effective; (iii) compliance with the requirements of section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction, with effect from such time and on such date (the “**Effective Date**”) to be determined by the board of directors of the Company; and (iv) receipt by the Company (or its subsidiaries) of all relevant consents, authorisations and approvals as are required for the purposes of the reduction of capital of the Company provided for in this resolution, from any governmental or other competent regulatory authorities and, or, from any banks pursuant to facility agreements entered into by the Company (or any of its subsidiaries) and, or, from any other counter-parties to contracts entered into by the Company (or any of its subsidiaries), in each case with such receipt being by the Effective Date:
- (a) the nominal value of each issued share of the Company be reduced from HK\$0.50 to HK\$0.20 (the “**Capital Reduction**”);
 - (b) every unissued share of the Company of HK\$0.50 each will be sub-divided into shares of HK\$0.20;
 - (c) an amount of HK\$267 million standing to the credit of the share premium account of the Company as at the Effective Date be cancelled (“**Share Premium Cancellation**”);

- (d) the credit arising from the Capital Reduction and the Share Premium Cancellation be transferred to the contributed surplus account of the Company and the directors of the Company be and are hereby authorised to apply the amount in the contributed surplus account of the Company in any manner permitted by the laws of Bermuda and the bye-laws of the Company, including, but not limited to effecting, as applicable, the Distribution in Specie (as defined in the Circular) and paying the Cash Dividend (as defined in the Circular) out of the same; and
- (e) the board of directors of the Company be and is hereby authorised to determine the Effective Date and to take all actions in connection with the Capital Reduction and Share Premium Cancellation as the board of directors of the Company shall think necessary or desirable including, without limiting, the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Capital Reduction and Share Premium Cancellation; and (ii) exercising all the powers of the Company to give effect to the Capital Reduction and Share Premium Cancellation.”

ORDINARY RESOLUTIONS

- (3) “THAT, conditional on resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (4) to (6) contained in this notice being duly passed as ordinary resolutions of the Company:
 - (a) the subscription agreement dated 21 October 2011 entered into by and between Legendary East Holdings, LLC, Legend Pictures, LLC, Huayi Brothers International Ltd., Huayi Brothers Media Corporation, Modern Front Holdings Limited, the Company and Legendary East Ltd. (the “**Legendary East Subscription Agreement**”), a copy of which is produced to the meeting marked “A” and initialled by the chairman of the meeting for identification purposes, and the transactions contemplated under the Legendary East Subscription Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder, including entering into the shareholders agreement in substantially the form annexed to the Legendary East Subscription Agreement (the “**Legendary East Shareholders Agreement**”, and together with the Legendary East Subscription Agreement, the “**Joint Venture Agreements**”), be and are hereby confirmed, approved and ratified; and

- (b) the board of directors of the Company be and are hereby authorised on behalf of the Company to take all actions in connection with the Joint Venture Agreements as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with the Joint Venture Agreements; (ii) subject to completion of the Placing (as defined in the Circular), taking all steps necessary to subscribe, on behalf of the Company, for new shares in the issued share capital of Legendary East Ltd. representing 50% of the total issued share capital of Legendary East Ltd. for an aggregate cash consideration of upto US\$220.5 million; and (iii) exercising all such powers of the Company to give effect to the Company's obligations under or in-relation to the Joint Venture Agreements."
- (4) "THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3), (5) and (6) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) the Capital Reduction becoming effective;
- (a) the authorised share capital of the Company be increased (the "**Capital Increase**") from HK\$500,000,000 divided into 2,500,000,000 shares of HK\$0.20 each to HK\$2,000,000,000 by the creation of an additional 7,500,000,000 new shares of HK\$0.20 each, such new shares to rank pari passu with the shares in the capital of the Company in existence on the Capital Reduction becoming effective;
- (b) the share placing agreement dated 21 August 2011 entered into by and between the Company and UBS AG, Hong Kong Branch as amended by an amendment agreement dated 21 October 2011 entered into by and between the Company, UBS AG, Hong Kong Branch and CLSA Limited (the "**Placing Agreement**"), a copy of each agreement of which is produced to the meeting marked "B" and initialled by the chairman of the meeting for identification purposes, and the transactions contemplated under the Placing Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified;
- (c) the subscription agreement dated 21 August 2011 entered into by and between the Company, Rising Wealth Group Limited, Profit Billion Limited and Mighty Merit Group Limited (the "**Subscription Agreement**"), a copy of which is produced to the meeting marked "C" and initialled by the chairman of the meeting for identification purposes and the transactions contemplated under the Subscription Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified;

- (d) the directors of the Company be and are hereby afforded a specific mandate (the “**Specific Mandate**”) to exercise all the powers of the Company to allot, issue and deal with new shares of HK\$0.20 in the capital of the Company as follows:
- 1) to allot and issue up to 3,180,000,000 new shares of HK\$0.20 per share in the capital of the Company subject to and in accordance with the terms and conditions set out in the Placing Agreement, such mandate to expire on the date that falls six months after the date of this meeting;
 - 2) to allot and issue up to 420,000,000 new shares of HK\$0.20 per share in the capital of the Company subject to and in accordance with the terms and conditions set out in the Subscription Agreement, such mandate to expire on the date that falls six months after the date of this meeting;
 - 3) to allot and issue up to such number of new shares of HK\$0.20 each as equates to 100% of the entire issued share capital of the Company on completion of the Placing (as defined in the Circular), representing up to 4,206,954,322 new shares of HK\$0.20 each assuming exercise in full of the Upsize Options (as defined in the Circular), subject to and in accordance with the Put Right as defined and provided for in the Legendary East Shareholders’ Agreement, with the number of new shares being subject to adjustment in the case of changes to the nominal value of the new shares by consolidation, sub-division or otherwise in the manner prescribed by the Legendary East Shareholders’ Agreement, such mandate to expire on expiry of the Exchange Rights Period as defined in and provided for in the Legendary East Shareholders’ Agreement; and
- (e) the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Capital Increase and the Specific Mandate and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instrument or agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Capital Increase and the Specific Mandate (whether pursuant to the Placing Agreement, the Subscription Agreement, the Legendary East Shareholders’ Agreement or otherwise); and (ii) exercising all such powers of the Company to give effect to the Capital Increase and the Specific Mandate.”

- (5) “THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3), (4) and (6) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Placing (as defined in the Circular):
- (a) a special cash dividend (the “**Cash Dividend**”) of HK\$0.25 per share be and is hereby approved to be paid to members of the Company whose names appear on the register of members of the Company on the Record Date, subject to the rights of Eligible Qualifying Shareholders (as defined in the Circular) to elect to receive such dividend in the form of an allotment and issue of new ordinary shares of HK\$0.20 each in the capital of the Company at the price of HK\$0.65 per share credited as fully paid up in lieu of such special cash dividend (the “**Scrip Alternative**”), if so duly elected by Eligible Qualifying Shareholders;
 - (b) scrip shares of the Company (the “**Scrip Shares**”) be allotted and issued, credited as fully paid up as to HK\$0.65 per share, to Eligible Qualifying Shareholders whose names appear on the register of members of the Company on the Record Date and who duly elect to receive the Scrip Alternative;
 - (c) the Scrip Shares (if any) to be issued pursuant to this resolution shall rank pari passu with the shares in the capital of the Company in existence on the Capital Reduction becoming effective, except that they will not be eligible for the Distribution in Specie referred to in resolution (1) above or the Cash Dividend referred to in this resolution; and
 - (d) the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Cash Dividend and the Scrip Alternative and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with or the purpose of giving effect to the Cash Dividend and the Scrip Alternative; (ii) exercising all such powers of the Company to give effect to the Cash Dividend and the Scrip Alternative.”

(6) “THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3) to (5) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Placing:

- (a) Mr. Wu King Shiu, Kelvin be elected as an executive director of the Company;
- (b) Mr. Chang Tat Joel be elected as an executive director of the Company; and
- (c) Directors’ remuneration be fixed,

in each case with effect from completion of the Placing and subject to the terms and conditions of the Company’s bye-laws.”

By Order of the Board of
Paul Y. Engineering Group Limited
Mui Ching Hung, Joanna
Company Secretary

Hong Kong, 24 October 2011

Principal place of business in Hong Kong:
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

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. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be deposited at the Company’s principal place of business in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument purposes to vote.

3. The register of members of the Company will be closed for the purpose of determining the entitlements to the proposed Distribution in Specie and proposed Cash Dividend from Thursday, 24 November 2011 to Friday, 25 November 2011, both dates inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed Distribution in Specie and proposed Cash Dividend, all transfers of shares accompanied by the relevant shares certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Wednesday, 23 November 2011.

As at the date of this notice, the directors of the Company are:

Ir James Chiu, <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