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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)



保華集團有限公司*

PYI Corporation Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 498)

UPDATE ANNOUNCEMENT

Reference is made to the Transactions Announcement and the circular of PYI dated 23 September 2011 in relation to the Transactions.

PYE Board wishes to draw PYI Shareholders', PYE Shareholders' and potential investors' attention that the conditional placing agreement executed on 21 August 2011 between PYE and UBS AG, Hong Kong Branch, has been amended by an amendment agreement dated 21 October 2011 between the Company, UBS AG, Hong Kong Branch and CLSA Limited, by virtue of which CLSA Limited has agreed to be appointed as an additional placing agent together with UBS AG, Hong Kong Branch as the Placing Agents, and UBS has been appointed as the Sole Global Coordinator, acting severally and not jointly nor jointly and severally with each other under the Independent Placing Agreement. Save for the appointment of an additional placing agent and the appointment of UBS AG, Hong Kong Branch as the Sole Global Coordinator, all the terms of the Independent Placing Agreement remain the same in all material respects. PYE Directors are of the view that the appointment of an additional placing agent reflects the current market situation and is in the best interests of the PYE Shareholders as a whole. To the best of the PYE Directors' knowledge, information and belief, having made all reasonable enquiries, each Placing Agent and its ultimate beneficial owner are third parties independent of, and not connected with, PYE and its Connected Persons.

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

In addition, the legally-binding Heads of Agreement executed on 21 August 2011 between PYE, Legendary East, Legendary and Huayi, has now been terminated by the Legendary East Subscription Agreement, executed on 21 October 2011, which is annexed with the form of Legendary East Shareholders' Agreement. It was envisaged all along and was provided for in the Heads of Agreement that they would be replaced

by the more detailed Joint Venture Agreements. To the best of the PYE Directors' knowledge, information and belief, all the collective terms of the Joint Venture Agreements are consistent with the terms of the Heads of Agreement in all material respects and no material term from the Heads of Agreement has been omitted.

Details of the Joint Venture Agreements are as follows:

Date of the Legendary East Subscription Agreement: 21 October 2011.

Parties to the Legendary East Subscription Agreement: Legendary East Holdings; Legendary; Huayi; Huayi Brothers; Modern Front; PYE; and Legendary East.

Parties to the Legendary East Shareholders' Agreement (to be entered into on or before JV Closing): Legendary East Holdings; Legendary East; Legendary; Huayi; Huayi Brothers; Modern Front; PYE; and the JV Management Members (to the extent identified as at the date the Legendary East Shareholders' Agreement is entered into, and who will otherwise be joined as parties to the agreement by deed of accession at such time as each becomes a holder of Legendary East Shares).

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

Termination of the Heads of Agreement: The Joint Venture Agreements are based upon the Heads of Agreement and incorporate all of the material terms of the Heads of Agreement (which has now been terminated by the Legendary East Subscription Agreement).

Purposes: (a) To develop, finance, acquire, produce, distribute and exploit films, based on Chinese history, mythology and, or, culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis; and

development which are associated with the above to Legendary East. Apart from the motion picture projects that are currently under development, for which development costs will be reimbursed by Legendary East, there will be no other physical assets to be contributed by either Legendary or Huayi. It is not presently anticipated that Huayi will contribute any motion picture projects currently under development. The valuation of Legendary East is prepared by reference to the business plan of Legendary East.

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

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

Conditions precedent: The JV Closing is conditional upon:

- (i) the parties settling and entering into the Joint Venture Agreements based on the Heads of Agreement;
- (ii) completion of the Placing; and
- (iii) Legendary East (or its subsidiaries) entering into:
 - (a) a master co-production agreement with Huayi (as contemplated under the sub-heading 'Production' below); and
 - (b) a master distribution agreement with a U.S. film studio or its foreign affiliate (as contemplated under the sub-heading 'Distribution' below).

Shareholdings:

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

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

JV Management Members may, collectively, be granted an aggregate shareholding interest of up to 11% of the issued share capital of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East (the shares therefore being required to be transferred to the JV Management Members by, or otherwise reducing the ownership interests of, Legendary). The JV Management Members are expected to include the Proposed New PYE Directors and Mr. Thomas Tull, the chairman and chief executive officer of Legendary and future executive chairman of Legendary East (amongst others including, potentially, other Legendary executives), although the identities of all of the JV Management Members, the exact number of Legendary East Shares to be held by them and the timing of the same have yet to be determined. That said, and for the purposes of clarity to PYE Shareholders and PYI Shareholders, it is anticipated that the Proposed New PYE Directors will be granted an aggregate maximum interest in Legendary East of up to 5% of the total issued share capital of Legendary East comprised as at the date of JV Closing. If not allotted on JV Closing, such interest would be transferred to the Proposed New PYE Directors by Legendary at times to be agreed after JV Closing subject to relevant agreed vesting conditions. The Proposed New PYE Directors will be Connected Persons of PYE with effect from completion of the Placing. It is not currently anticipated that any other JV Management Members will be Connected Persons of PYE (or PYI).

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

- (i) first, to PYE until PYE receives an amount equal to the amount of its initial capital contribution to Legendary East (i.e., US\$220.5 million) (less the aggregate amount of certain dividends previously paid on shares held by PYE) (a condition that has been fulfilled);

- (ii) next, the other members of Legendary East (the “**Other Members**”) will receive a catch up until the Other Members have received an amount equal to the amount distributed to PYE (i.e., US\$220.5 million) (less the aggregate amount of certain dividends previously paid on shares held by Other Members) ; and
- (iii) thereafter, PYE and the Other Members will receive amounts in proportion to their respective ownership percentages.

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

Debt finance:

Legendary East, through its subsidiaries, will use commercially reasonable efforts to obtain a revolving senior secured credit facility in the principal amount of up to approximately US\$225 million, no later than 30 days after the release of the first Qualifying Film. It is not intended that any of PYE, Legendary or Huayi will be required to provide guarantees or any form of security in respect of this debt finance.

Management and corporate governance:

The board of directors of Legendary East will initially consist of five members, with two members appointed by Legendary, one member appointed by Huayi and two members appointed by PYE.

Certain matters specified in the Legendary East Shareholders’ Agreement, such as entering into certain new lines of business or the making of certain amendments to Legendary East’s organisational documents (the “**super majority voting matters**”), require a majority vote, that in some cases, requires a board majority that includes the approval of at least one director appointed by PYE or the approval of at least one director appointed by Huayi and, in other cases, a board majority that includes the approval of at least one director appointed by Legendary (and, for some matters, the approval of a director appointed by each of PYE, Huayi, and Legendary).

Exclusivity:

- (a) PYE – PYE shall not be permitted, during the JV Hold Period, to invest in any entity whose primary business is to produce and, or, finance High Budget Chinese Co-Productions.

- (b) Legendary – Until Legendary owns less than 25% of its initial shares as of the JV Closing, and for 5 years thereafter, subject to certain exceptions as set forth in the Legendary East Shareholders' Agreement, Legendary shall not be permitted to engage, outside of Legendary East, in the financing or production of any High Budget Chinese Co-Productions.

- (c) Huayi – Until Huayi owns less than 25% of its initial shares as of the JV Closing, and for 5 years thereafter, subject to certain exceptions as set forth in the Legendary East Shareholders' Agreement, Huayi shall not be permitted to engage outside of Legendary East in the financing or production of any High Budget Chinese Co-Productions, provided that Huayi shall be permitted to distribute any films (including High Budget Chinese Co-Productions) developed and produced by third parties if Huayi has not participated in the development, financing or production thereof.

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

- (e) JV Management Members – JV Management Members shall not be permitted, during the JV Hold Period, to invest in any entity whose primary business is to produce and, or, finance High Budget Chinese Co-Productions.

Minimum hold: Members of Legendary East will not be entitled to sell, transfer or otherwise alienate their interests in Legendary East for the JV Hold Period (subject to limited exceptions), provided however, each member (other than the JV Management Members) shall be permitted to pledge its equity interests in Legendary East to its lenders (or, in the case of PYE, its affiliates’ lenders) to the extent required by its credit facilities or other debt agreements (or, in the case of PYE, those of its affiliates).

DEVELOPMENT, PRODUCTION AND DISTRIBUTION OF QUALIFYING FILMS

Qualifying criteria: Legendary East will initially seek to produce and distribute one to two Qualifying Films per year for distribution on a worldwide basis. Such films will be filmed predominantly in the English language and based on Chinese history, mythology or culture and will be produced so as to qualify as Chinese co-productions under applicable Chinese governmental regulations, including approval of the screenplay by the applicable regulatory authorities.

Development: Legendary East will establish a development committee which will be responsible for making all material development decisions including whether or not to pursue a particular project for development. The development committee will have five members. Legendary will be entitled to appoint three members, Huayi will be entitled to appoint one member and PYE will be entitled to appoint one member. All decisions of the development committee will be made by a majority vote.

Greenlighting: Legendary East will establish a greenlight committee responsible for evaluating each project to determine whether such project is (or will be) a Qualifying Film, make the final determination as to whether such project shall be greenlit for production and (following earliest cessation of the Huayi Group's exclusivity commitment to Legendary East) to determine whether a Qualifying Picture will be co-produced with Huayi Brothers.

The greenlight committee will have five members. Legendary will be entitled to appoint three members, Huayi will be entitled to appoint one member and PYE will be entitled to appoint one member. In cases where there is no unanimity, a simple majority of the members of the greenlight committee will prevail, provided, however, that the approval of the PYE appointed member and Legendary appointed member shall be required to greenlight a project that does not meet the requirements of a Qualifying Film.

Production: On or before JV Closing, (i) a subsidiary of Legendary East and Huayi (or a party within the Huayi Group) will enter into a master co-production agreement pursuant to which the parties will agree to co-produce Qualifying Films in order to qualify as approved Chinese co-productions; and (ii) Legendary East and Legendary will enter into a Legendary producer agreement pursuant to which Legendary will render customary production services to Legendary East in connection with Legendary East films. Each of Legendary (or its affiliate) and Huayi (or a party within the Huayi Group) will be entitled to a respective fixed fee for each Qualifying Film and Legendary (or its affiliate) will be entitled to a percentage of gross receipts in respect of each Qualifying Film as producer fees.

Distribution: On or before JV Closing, a subsidiary or subsidiaries of Legendary East will enter into one or more master distribution agreements with a U.S. film studio or its foreign affiliate (the “**Studio Distributor**”) for the distribution of Qualifying Films throughout the world (other than the territories licensed to Huayi) on terms and conditions yet to be settled (and additionally may enter into one or more other distribution agreements with other U.S. film studios (or their foreign affiliates) on a picture by picture basis).

Huayi (or a party within the Huayi Group) will distribute each Qualifying Film in the PRC (and, subject to the approval of Legendary East and the Studio Distributor, some or all of Hong Kong, Macau, Taiwan, Malaysia and, or, Singapore) (the “**Huayi Territory**”). Huayi (or a party within the Huayi Group) will be entitled, as its distribution fee, to a percentage of the gross receipts collected by Huayi from the exploitation of its rights to the Qualifying Films.

Approved Co-Financed Pictures: Legendary East may co-finance up to 25% of the direct negative costs of two (and potentially more) Approved Co-Financed Pictures. The actual films will be selected by mutual agreement between Legendary and Legendary East via the greenlight committee referred to above, in which regard the approval of the committee must include the approval of the PYE nominee to the committee. Legendary East’s interests in any Approved Co-Financed Pictures may be limited to an economic interest in the net proceeds derived from exploitation of the Approved Co-Financed Pictures commensurate with its contribution towards the direct negative costs.

RIGHTS TO EXCHANGE FOR NEW PYE SHARES

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

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

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

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

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

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

- (i) approval of the same by PYE Shareholders (as an integral part of approving the Joint Venture Agreements);
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in all New PYE Shares to be allotted pursuant to the exercise of the Exchange Rights;
- (iii) exercise of the Exchange Rights not causing the shares of PYE to be de-listed nor being deemed to constitute a new listing for PYE;
- (iv) for the initial exchange, the fair market value of Legendary East Shares (other than those held by PYE but after giving effect to the liquidation preference of PYE’s Legendary East Shares) must be equal to or must exceed US\$220.5 million (and for subsequent exchanges the US\$220.5 million threshold shall be proportionately adjusted based upon the number of shares previously exchanged); and
- (v) in the case only of PYE’s Call Right, further compliance with the relevant requirements of Chapter 14 and Chapter 14A of the Listing Rules, including the requirement, as necessary, to obtain independent shareholder approval.

Exchange ratio: The Legendary East Shares will be exchanged for New PYE Shares, based on the relative fair market values of PYE and Legendary East at the time of exercise of the Exchange Rights on the basis that:

- (i) the respective fair market values of PYE and Legendary East will be as agreed between the parties or otherwise on the basis of appraised valuations by an agreed independent valuer;
- (ii) having determined the respective fair market values of PYE and Legendary East, the respective fair market values per share (after giving effect to the liquidation preference of PYE’s Legendary East Shares), and accordingly the exchange ratio, shall be determined; and

- (iii) for the purposes of capping the limit of the Exchange Rights, the parties have agreed that the maximum number of New PYE Shares to be allotted and issued shall not, in any event, exceed 3,706,954,322 New PYE Shares (or such greater number of shares as are outstanding after the completion of the Placing depending upon exercise of either or both of the Upsize Options and subject to adjustment in the case of changes to the nominal value of the New PYE Shares by consolidation, sub-division or otherwise).

Connected transaction aspects to the Exchange Rights:

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

Cash alternative:

At the election of the respective holders of the Investors' Put Right, on exercise by PYE of PYE's Call Right, and, at the election of PYE, on exercise by the respective holders of the Investors' Put Right, up to a maximum of 50% of the shares to be exchanged shall be settled by PYE in cash (based on the fair value of the shares being exchanged) in lieu of PYE issuing New PYE Shares to the equivalent value.

Certain consequences of a party reducing its equity interest in Legendary East

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

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

Specific Mandate:

The New PYE Shares to be issued upon exercise of the Investors' Put Right shall be allotted and issued pursuant to the Specific Mandate the authority in respect of which will remain valid until the end of the Exchange Rights Period. The New PYE Shares issued on exercise of the Exchange Rights would not be subject to restrictions on subsequent sales.

DEFINITIONS

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

“AID Capital”	AID Partners Capital I, L.P., an exempted limited partnership registered in the Cayman Islands
“AID Parties”	the AID Subscribers and AID Capital
“AID Subscriber 1”	Rising Wealth Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber 2”	Profit Billion Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber 3”	Mighty Merit Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber(s)”	AID Subscriber 1, AID Subscriber 2 and AID Subscriber 3
“AID Subscription Agreement”	the agreement dated 21 August 2011 entered into by and between PYE and the AID Subscribers in relation to the conditional subscription of 360 million Placing Shares plus up to an additional 60 million Placing Shares pursuant to the AID Upsize Option (if exercised)
“AID Upsize Option”	the option granted by PYE to the AID Subscribers pursuant to the AID Subscription Agreement by virtue of which PYE may be required by the AID Subscribers to allot and issue to the AID Subscribers up to an additional 60 million Placing Shares
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“Capital Reduction”	the proposed reduction of the share capital and share premium account of PYE and subdivision of PYE’s unissued shares as described in this announcement

“Capital Reduction Effective Date”	the date on which the Capital Reduction becomes effective, expected to be on or around 21 November 2011
“Cash Alternative”	the cash alternative to receiving PYE BVI Share(s) pursuant to the Distribution in Specie, in the amount of HK\$0.30 per PYE BVI Share, available to all Qualifying PYE Shareholders (other than PYI)
“Cash Dividend”	the conditional cash dividend proposed to be declared and paid by PYE in the amount of HK\$0.25 per New PYE Share held by Qualifying PYE Shareholders on the Record Date
“China”	the People’s Republic of China, for the purpose of this announcement, including Hong Kong, Macau and Taiwan
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Distribution in Specie”	the proposed distribution in specie by PYE of one PYE BVI Share for every one New PYE Share held by Qualifying PYE Shareholders on the Record Date
“Eligible Qualifying PYE Shareholders”	a Qualifying PYE Shareholder, other than any Overseas PYE Shareholder in respect of whom the PYE Directors, after making relevant enquiries, consider it necessary or expedient to exclude the distribution of PYE BVI Shares pursuant to the Distribution in Specie and, or, the allotment of New PYE 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
“Exchange Rights”	the rights of each of the members of Legendary East (other than PYE), on the one hand, and PYE, on the other hand, to require an exchange of the Legendary East Shares (as held by the members of Legendary East, other than PYE) for the New PYE Shares, as further described in this announcement

“Film Joint Venture”	the establishment and operation of Legendary East as a company that will develop, finance, acquire, produce, distribute and exploit films based on the terms of the Joint Venture Agreements and the other agreements to be entered into pursuant thereto
“Heads of Agreement”	the legally-binding heads of agreement dated 21 August 2011 entered into between PYE, Legendary, Huayi and Legendary East, which has now been terminated by the Legendary East Subscription Agreement
“High Budget Chinese Co-Productions”	films based on Chinese history, mythology or culture, filmed predominantly in the English language, with a direct-cost budget which equals to or is greater than US\$50 million that will qualify as a Chinese co-production under applicable Chinese government regulations
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Huayi”	Huayi Brothers International Limited, a company incorporated in Hong Kong
“Huayi Brothers”	Huayi Brothers Media Corporation, a company incorporated in the PRC, the issued shares of which are listed on the Shenzhen Stock Exchange Growth Enterprise Market (stock code: 300027)
“Huayi Group”	Huayi Brothers and its subsidiary companies specifically including (but not limited to) Huayi
“Independent Placees”	the professional, institutional and other investor(s) selected and procured by or on behalf of the Placing Agents to subscribe for any of the Placing Shares on the terms and subject to the conditions set out in the Independent Placing Agreement

“Independent Placing Agreement”	the placing agreement dated 21 August 2011 as amended by an amendment agreement dated 21 October 2011 entered into by and between PYE and the Placing Agents in relation to the conditional placing of 2,740 million Placing Shares plus an additional 440 million Placing Shares pursuant to the Placing Agents’ Upsize Option (if exercised)
“Joint Venture Agreements”	the Legendary East Subscription Agreement and the Legendary East Shareholders’ Agreement
“JV Closing”	the contribution of cash and assets to Legendary East upon satisfaction of all the conditions precedent of the Joint Venture Agreements
“JV Hold Period”	a period of three years following the JV Closing date
“JV Management Members”	certain officers, directors and, or, employees of Legendary East as may be granted equity interests in Legendary East
“Legendary”	Legend Pictures, LLC, a limited liability company formed in Delaware, the U.S.
“Legendary East”	Legendary East Ltd., an exempted company incorporated in the Cayman Islands with limited liability. Legendary East is subject to regulations under the Companies Law (2010 revision) of the Cayman Islands.
“Legendary East Holdings”	Legendary East Holdings, LLC, a limited liability company formed in Delaware, the U.S. and a subsidiary of Legendary
“Legendary East Share(s)”	ordinary share(s) in the share capital of Legendary East

“Legendary East Shareholders’ Agreement”	the shareholders’ agreement to be entered into on or before the JV Closing in substantially the form annexed to the Legendary East Subscription Agreement, by and among Legendary East Holdings, Legendary East, Legendary, Huayi, Huayi Brothers, Modern Front, PYE and the JV Management Members (to the extent identified as at the date of execution thereof, the Legendary East Shareholders’ Agreement is entered into, and who will otherwise be joined as parties to the agreement by deed of accession at such time as each becomes a holder of Legendary East Shares) relating to the operation of the Film Joint Venture
“Legendary East Subscription Agreement”	the subscription agreement dated 21 October 2011 entered into by and among Legendary East Holdings, Legendary, Legendary East, Huayi, Huayi Brothers, Modern Front, PYE and Legendary East relating to the establishment of the Film Joint Venture
“Listing Committee”	has the meaning ascribed to it in Chapter 1 of the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Modern Front”	Modern Front Holdings Limited, a private company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PYE
“Mr. Chang”	Mr. Chang Tat Joel
“Mr. Wu”	Mr. Wu King Shiu, Kelvin
“New PYE Shares”	the proposed new ordinary share(s) of HK\$0.20 each in the share capital of PYE as will exist on the Capital Reduction Effective Date

“Overseas PYE Shareholder(s)”	PYE Shareholder(s) whose address(es), as shown on the share register or branch share register on the Record Date, is/are outside Hong Kong
“Placing”	the proposed placing of the Placing Shares pursuant to the terms of the Placing Agreements
“Placing Agent(s)”	UBS AG, Hong Kong Branch and CLSA Limited
“Placing Agents’ Upsize Option”	the option granted by PYE to the Placing Agents pursuant to the Independent Placing Agreement by virtue of which PYE may be required by the Placing Agents to allot and issue to Independent Placees up to an additional 440 million Placing Shares
“Placing Agreements”	the Independent Placing Agreement and the AID Subscription Agreement
“Placing Share(s)”	the New PYE Shares proposed to be placed pursuant to the Placing, being 3,100 million New PYE Shares (in the absence of exercise of the Upsize Options) or up to 3,600 million New PYE Shares (on the exercise in full of the Upsize Options)
“PRC”	the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong, Macau and Taiwan
“Proposed New PYE Directors”	the proposed directors of PYE, Mr. Wu and Mr. Chang
“PYE”	Paul Y. Engineering Group Limited (stock code: 577), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
“PYE Board”	the board of directors of PYE
“PYE BVI”	Paul Y. Engineering (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PYE
“PYE BVI Share(s)”	share(s) in the issued share capital of PYE BVI

“PYE Directors”	the directors of PYE
“PYE SGM”	the special general meeting of PYE to be convened and held at JW Marriott Ballroom on Level 3, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m. to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
“PYE Share(s)”	the existing ordinary share(s) of HK\$0.50 each in the share capital of PYE
“PYE Shareholder(s)”	shareholder(s) of PYE
“PYI”	PYI Corporation Limited (stock code: 498), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
“PYI Board”	the board of directors of PYI
“PYI Shares”	the existing ordinary share(s) of HK\$0.10 each in the share capital of PYI
“PYI Shareholder(s)”	shareholder(s) of PYI
“Qualifying Film(s)”	film(s) produced and distributed by Legendary East that are based on Chinese history, mythology or culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis, which meets certain criteria set out in the Legendary East Shareholders’ Agreement
“Qualifying PYE Shareholders”	all PYE Shareholders registered on the share register or branch share register on the Record Date
“Record Date”	Friday, 25 November 2011 being the record date for the purposes of ascertaining entitlements of the PYE Shareholders to the Distribution in Specie or Cash Alternative and, or, the Cash Dividend or Scrip Alternative, being a date that follows both the PYE SGM and the Capital Reduction Effective Date

“Scrip Alternative”	the proposed scrip dividend arrangements of PYE pursuant to which Eligible Qualifying PYE Shareholders will have the option to elect to receive New PYE Shares in lieu of the Cash Dividend as further described in this announcement
“Sole Global Coordinator”	UBS AG, Hong Kong Branch
“Specific Mandate”	a specific mandate to be sought from PYE Shareholders at the PYE SGM to allot and issue (i) the Placing Shares pursuant to the Placing Agreements; and (ii) the New PYE Shares upon the exercise of the Investors’ Put Right (as defined on page 11 of this announcement)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction(s)”	the Placing and all matters relating thereto, including the Upsize Options; the Film Joint Venture and all matters relating thereto, including the Exchange Rights; the Distribution in Specie, including all matters relating thereto, including the Capital Reduction and the Cash Alternative; and the Cash Dividend and all matters relating thereto including the Scrip Alternative
“Transactions Announcement”	the joint announcement of PYE and PYI dated 21 August 2011 relating to the Transactions
“Upsize Options”	the Placing Agents’ Upsize Option and the AID Upsize Option
“US\$”	United States dollars, the lawful currency of the U.S.
“U.S.”	United States of America

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

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

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

Hong Kong, 23 October 2011

As at the date of this announcement, the composition of PYE Board is as follows:

Ir James Chiu, <i>OBE, JP</i>	: <i>Chairman</i> (<i>Independent Non-Executive Director</i>)
Mr Lau Ko Yuen, Tom	: <i>Deputy Chairman (Non-Executive Director)</i>
Mr Chan Fut Yan	: <i>Deputy Chairman (Executive Director)</i>
Ir Dr Wong Kam Cheong, Stanley	: <i>Executive Director & Chief Executive Officer</i>
Professor Lee Chack Fan, <i>SBS, JP</i>	: <i>Independent Non-Executive Director</i>
Mr Iain Ferguson Bruce	: <i>Independent Non-Executive Director</i>

As at the date of this announcement, the composition of PYI Board is as follows:

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

* *For identification purpose only*