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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)

**VERY SUBSTANTIAL ACQUISITION
INCLUDING A POTENTIAL SHARE
TRANSACTION
FOR PYE**

**DEEMED VERY SUBSTANTIAL
DISPOSAL AND POTENTIAL
DISCLOSEABLE TRANSACTION
FOR PYI**

**PROPOSED PLACING OF NEW SHARES BY PYE REQUIRING
A SPECIFIC MANDATE FROM PYE SHAREHOLDERS, AND
CONSTITUTING A DEEMED VERY SUBSTANTIAL DISPOSAL FOR PYI**

**PROPOSED FILM JOINT VENTURE BETWEEN PYE, LEGENDARY AND
HUAYI CONSTITUTING A VERY SUBSTANTIAL ACQUISITION FOR PYE
AND INCLUDING A POTENTIAL SHARE TRANSACTION FOR PYE**

**PROPOSED CAPITAL REDUCTION BY PYE AND
PROPOSED DISTRIBUTION IN SPECIE BY PYE OF A
49% INTEREST IN ITS EXISTING BUSINESSES, WITH THE OFFER
OF A CASH ALTERNATIVE PROVIDED BY PYI CONSTITUTING
A POTENTIAL DISCLOSEABLE TRANSACTION FOR PYI**

**PROPOSED SPECIAL CASH DIVIDEND BY PYE OF HK\$0.25 PER SHARE
WITH A SCRIP ALTERNATIVE**

Financial Adviser to PYE and PYI



Anglo Chinese Corporate Finance, Limited

Placing agent



UBS AG, Hong Kong Branch

Summary

The PYE Board is pleased to announce that PYE has entered into certain agreements and resolved to pursue certain transactions which, together, would represent a significant refocusing of PYE's business activities which the PYE Board believes will, in due course, generate strong cash flows and ultimately benefit to all PYE Shareholders. In summary, PYE proposes to pursue a new film joint venture with industry-leading partners, Legend Pictures, LLC and Huayi Group. PYE also plans to reduce its exposure to, and reliance upon, its existing construction, civil engineering and property-related businesses by distributing 49% of the intermediate holding company of those businesses.

Placing

On 21 August 2011, PYE entered into two conditional agreements to allot a total of 3,100 million Placing Shares, with the prospect of up to an additional 500 million Placing Shares, being allotted on exercise of the Upsize Options (which, if exercised, in full would mean that a total of 3,600 million Placing Shares would be allotted and issued pursuant to the Placing).

The first agreement, the Independent Placing Agreement, is between PYE and UBS AG, Hong Kong Branch, who has conditionally agreed to place, on a best efforts basis, 2,740 million Placing Shares at a Placing Price of HK\$0.65. In addition, the Placing Agent has been granted an option to call for the issue of up to an additional 440 million Placing Shares at the same Placing Price.

The second agreement, the AID Subscription Agreement, is between PYE and the AID Subscribers who have conditionally agreed to subscribe 360 million Placing Shares at the same Placing Price. In addition, the AID Subscribers have been granted an option to call for the issue of up to an additional 60 million Placing Shares for subscription by the AID Subscribers, again at the same Placing Price.

The Principal Partner of AID Capital is Mr. Wu King Shiu, Kelvin and the Managing Partner of AID Capital is Mr. Chang Tat Joel. The PYE Board proposes, with the approval of the PYE Shareholders, to appoint Mr. Wu and Mr. Chang to the PYE Board with effect from completion of the Placing. In addition, Mr. Wu is to be appointed Chief Executive Officer of Legendary East (referred to below) and Mr. Chang is to be its Chief Financial Officer.

The 3,100 million Placing Shares (assuming no exercise of the Upsize Options) represent approximately 510.75% of the existing issued shares of PYE, amounting to 606,954,322 Shares as at the date of this announcement, and approximately 83.63% of the total issued shares of PYE as enlarged by the Placing.

From the net Placing proceeds after the placing commission (assuming no exercise of the Upsize Options and no incentive payment to the Placing Agent is made) of approximately HK\$1,966 million, PYE will apply approximately HK\$1,719.9 million (equivalent to US\$220.5 million) in subscribing for a 50% interest in Legendary East, as described below. The balance will be applied for working capital purposes.

The Placing is one aspect of the Specific Mandate which is to be sought from the PYE Shareholders by way of approval in general meeting of PYE. The Placing constitutes a deemed very substantial disposal by PYI, whose percentage share of the issued share capital of PYE will be diluted from approximately 61.92% to approximately 10.14% assuming no exercise of the Upsize Options, or to approximately 8.93% assuming exercise, in full, of the Upsize Options. The impact of the Placing on PYI is also therefore a matter that is subject to the approval of the PYI Shareholders in general meeting.

Film Joint Venture

On 21 August 2011, PYE entered into the legally-binding Heads of Agreement with Legendary East, Legendary and Huayi. The Heads of Agreement have been entered into to reflect the terms on which the parties have agreed to pursue the Film Joint Venture; which the parties intend to document in a longer-form Joint Venture Agreement proposed to be settled and entered into as soon as practicable. The principal purpose of the Film Joint Venture will be to develop, finance, acquire, produce, distribute and exploit films, based on Chinese history, mythology or culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis.

PYE's contribution to the joint venture company, Legendary East, will be a cash injection in the amount of US\$220.5 million. For this, PYE will own 50% of Legendary East. Legendary will upon completion own 40.1% interest in Legendary East. Legendary will also transfer certain existing development properties and related intellectual property rights for films based on Chinese history, mythology or culture to Legendary East. Upon completion, Huayi will own 9.9% of Legendary East. In addition, the Huayi Group may transfer certain existing development properties and related intellectual property rights for films based on Chinese history, mythology or culture to Legendary East. JV Management Members may, collectively, be granted an aggregate shareholding interest of up to 11% of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East (and would, therefore, be transferred to the JV Management Members by, or would otherwise reduce the ownership interests of, Legendary). 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's subscription for a 50% stake in Legendary East constitutes a very substantial acquisition for PYE in respect of which approval will be sought from the PYE Shareholders at the PYE SGM.

Legendary East will 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. Legendary East may also co-finance two (and potentially more) other Approved Co-Financed Pictures (as described in this announcement).

The Exchange Rights

Subject to fulfilment of certain conditions (as described in this announcement), at any time during the Exchange Rights Period (as described in this announcement):

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

in each case at the Exchange Ratio (as described in this announcement).

The Exchange Rights may not be exercised until at least 30 months after the JV Closing and are conditional on, amongst other things:

- 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;
- for the initial exchange, the fair market value of the Legendary East shares (other than those held by PYE but after giving effect to the liquidation preference of PYE’s Legendary East Shares as described in this announcement) must be equal to or must exceed US\$220.5 million; and
- 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.

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

In addition, the Exchange Rights constitute an additional, integral part, of the very substantial acquisition and would, on exercise, also constitute a share transaction for PYE. On the basis that the parties have set a cap on the number of New Shares to be issued on exercise of the Exchange Rights, the approval of PYE Shareholders will be sought in respect of the Investors’ Put Right at the PYE SGM as a further aspect of the Specific Mandate.

The Existing Businesses, the Distribution in Specie and the Cash Alternative

As part of the Transactions and following on from the PYE Board's decision to refocus the business activities of PYE through pursuit of the Film Joint Venture, the PYE Board is proposing to effect a distribution in specie of 49% of PYE BVI. PYE BVI is a wholly-owned subsidiary of PYE and is the PYE Group's vehicle under which the Existing Businesses are held.

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

The PYE Directors recognise that PYE Shareholders (other than PYI) may not wish to hold shares in PYE BVI, as PYE BVI is an unlisted company incorporated in the British Virgin Islands. There will be no liquid market for the shares of PYE BVI. Accordingly, PYI has, conditionally upon the Distribution in Specie being effected, undertaken to acquire up to the full 18.66% stake in PYE BVI not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equating to a price of HK\$0.30 per PYE BVI Share. Were PYI called upon to meet its full obligation to acquire this 18.66% stake in PYE BVI, this would constitute a discloseable transaction for PYI.

PYE will appoint an independent financial adviser to advise an independent board committee of the PYE Board and independent PYE Shareholders as regards, among other things, the proposed Distribution in Specie and the Cash Alternative.

PYI and its associates will abstain from voting on the resolutions approving the Distribution in Specie at the PYE SGM.

The Cash Dividend and Scrip Alternative

The PYE Board further proposes that PYE will declare and pay a special cash dividend of HK\$0.25 per New Share. The Cash Dividend will be paid to the Qualifying PYE Shareholders. Eligible Qualifying PYE Shareholders will be given the option to elect to receive New Shares in lieu of cash in respect of all or part of the Cash Dividend, on the basis that each New Share is required to be allotted and paid up (using the cash otherwise distributable pursuant to the Cash Dividend) as to HK\$0.65 per New Share. The Cash Dividend and Scrip Alternative are conditional:

- (a) on the passing, at the PYE SGM, of resolutions to approve the Cash Dividend and Scrip Alternative; and
- (b) completion of the Placing Agreements.

Next Steps

Circulars in respect of the Transactions including notice of the PYE SGM and PYI SGM, respectively, will be despatched to PYE Shareholders and PYI Shareholders, respectively.

PYE and PYI will make a further announcement in due course concerning the detailed timetable for the Transactions (and in PYE's case, details of the Record Date and related book close period). PYE and PYI's best current estimate is that the Transactions, including the Distribution in Specie, the Cash Dividend and Scrip Alternative and the Placing, should be completed by not later than 31 December 2011.

As completion of the various Transactions is, in each case, subject to the fulfilment of a number of conditions precedent and effectively all inter-conditional, apart from the Distribution in Specie, the various Transactions may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of PYE and/or PYI.

INTRODUCTION

PYE owns the entire issued share capital of PYE BVI, a private company that is, itself, the intermediate holding company of the PYE Group's existing businesses. These comprise a management contracting division, engaged in building construction and civil engineering projects predominantly in Hong Kong; a property investment division; and a property development management division. The PYE Board, in its continuous efforts to explore new projects and potential business developments that stand to benefit PYE and all of its shareholders, has made the decision to diversify PYE's business through a series of transactions that would involve PYE undertaking a substantial capital raising exercise, predominantly for the purpose of funding its involvement in a new joint venture with market leaders, Legendary and Huayi, to develop and produce films, predominantly in the English language intended for a global audience, based on Chinese history, mythology or culture.

PYE intends to effect a distribution in specie of 49% of PYE BVI, which will enable PYE Shareholders to maintain a direct interest, as well as an interest through their shareholdings in PYE, in the Existing Businesses. In order to provide PYE Shareholders (other than PYI) with immediate liquidity should they not wish to hold shares in PYE BVI, an unlisted company incorporated in the British Virgin Islands, PYI has agreed to provide them with a cash alternative enabling them to realise cash from the distribution.

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

The combination of this series of transactions represents a significant refocusing of PYE's business activities which the PYE Board believes will, in due course, generate strong cash flows and ultimately benefit to all PYE Shareholders.

In this context, reference is made to the separate announcements of PYE and PYI dated 19 May 2011, referring to the negotiations of PYE in respect of a transaction. This announcement reflects the results of those negotiations.

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

Placing Agreements

On 21 August 2011, PYE entered into two conditional agreements to allot a total of 3,100 million Placing Shares, with the prospect of up to an additional 500 million Placing Shares, being allotted on exercise of the Upsize Options (which, if exercised, in full would mean that a total of 3,600 million Placing Shares would be allotted and issued pursuant to the Placing). The Placing Agreements are described below.

The Independent Placing Agreement

On 21 August 2011, PYE entered into a conditional placing agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to place, on a best-efforts basis, 2,740 million Placing Shares at the Placing Price within the Placing Period. In addition, PYE has granted to the Placing Agent the Placing Agent's Upsize Option pursuant to which PYE may be required by the Placing Agent, to allot and issue up to an additional 440 million Placing Shares at the Placing Price within the Placing Period. Subject to the completion of the Independent Placing Agreement, the Placing Agent shall be entitled to (i) a placing commission of 2.75% of the aggregate Placing Price of the Placing Shares to be allotted and issued under the Independent Placing Agreement (including those allotted on exercise of the Placing Agent's Upsize Option); and (ii) an incentive payment of US\$1 million payable at the sole discretion of PYE on the Placing Completion Date. The PYE Directors are of the view that the placing commission reflects a market rate and is fair and reasonable. To the best of the PYE Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner are third parties independent of, and not connected with, PYE and its connected persons.

It is expected that there will be not less than six Independent Placees, in aggregate, subscribing for the Placing Shares placed pursuant to the Independent Placing Agreement at the Placing Price within the Placing Period. None of the Independent Placees will be (i) a connected person of PYE, Legendary and Huayi, other than in a situation where consent from the Stock Exchange has been obtained as a pre-condition and in compliance with the Listing Rules; or (ii) an associate of the AID Parties or of either of the Proposed New Directors or (iii) allotted more than 10% of the Placing Shares under the Independent Placing Agreement. After the Placing, at least 25% of PYE's total issued share capital will be held by the public, as required by the Listing Rules. The conditions to the Independent Placing Agreement are set out below.

The Placing Agent's Upsize Option (which may be exercised independently of the AID Upsize Option) has been granted to the Placing Agent as a means of expanding the size of the Placing should there be sufficient demand for Placing Shares. It has not been granted in the context of any prospective price stabilisation programme.

PYE will provide customary representations and warranties in respect of the Placing including an indemnity in respect of the claim as disclosed in the PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading".

The AID Subscription Agreement

On 21 August 2011, PYE entered into a conditional subscription agreement with the AID Subscribers pursuant to which the AID Subscribers have conditionally agreed to subscribe for 360 million Placing Shares at the Placing Price. In addition, PYE has granted the AID Subscribers the AID Upsize Option pursuant to which PYE may be required by the AID Subscribers to allot and issue up to an additional 60 million Placing Shares at the Placing Price. As this subscription is not the subject of the Independent Placing Agreement, the Placing Agent would not earn a placing commission in respect of the Placing Shares that would be allotted to the AID Subscribers. The conditions to the AID Subscription Agreement are set out below.

AID Subscribers are investment holding companies indirectly wholly-owned by AID Capital and neither has carried on any business activities since its incorporation except for entering into the AID Subscription Agreement. AID Capital, established in 2007, is a private equity investor in Asia, co-founded by the Proposed New Directors. AID Capital invests in growth equity and expansion capital primarily in specific sectors including media and entertainment, technology, retail and consumer-related industries. The previous investments of AID Capital include investments in Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK Stock Code: 1132) and Gushan Environmental Energy Limited (NYSE Stock Code: GU) and its current investments include investments in Asian Citrus Holdings Limited (HK Stock Code: 0073), Legendary and a beverage company in Japan. In addition to financing, AID Capital adopts a hands-on approach and works closely with the companies in which it invests. The current investors in AID Capital include the general partner and a total of 20 limited partners who are institutional and high net worth professional investors in the United States, the United Kingdom, Hong Kong and the PRC. AID Capital is managed and controlled by the general partner, which is another limited partnership, ultimately controlled by the Proposed New Directors.

To the best of the PYE Directors' knowledge, information and belief, having made all reasonable enquiries, the AID Subscribers and their ultimate beneficial owners are, as at the date of this announcement, third parties independent of, and not connected with, PYE, Legendary, Huayi and their connected persons. However, in view of the relationship between the Proposed New Directors and the AID Subscribers as disclosed above, and as it is intended that the Proposed New Directors be appointed as new PYE Directors with effect from the Placing Completion Date, the AID Subscribers are not being treated as Independent Placees. Rather, with effect from the Placing Completion Date, each of the AID Subscribers will be a connected person, being the associate of the Proposed New Directors. Further details about the Proposed New Directors are set out below.

The AID Upsize Option (which may be exercised independently of the Placing Agent's Upsize Option) has been granted to the AID Subscribers as a means of expanding the size of the Placing. It has not been granted in the context of any prospective price stabilisation programme.

PYE will provide customary representations and warranties in favour of the AID Subscribers including an indemnity in respect of the claims as disclosed in the PYE's 2011 annual report and in the PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading".

Number of Placing Shares

The 3,100 million Placing Shares (assuming no exercise of the Upsize Options) represent approximately 510.75% of the existing issued shares of PYE, amounting to 606,954,322 Shares as at the date of this announcement, and approximately 83.63% of the total issued shares of PYE as enlarged by the Placing. The 3,600 million Placing Shares (assuming exercise, in full, of the Upsize Options) represent approximately 593.13% of the existing issued shares of PYE as at the date of this announcement, and approximately 85.57% of the total issued shares of PYE as enlarged by the Placing.

The aggregate nominal value of the Placing Shares assuming no exercise of the Upsize Options would be HK\$620 million, and would be HK\$720 million assuming exercise, in full, of the Upsize Options. This reflects the fact that the Placing Shares are shares allotted after the Capital Reduction. This compares with HK\$303,477,161, being the nominal value of the existing Shares in issue, being a pre-Capital Reduction figure.

Placing Price

The Placing Price of HK\$0.65 per Placing Share represents:

- (i) a discount of approximately 9.72% to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on 19 August 2011, being the last trading day immediately prior to the date of the Placing Agreements;
- (ii) a discount of approximately 7.14% to the average closing price of approximately HK\$0.70 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Placing Agreements;
- (iii) a premium of approximately 38.30% to the price referred to at (i) above after factoring in payment by PYE of the Cash Dividend; and
- (iv) a premium of approximately 44.44% to the price referred to at (ii) above after factoring in payment by PYE of the Cash Dividend.

The net placing price after the placing commission under the Independent Placing Agreement is approximately HK\$0.632 per Placing Share and apportioned across the entire Placing (bearing in mind the absence of a placing commission in conjunction with the AID Subscription Agreement) is approximately HK\$0.634 per Placing Share, assuming no exercise of the Upsize Options and no incentive payment to the Placing Agent is made.

The PYE Directors consider that the Placing Price, which was agreed after arm's length negotiations between PYE, the Placing Agent and the AID Subscribers with reference to the market price of the Shares in recent months and after factoring in the effect of the Distribution in Specie and Cash Dividend or Scrip Alternative discussed below, is fair and reasonable and in the interests of PYE and the PYE Shareholders as a whole.

Ranking of the Placing Shares

The Placing Shares, when issued and fully paid, will rank pari passu in all respects with the other New Shares that will be in issue on the Placing Completion Date and the Placees shall be entitled to exercise all rights attached or accruing to the Placing Shares including the rights to all dividends and other distributions or any return of capital declared, made or paid at any time after the date of issue, excluding any rights to the Distribution in Specie and the Cash Dividend or Scrip Alternative, each as referred to below and the Final Dividend.

Specific Mandate

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

Conditions Precedent

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

- (a) the Placing Agent having completed due diligence in relation to the PYE Group, Legendary East, the Transactions and the Placing to the satisfaction of the Placing Agent;
- (b) the Joint Venture Agreement having been duly entered into and the Film Joint Venture having been duly established based upon the Heads of Agreement;
- (c) PYE having obtained the approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to implement all the Transactions (excluding the Distribution in Specie), including (i) the Joint Venture Agreement and capital contribution to be made by PYE pursuant thereto; (ii) the Specific Mandate for (1) the issue of the Placing Shares pursuant to the Placing Agreements, and (2) the issue of New Shares pursuant to any exercise of the Investors' Put Right; (iii) the Capital Reduction, (iv) the increase in the authorised share capital of PYE as described in this announcement; (v) the Cash Dividend and the Scrip Alternative; and (vi) the appointment of the Proposed New Directors to the PYE Board, and such approvals not having been or proposed to be revoked;
- (d) PYI having obtained the necessary approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to implement the Transactions (excluding the Potential Additional PYE BVI Shares Acquisition) including resolution(s) to approve the deemed disposal of a very substantial interest of PYI in PYE and such approvals not having been or proposed to be revoked;
- (e) the Listing Committee of the Hong Kong Stock Exchange granting listing of and permission to deal in the New Shares to be issued under the Transactions (including the Placing Shares, all New Shares to be issued pursuant to the Scrip Alternative and the New Shares to be issued on exercise of the Investors' Put Right) and such listing and permission not having been subsequently revoked;

- (f) the Bermuda Monetary Authority granting all, and not revoking any, necessary approvals and permissions for the creation, allotment and issue of all the New Shares to be issued under the Transactions (including the Placing Shares, all New Shares to be issued pursuant to the Scrip Alternative and the New Shares to be issued on exercise of the Investors' Put Right) and all other applicable approvals, authorisations and consents being unconditionally obtained for the Transactions;
- (g) the taking effect unconditionally and full completion of the Capital Reduction in all respects in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in this announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (h) the taking effect unconditionally of the AID Subscription Agreement and the Joint Venture Agreement (save for the completion of the Placing) in all respects in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in this announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (i) the simultaneous completion of the AID Subscription Agreement in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in this announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (j) there not having occurred any breach of, or any event rendering untrue or inaccurate, any of the representations, warranties or undertakings under the Independent Placing Agreement, as given (a) on the date of the Independent Placing Agreement, (b) on the Placing Completion Date, (c) on all dates between the date of the Independent Placing Agreement and the Placing Completion Date on which PYE makes any public announcement or issues of any public documents and (d) on the date of launch of the Placing;
- (k) trading generally not having been suspended or materially limited on, or by, any of the Stock Exchange, the Shanghai Stock Exchange, the Tokyo Stock Exchange, the NYSE or the London Stock Exchange;
- (l) trading of any securities of PYE not being suspended on the Stock Exchange (other than for any suspension of a routine nature (which does not include the investigation by any regulatory body into any possible breach of the Listing Rules or other applicable laws and regulations) pending publication of this announcement);
- (m) a material disruption in securities settlement, payment or clearance services in the United States, Japan, Hong Kong or the PRC not having occurred;
- (n) any moratorium on commercial banking activities not having been declared by PRC, Japan, Federal or New York State or Hong Kong authorities;

- (o) there not having occurred any event, or series of events beyond the reasonable control of the Placing Agent (including, without limitation, any outbreak or escalation of hostilities, declaration of a national emergency or war, act of terrorism any significant event, development or change in financial markets, currency exchange rates or controls or calamity or crisis, any act of government, strike, labour dispute, lock-out, fire, explosion, flooding, earthquake, tsunami, civil commotion, economic sanctions, epidemic, pandemic, outbreak of infectious disease and act of God) that, in the Placing Agent's judgment in its sole discretion, is material and adverse and which, singly or together with any other event specified above, makes it, in the Placing Agent's judgment in its sole discretion, impracticable, inexpedient or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Independent Placing Agreement;
- (p) there not having come into effect any new law or regulation and there being no change (whether or not permanent) or development (whether or not permanent) involving a prospective change in existing laws or regulations or the interpretation or application thereof by any court or other competent authority which in the sole opinion of the Placing Agent is or is likely to be materially adverse to the success of the Placing, or makes or is likely to make it impracticable or inadvisable or inexpedient to proceed therewith;
- (q) there not having occurred any change (whether or not permanent) or any development (whether or not permanent) involving a prospective change in local, national or international monetary, economic, military, financial, political, legal, industrial, fiscal, regulatory, currency or market conditions (including, but not limited to local, national or international securities (including stock and bonds) market conditions, or currency exchange rates or foreign exchange rates or foreign exchange controls or interbank markets and credit markets);
- (r) any action against any PYE Director not having been commenced by any state, governmental, regulatory or political body or organisation nor any announcement by any regulatory or political body or organisation that it intends to take any such action;
- (s) there not having occurred any material adverse change or development (whether or not permanent) involving a prospective material adverse change in the condition, financial or otherwise, or in the earnings or business affairs or prospects of PYE or the PYE Group, whether or not arising out of the ordinary course of business;
- (t) the Placing Agent not becoming aware, after the date of the Independent Placing Agreement, of any information or other matter (including any matter relating to financial models and underlying assumptions related to projections) affecting PYE or any member of the PYE Group, the Transactions or the Placing that (in the Placing Agent's sole judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Placing Agent prior to the date of the Independent Placing Agreement or would reasonably be expected to impair the Placing or the Transactions;

- (u) there not having been any acquisition or transaction by PYE proposed, effected or completed after the date of the Independent Placing Agreement and before the completion of the Placing (save as those contemplated in this announcement) which would or may reasonably be expected to in the Placing Agent's opinion in its sole discretion, impair or adversely affect the Placing or affect the marketing of the Placing Shares or otherwise makes it inadvisable, inexpedient or impracticable to proceed with the Placing;
- (v) the Placing Agent having completed book-building for the Placing in accordance with the terms of the Independent Placing Agreement and otherwise to the satisfaction of the Placing Agent;
- (w) this announcement and any subsequent announcements (relating to the Placing or other content of this announcement) prior to the completion of the Placing to be issued by PYE being in a form and at a time agreed by the Placing Agent (save as to any amendments made with the prior written consent of the Placing Agent) prior to the issue thereof by PYE;
- (x) there not having been any capital restructuring and/or capital reorganisation by PYE proposed, effected or completed after the date of the Independent Placing Agreement (save for those disclosed in this announcement);
- (y) except pursuant to the Placing and the Transactions, no issue of new shares or other securities (including any options, warrants or convertible securities) by PYE will be proposed and/or completed after the date of the Independent Placing Agreement;
- (z) the accuracy and completeness of all representations that PYE makes to the Placing Agent and all information that PYE furnishes to the Placing Agent in connection with the Placing and/or the Transactions; and
- (aa) receipt by the Placing Agent, amongst others, of one signed original of the legal opinion from PYE's Bermuda legal counsel opining on PYE's due incorporation and valid existence, corporate power and authority to enter into and perform the Independent Placing Agreement and the legal and binding effect and enforceability of the Independent Placing Agreement against PYE.

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

The placing of Placing Shares pursuant to the AID Subscription Agreement is conditional upon:

- (a) similar conditions as apply in relation to the placing of Placing Shares pursuant to the Independent Placing Agreement as set out in the paragraphs (b) to (h), (j) to (u), (x) and (y) above (where applicable, with such modifications that references to the Placing Agent, Independent Placing Agreement and AID Subscription Agreement therein shall be replaced by references to AID Subscribers, the AID Subscription Agreement and the Independent Placing Agreement, respectively);
- (b) the Proposed New Directors having been appointed as the directors of PYE, such appointment to take effect upon completion of the AID Subscription Agreement;
- (c) AID Capital having successfully collected sufficient funds from its limited partners to finance the subscription by the AID Subscribers of their Placing Shares under the AID Subscription Agreement;
- (d) the representations, warranties and undertakings of PYE in the AID Subscription Agreement being true, correct, complete and not misleading in any material respect at, and as if made on, the Placing Completion Date for the AID Subscription Agreement and all information that PYE furnishes to the AID Subscribers in connection with the Placing under the AID Subscription Agreement and/or the Transactions being true, correct, complete and not misleading in any material respect;
- (e) there having been no material adverse change or prospective material adverse change in the business, operations, financial conditions or prospects of the PYE Group or Legendary East;
- (f) the simultaneous completion of the Independent Placing Agreement in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the AID Subscribers) set out in this announcement and other relevant announcements issued by PYE with the prior written consent of the AID Subscribers, such that the minimum number of Placing Shares allotted pursuant to the Placing will be 3,100 million Placing Shares, raising minimum gross proceeds of HK\$2,015 million (equivalent to approximately US\$258.3 million); and
- (g) the receipt by the AID Subscribers of a signed original of the legal opinion from PYE's Bermuda legal counsel in a form and substance satisfactory to the AID Subscribers opining on PYE's due incorporation and valid existence, corporate power and authority to enter into and perform the AID Subscription Agreement and the legal and binding effect and enforceability of the AID Subscription Agreement against PYE.

If the above conditions are not fulfilled to the satisfaction of the AID Subscribers or waived by the AID Subscribers (to the extent permissible) prior to the expiry of the Placing Period or such later date as may be agreed between PYE and the AID Subscribers, the AID Subscription Agreement and the obligations of the parties thereunder shall cease and terminate at that time and neither PYE nor the AID Subscribers shall be under any liability to each other under the AID Subscription

Agreement, save as regards matter such as governing law and dispute resolution provisions and save for liability in respect of any antecedent breaches of the AID Subscription Agreement.

Termination

If there shall be any failure or refusal on the part of PYE to comply with the terms of the Independent Placing Agreement or the AID Subscription Agreement (as the case may be) applicable to PYE, the Independent Placing Agreement or the AID Subscription Agreement (as the case may be) may be terminated by the Placing Agent and the AID Subscribers, respectively, by written notice to PYE given at any time prior to the Placing Completion Date.

Completion of the Placing

Completion of the Placing shall take place on the Placing Completion Date.

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

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing is being pursued by PYE as the catalyst for a significant refocusing of PYE's business activities so as to enable PYE to fund its participation in the Film Joint Venture.

From the net Placing proceeds (assuming no exercise of the Upsize Options and no incentive payment to the Placing Agent is made) of approximately HK\$1,966 million (for the avoidance of doubt, being an amount net of placing commission), PYE will apply approximately HK\$1,719.9 million (equivalent to approximately US\$220.5 million) in subscribing for PYE's 50% interest in Legendary East, as described below. The balance, of approximately HK\$246.1 million, will be applied for working capital purposes.

In the event that the Upsize Options are exercised in full, PYE will receive additional gross proceeds of HK\$325 million or net proceeds after placing commission (assuming no incentive payment to the Placing Agent is made) of approximately HK\$317.1 million. The additional monies raised are intended to be applied for general working capital purposes.

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

The table below sets out the issued share capital of PYE (i) as at the date of this announcement; (ii) as it would be immediately after completion of the Placing assuming no exercise of the Upsize Options and that no PYE Shareholder transfers any Shares (or New Shares) prior to the completion of the Placing or elects to receive New Shares pursuant to the Scrip Alternative; and (iii) as it would be immediately after completion of the Placing assuming exercise in full of the Upsize Options and, again, that no PYE Shareholder transfers any Shares (or New Shares) prior to the completion of the Placing or elects to receive New Shares pursuant to the Scrip Alternative.

Name of Shareholders	Shareholdings in PYE as at the date of this announcement		Shareholdings in PYE upon completion of the Placing (assuming no exercise of the Upsize Options)		Shareholdings in PYE upon completion of the Placing (assuming exercise in full of the Upsize Options)	
	Number of Shares	Approximate %	Number of New Shares	Approximate %	Number of New Shares	Approximate %
PYI ¹	375,826,317	61.92	375,826,317	10.14	375,826,317	8.93
Other PYE Shareholders as at the date of this announcement	231,128,005	38.08	231,128,005	6.23	231,128,005	5.50
The AID Subscribers	nil	nil	360,000,000	9.71	420,000,000	9.98
The Independent Placees	nil	nil	2,740,000,000	73.92	3,180,000,000	75.59
	<u>606,954,322²</u>	<u>100.00</u>	<u>3,706,954,322</u>	<u>100.00</u>	<u>4,206,954,322</u>	<u>100.00</u>

Notes:

- 1 PYI's interest in the Shares is an indirect interest in the Shares held by its indirect wholly-owned subsidiary, Paul Y. Investments Limited.
- 2 As at the date of this announcement, there are no outstanding share options granted by PYE pursuant to the share option scheme of PYE adopted on 7 September 2005. No share options will be granted prior to completion of the Placing without the prior consent of the Placing Agent and the AID Subscribers.

EQUITY FUND RAISING ACTIVITIES BY PYE DURING THE PAST TWELVE MONTHS

PYE has not engaged in any equity fund raising activities in the last 12 months immediately prior to the date of this announcement.

EFFECT OF THE PLACING ON PYI

Deemed very substantial disposal

The Placing will have the effect of diluting all existing PYE Shareholders' percentage shareholdings in PYE. So far as PYI is concerned, its percentage share of the issued share capital of PYE will be diluted from approximately 61.92% to approximately 10.14% assuming no exercise of the Upsize Options, or to approximately 8.93% assuming exercise in full of the Upsize Options.

This constitutes a deemed disposal for the purposes of the Listing Rules and on the basis that one or more of the percentage ratios exceeds 75%, the transaction amounts to a deemed very substantial disposal on the part of PYI. PYI's estimated gain, provided that Distribution in Specie is made, on the deemed disposal of its equity interest in PYE is anticipated to be approximately HK\$158 million before transaction costs, which is calculated by reference to the Placing Price and after taking into account the net carrying value of PYE as at 31 March 2011. In the event that the Distribution in Specie is not made, it is estimated that PYI will make an estimated loss on the deemed disposal of approximately HK\$25 million calculated on the same basis as the gain on the deemed disposal. The actual amount of the gain or loss to be recognised in PYI's consolidated income statement will depend on the actual transaction costs, the actual market price for the New Shares and the net carrying value of PYE and PYE BVI on the date of completion.

On completion, PYE will no longer be a subsidiary of PYI and its financial position and results will not be consolidated into those of PYI. PYE will become an available-for-sale investment.

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

Financial information on PYE

The consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011, being PYE's last financial year end, was approximately HK\$605.39 million. This figure has been extracted from its 2011 annual report.

The consolidated net profit before taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010 was approximately HK\$41.66 million and HK\$47.81 million, respectively. These figures have been extracted from its 2011 annual report.

The consolidated net profit after taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010 was approximately HK\$33.76 million and HK\$46.57 million, respectively. These figures have been extracted from its 2011 annual report.

B. LEGENDARY EAST – THE FILM JOINT VENTURE

Details of the Heads of Agreement are as follows:

Date: 21 August 2011.

Parties: (a) PYE;
(b) Legendary;
(c) Huayi; and
(d) Legendary East.

To the best of the PYE Directors' knowledge, information and belief having made all reasonable enquiry, 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.

Heads of Agreement The Heads of Agreement have been entered into to reflect the terms on which the parties have agreed to pursue the Film Joint Venture. The principal terms of the Heads of Agreement are described below. In this regard, the parties have agreed to negotiate in good faith with a view to settling and entering into a longer-form Joint Venture Agreement. The Heads of Agreement will terminate on the earlier to occur of (i) the parties entering into the Joint Venture Agreement; and (ii) 31 December 2011 (unless such date is extended by mutual agreement of the parties).

Proposed parties to the Joint Venture Agreement: PYE, Legendary and Huayi (or their respective subsidiaries) and, if applicable, Legendary East.

Purposes: (a) To develop, finance, acquire, produce, distribute and exploit films, based on Chinese history, mythology and/or culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis; and
(b) To co-finance two (and potentially more) other films to be produced or co-produced by Legendary (or its affiliate) and distributed by a U.S. film studio (“**Approved Co-Financed Pictures**”), as further referred to below.

Contributions:

The contribution amounts set out below were arrived at after arm's length negotiations between the parties and determined with reference to (i) the relative shareholding interest of each party in Legendary East; (ii) the estimated amount required by Legendary East to develop Qualifying Films; and (iii) future capital requirements of Legendary East.

- (a) PYE At JV Closing, PYE will contribute US\$220.5 million in cash to Legendary East. The PYE Board commissioned an independent valuation, by which it has satisfied itself that the fair value of its interest in Legendary East will be equal to or in excess of its cash contribution to Legendary East.

- (b) Legendary and Huayi Each of Legendary and Huayi will bring to the venture (i) know-how and industry knowledge, (ii) contacts/connections within the motion picture industry (including Legendary's connection to a U.S. film studio and worldwide distributor and Legendary and Huayi's connections to renowned directors and other associated talents) and (iii) execution capability. Huayi will bring its production and distribution capabilities in the PRC to the venture. Legendary will bring the right to co-finance two (and potentially more) other motion pictures to be produced or co-produced by Legendary (or its affiliate) and distributed by a U.S. film studio to the venture. Legendary will, and Huayi may, contribute projects currently under development which are associated with the above to Legendary East. Apart from the motion picture projects that are currently under development, for which development costs will be reimbursed by Legendary East, there will be no other physical assets to be contributed by either Legendary or Huayi. It is not presently anticipated that Huayi will contribute any motion picture projects currently under development. The valuation of Legendary East is prepared by reference to the business plan of Legendary East.

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

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

Conditions precedent: The JV Closing is conditional upon:

- (i) the parties settling and entering into the Joint Venture Agreement 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 after JV Closing will be as follows:

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

JV Management Members may, collectively, be granted an aggregate shareholding interest of up to 11% of the issued share capital of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East (the shares therefore being required to be transferred to the JV Management Members by, or otherwise reducing the ownership interests of, Legendary). The JV Management Members are expected to include the Proposed New Directors and Mr. Thomas Tull, the Chairman and Chief Executive Officer of Legendary and future Executive Chairman of Legendary East (amongst others including, potentially, other Legendary executives), although the identities of all of the JV Management Members, the exact number of Legendary East Shares to be held by them and the timing of the same have yet to be determined. The Proposed New Directors will be connected persons of PYE with effect from completion of the Placing. It is not currently anticipated that any other JV Management Members will be connected persons of PYE (or PYI).

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

- (i) first, to PYE until PYE receives an amount equal to the amount of its initial capital contribution to Legendary East (i.e., US\$220.5 million);
- (ii) next, the other members of Legendary East (“**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); 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 Heads of 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 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 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 – 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 – Huayi shall not be permitted to engage, outside of Legendary East, in the financing or production of any High Budget Chinese Co-Productions. Huayi shall be permitted to distribute in the PRC any films (including High Budget Chinese Co-Productions) developed and produced by third parties, provided that neither Huayi nor its affiliates have participated in the development, financing or production thereof.
- (d) 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 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 and make the final determination as to whether such project shall be greenlit for production.

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 unanimous vote of the greenlight committee shall be required to greenlight a project that does not meet the requirements of a Qualifying Film.

Production: On or before JV Closing, 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. 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 and the Studio Distributor, some or all of Hong Kong, Macau, Taiwan, Malaysia and/or Singapore). Huayi (or a party within the Huayi Group) will be entitled, as its distribution fee, to a percentage of the gross receipts collected by Huayi from the exploitation of its rights to the Qualifying Films.

**Approved
Co-Financed
Pictures:**

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

RIGHTS TO EXCHANGE FOR NEW SHARES

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

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

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

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

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

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

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

- (i) approval of the same by PYE Shareholders (as an integral part of approving the Joint Venture Agreement);
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in all New Shares to be allotted pursuant to the exercise of the Exchange Rights;
- (iii) exercise of the Exchange Rights not causing the shares of PYE to be de-listed nor being deemed to constitute a new listing for PYE;

- (iv) for the initial exchange, the fair market value of the Legendary East Shares (other than those held by PYE but after giving effect to the liquidation preference of PYE's Legendary East Shares) must be equal to or must exceed US\$220.5 million (and for subsequent exchanges the US\$220.5 million threshold shall be proportionately adjusted based upon the number of shares previously exchanged); and
- (v) in the case only of PYE's Call Right, further compliance with the relevant requirements of Chapter 14 and Chapter 14A of the Listing Rules, including the requirement, as necessary, to obtain independent shareholder approval.

Exchange Ratio:

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

- (i) the respective fair market values of PYE and Legendary East will be as agreed between the parties or otherwise on the basis of appraised valuations by an agreed independent valuer;
- (ii) having determined the respective fair market values of PYE and Legendary East, the respective fair market values per share (after giving effect to the liquidation preference of PYE's Legendary East Shares), and accordingly the exchange ratio, shall be determined; and
- (iii) for the purposes of capping the limit of the Exchange Rights, the parties have agreed that the maximum number of New Shares to be allotted and issued shall not, in any event, exceed 3,706,954,322 New Shares (or such greater number of shares as are outstanding after the completion of the Placing depending upon exercise of either or both of the Upsize Options and subject to adjustment in the case of changes to the nominal value of the New Shares by consolidation, sub-division or otherwise).

Cash alternative:	At the election of the respective holders of the Investors' Put Right, on exercise by PYE of PYE's Call Right, and, at the election of PYE, on exercise by the respective holders of the Investors' Put Right, up to a maximum of 50% of the shares to be exchanged shall be settled by PYE in cash (based on the fair value of the shares being exchanged) in lieu of PYE issuing New Shares to the equivalent value.
Status of the Joint Venture Agreement:	Certain consent and other rights and obligations of Legendary and Huayi shall lapse in circumstances where Legendary and Huayi cease to own certain percentages of the shares of Legendary East (which consent rights and other rights, obligations and percentages will be specified in the Joint Venture Agreement once determined), although matters relating to the development, production and distribution of Qualifying Films (including as to the composition and roles of the development committee and the greenlight committee) will continue in full force and effect.
Specific Mandate:	The New Shares to be issued upon exercise of the Investors' Put Right shall be allotted and issued pursuant to the Specific Mandate the authority in respect of which will remain valid until the end of the Exchange Rights Period. The New Shares issued on exercise of the Exchange Rights would not be subject to restrictions on subsequent sales.

For illustrative purposes only, the table below shows one permutation of an exercise of the Investors' Put Right. The information is presented on the assumptions that (i) the Placing proceeds on the basis that there is no exercise of either Upsize Option; (ii) no PYE Shareholder elects to receive New Shares pursuant to the Scrip Alternative; (iii) no additional New Shares are allotted or issued at any time after completion of Placing up to the time of completing the allotment of New Shares on exercise of the Investors' Put Right; (iv) the fair market value of Legendary East is determined as being US\$441 million (and, therefore, that Legendary, Huayi and all of the JV Management Members have an equity interest in Legendary East worth US\$220.5 million in respect of which the Investors' Put Right could be exercised); (v) that the fair market value of PYE per New Share is determined as being HK\$0.65 per New Share; and (vi) that the members of Legendary East (other than PYE) all elect to exercise their respective rights under the Investors' Put Right to acquire, in aggregate, 29.99% of the outstanding shares of PYE, and on the basis that PYE does not opt to settle any obligation to issue New Shares by means of the cash alternative in lieu of New Shares. In these circumstances, PYE would be required to allot and issue an additional 1,588 million New Shares (total value, at HK\$0.65 per New Share, being approximately HK\$1,032.2 million (equating to approximately US\$132.3 million), and Legendary, Huayi and all of the JV Management

Members would retain an equity interest in Legendary East worth approximately US\$88.2 million (US\$220.5 million less US\$132.3 million) equating to a residual interest of approximately 20% of Legendary East.

Name of Shareholders	Shareholdings in PYE upon completion of the Placing (assuming no exercise of the Upsize Options)		Shareholdings in PYE upon completion of the Investors' Put Right (assuming no exercise of the Upsize Options)	
	<i>Number of New Shares</i>	<i>Approximate %</i>	<i>Number of New Shares</i>	<i>Approximate %</i>
	PYI	375,826,317	10.14	375,826,317
The AID Subscribers	360,000,000	9.71	360,000,000	6.80
Independent Placees	2,740,000,000	73.92	2,740,000,000	51.75
Other PYE Shareholders	231,128,005	6.23	231,128,005	4.36
Legendary ¹	nil	nil	924,216,000	17.45
Huayi	nil	nil	314,424,000	5.94
JV Management Members ¹	nil	nil	349,360,000	6.60
	<u>3,706,954,322</u>	<u>100.00</u>	<u>5,294,954,322</u>	<u>100.00</u>

Note:

- 1 The information is presented on the assumption that the JV Management Members will own 11% of the issued share capital of Legendary East at the time of a collective exercise of the Investors' Put Option and that, accordingly, Legendary's interest in Legendary East would have been reduced to 29.1% of the issued share capital of Legendary East at that time.

REASONS FOR THE FILM JOINT VENTURE

The PYE Directors are of the view that the Film Joint Venture with market leaders, Legendary and Huayi, will diversify PYE's business and refocus PYE's business activities. The PYE Directors also believe that combining Legendary's experience in production and financing large-budget 'tentpole' films with the Huayi Group's production and extensive distribution capabilities in the PRC will, in due course, generate strong cash flows to PYE for the benefit of all shareholders of PYE. Given, among other things, that Legendary and Huayi will bring to the venture (i) know-how and industry knowledge, (ii) contacts/connections with the motion picture industry (including Legendary's connection to a U.S. film studio and worldwide distributor and Legendary's and Huayi's connections to renowned directors and other associated talents); and (iii) execution capability, the PYE Directors believe that the terms of the transaction pursuant to the Heads of Agreement are fair and reasonable and in the interests of the PYE Shareholders as a whole.

EFFECT OF THE TRANSACTION UNDER THE LISTING RULES

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

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

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

INFORMATION ON LEGENDARY

Legendary is a Delaware limited liability company. The principal business of Legendary is the co-financing and production of theatrical motion pictures. Legendary is based in Burbank, California, United States of America.

With its partner Warner Bros., Legendary's productions include many internationally successful films such as notable blockbusters "The Hangover Part II", "The Dark Knight", "Inception", "Clash of the Titans", "The Hangover", "300", "Superman Returns" and "Batman Begins". Of Warner Bros.' top 10 all-time best selling movies in the North American market, three are Legendary movies, including "The Dark Knight" which is ranked number one grossing over US\$533 million in the United States. Legendary has a talented management team led by Thomas Tull, Jon Jashni and Lawrence S. Clark. Prior to founding Legendary, Mr. Tull was president and a director of The Convex Group and is highly respected in Hollywood. Mr. Jashni was formerly president of Hyde Park Entertainment which is a movie production and financing company, and also a senior production executive at 20th Century Fox. Mr. Clark has a depth of experience in the provision of financial and corporate development consulting services to media and entertainment clients. He was formerly the chief financial officer of Creative Artists Agency and senior vice president of corporate development for Sony Pictures Entertainment.

AID Partners Media L.P. (which is wholly-owned by the Proposed New Directors) and AID Capital, through their respective investment vehicles, are investors in Legendary. As at the date of this announcement, they collectively own less than 5% of the equity of Legendary.

INFORMATION ON HUAYI

Huayi is a company incorporated in Hong Kong and is a subsidiary of Huayi Brothers Media Corporation. The Huayi Group is based in Beijing and is principally engaged in production and distribution of films and related businesses, production and distribution of television shows and series and related businesses, and agency and related services rendered to artists. The Huayi Group is also involved in on-line and mobile gaming, music and cinemas in the PRC.

The Huayi Group has produced many successful movies in the PRC including 《大腕》(Big Shot's Funeral); 《手機》(Cell Phone); 《功夫》(Kung Fu Hustle); 《天下無賊》(A World Without Thieves); 《寶貝計劃》(Rob-B-Hood); 《功夫之王》(The Forbidden Kingdom); 《非誠勿擾》(If You Are The One); 《唐山大地震》(Aftershock) and 《非誠勿擾2》(If You Are The One 2). In 2010, films produced by the Huayi Group received box-office sales of over RMB 1.5 billion, accounting for approximately 30% of box office sales from locally produced films.

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

Introduction

As part of the Transactions and following on from the PYE Board's decision to refocus the business activities of PYE through pursuit of the Film Joint Venture, the PYE Board is proposing to effect a distribution in specie of 49% of PYE BVI. PYE BVI was incorporated on 8 June 2011 and became a wholly-owned subsidiary of PYE on 29 June 2011, under which the Existing Businesses are held for the purpose of the Distribution in Specie. As at the date of this announcement, PYE owns 100% of the ordinary shares of PYE BVI. PYE BVI presently has an issued share capital of 1,238,682,291 shares of HK\$0.10 each, being approximately double the number of shares in PYE in issue so that the Distribution in Specie will be on a one share for one share basis.

For the financial year ended 31 March 2011, the consolidated net profit of PYE attributable to its shareholders was approximately HK\$30.08 million and the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011 was approximately HK\$605.39 million, as announced in its 2011 annual report, and such numbers are also representative of the consolidated net profit and consolidated net asset value of PYE BVI.

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

Proposed Distribution in Specie

The PYE Board proposes, subject to the conditions set out below, to effect the Distribution in Specie, pursuant to which each Eligible Qualifying PYE Shareholder will be entitled to receive one PYE BVI Share for every one New Share which he or she holds on the Record Date.

The Record Date will be announced by PYE in due course and will be a date that follows both the PYE SGM and the Capital Reduction Effective Date but precedes the Placing Completion Date. Accordingly, the Placing Shares will not qualify for the Distribution in Specie.

Following the Distribution in Specie, PYE will continue to hold 51% equity interest in PYE BVI. Thus, PYE BVI will continue to be a subsidiary of PYE and the results of PYE BVI and the Existing Businesses will continue to be consolidated in the consolidated financial statements of PYE. The PYE Board will maintain the operations of the Existing Businesses as disclosed in its 2011 annual report and the PYE Board confirms that there exists no arrangement, understanding, intention or negotiation, whether formal or informal, whether express or implied, whether concluded or otherwise, about any further disposal of the remaining 51% equity interest in PYE BVI or to dispose or terminate or scale down the Existing Businesses.

Reason for the Distribution in Specie

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

Conditions to the Distribution in Specie

The Distribution in Specie is conditional upon:

- (a) the passing, at the PYE SGM, of all resolutions, by the requisite majority in each case, necessary to approve the Capital Reduction and the Distribution in Specie;
- (b) the passing, at the PYI SGM, of all resolutions, by the requisite majority in each case, necessary to approve the Potential Additional PYE BVI Shares Acquisition;
- (c) completion of the Capital Reduction;
- (d) receipt by the PYE Group of all relevant consents, authorisations or approvals required from any governmental or other competent regulatory authorities (including but not limited to the approval of the Bermuda Monetary Authority) and/or from any bank(s) pursuant to facility agreements entered into by members of the PYE Group and/or from any other counter-parties to contracts entered into by members of the PYE Group; and
- (e) completion of the Placing Agreements.

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

The Capital Reduction

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

- (i) the nominal value of each issued Share will be reduced from HK\$0.50 to HK\$0.20;
- (ii) every unissued share of HK\$0.50 each will be sub-divided into one share of HK\$0.20; and
- (iii) the share premium account of PYE will be reduced by a total amount of not more than HK\$267 million.

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

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

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

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

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

The Capital Reduction is conditional upon:

- (a) the passing of a special resolution to approve the Capital Reduction at the PYE SGM;
- (b) the Listing Committee granting approval of the listing of, and permission to deal in, the New Shares in issue on the Capital Reduction Effective Date; and

- (c) receipt by the PYE Group of all relevant consents, authorisations or approvals required from any governmental or other competent regulatory authorities (including but not limited to the approval of the Bermuda Monetary Authority) and/or from any bank(s) pursuant to facility agreements entered into by members of the PYE Group and/or from any other counter-parties to contracts entered into by members of the PYE Group.

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

Proposed Increase in the Authorised Share Capital

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

Free exchange of certificates for New Shares and Trading Arrangements

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

Details of such free exchange of certificates, the relevant trading arrangements and the exact timetable for the Capital Reduction and the Distribution in Specie will be announced by PYE in due course.

Cash Alternative

As a result of the Distribution in Specie, and excluding the effect of PYE Shareholders taking up the Cash Alternative, the shares of PYE BVI would be held as to 51% by PYE, approximately 30.34% by PYI and approximately 18.66% by PYE Shareholders other than PYI. The book value of that 18.66% stake equates to a value of approximately HK\$0.49 per PYE BVI Share based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011.

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

Accordingly, PYI has, conditional on the Distribution in Specie being effected, undertaken, pursuant to the PYE BVI Shares Deed of Undertaking, to acquire up to the full 18.66% stake in PYE BVI (equating to approximately 231,128,005 shares of PYE BVI) not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equating to a price of:

HK\$0.30 per PYE BVI Share.

The cash alternative of HK\$0.30 per PYE BVI Share was based on 49% of the 30 days' average closing price of PYE Share of HK\$0.76 as quoted on the Stock Exchange during the period ended 19 August 2011, being the last trading date immediately prior to the date of the Placing Agreements, as adjust for the Cash Dividend i.e. HK\$0.76 less HK\$0.25 multiplied by 49% (equals approximately HK\$0.25). It represents an approximate 20.05% premium to the 30 days' average closing price of HK\$0.76 per Share, net of the proposed special cash dividend of HK\$0.25 per Share, and multiplied by 49%. Note that a holder of each Share will end up holding that existing Share (which represents the 51% of the issued share capital of PYE BVI retained by PYE) and a PYE BVI Share (which represents the 49% of the issued share capital of PYE BVI not held by PYE). The PYI Directors and the PYE Directors are of the view that the calculation basis for the Cash Alternative of HK\$0.30 per PYE BVI Share is fair and reasonable.

The Cash Alternative will be made available to all Qualifying PYE Shareholders (other than PYI) who duly complete Cash Alternative Election Forms. Moreover, all Qualifying PYE Shareholders who are not Eligible Qualifying PYE Shareholders will automatically be entitled to the Cash Alternative. For all Qualifying Shareholders obliged to receive or electing to receive the Cash Alternative, a cheque will be sent to them, by post, at their own risk, unless the amount falling to be distributed to any such person is less than HK\$100, in which case, it will be retained for the benefit of PYE BVI.

Excess applications

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

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

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

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

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

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

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

PYE will appoint an independent financial adviser to advise an independent board committee of the PYE Board and independent PYE Shareholders as regards the proposed Distribution in Specie and the Cash Alternative.

CASH DIVIDEND

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

Scrip Alternative

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

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

The Scrip Alternative, which is not part of the Placing, is being proposed by the PYE Directors to enable Eligible Qualifying PYE Shareholders to increase their equity

interest in PYE notwithstanding that their relative shareholdings in PYE will be diluted as a result of the Placing. The New Shares to be allotted pursuant to the Scrip Alternative would be so allotted at a price that represents the same discount to market price as the Placing Shares, as referred to above.

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

Conditions to the Cash Dividend and Scrip Alternative

The Cash Dividend and Scrip Alternative are conditional:

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

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

EFFECT OF THE POTENTIAL ADDITIONAL PYE BVI SHARES ACQUISITION ON PYI

Discloseable transaction

As described above, PYI has, conditionally upon the Distribution in Specie being effected, undertaken, pursuant to the PYE BVI Shares Deed of Undertaking, to acquire up to an additional 18.66% of PYE BVI not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million.

Were PYI called upon to meet its full obligation under the PYE BVI Shares Deed of Undertaking, this would constitute a discloseable transaction for PYI under the Listing Rules on the basis that one or more of the percentage ratios applicable to PYI exceeds 5% (but all are less than 25%).

The PYI Board confirms that PYI has the necessary cash on hand to complete the purchase of an additional 18.66% of PYE BVI.

PYE BVI is a private company and the holding company of the Existing Businesses. Through acquiring 18.66% of PYE BVI, PYI would be purchasing an 18.66% attributable interest in the Existing Businesses.

Financial information on PYE BVI

An 18.66% interest in the consolidated net asset value of PYE BVI as at 31 March 2011, based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011, equates to approximately HK\$112.97 million.

An 18.66% attributable interest in the consolidated net profits before taxation and extraordinary items of PYE BVI for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, based on the consolidated net profits before taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, equate to HK\$7.77 million and HK\$8.92 million, respectively.

An 18.66% attributable interest in the consolidated net profits after taxation and extraordinary items of PYE BVI for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, based on the consolidated net profits after taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, equate to HK\$6.30 million and HK\$8.69 million, respectively.

Reasons for and benefits of the transaction

PYI has offered to effect the Potential Additional PYE BVI Shares Acquisition on the basis that it is willing to acquire a direct interest in PYE BVI over and above the indirect attributable interest that it will continue to hold through its shareholding in PYE and the direct interest it will receive by way of its pro rata entitlement to the Distribution in Specie.

The PYI Directors believes that the PYI Shareholders will continue to benefit from PYI's direct and indirect interests in the Existing Businesses which have been consistently profitable in recent years. The shares received through the Distribution in Specie and the Potential Additional PYE BVI Shares Acquisition will allow it to maintain its interest in the Existing Businesses with which it has transactions in the ordinary course of its business for the provision of engineering and management services, whilst also minimising its exposure to the new movie production business, thereby keeping its focus on its current principal business activities.

The PYI Directors believe that the terms of the PYE BVI Shares Deed of Undertaking are fair and reasonable and in the interests of PYI Shareholders as a whole.

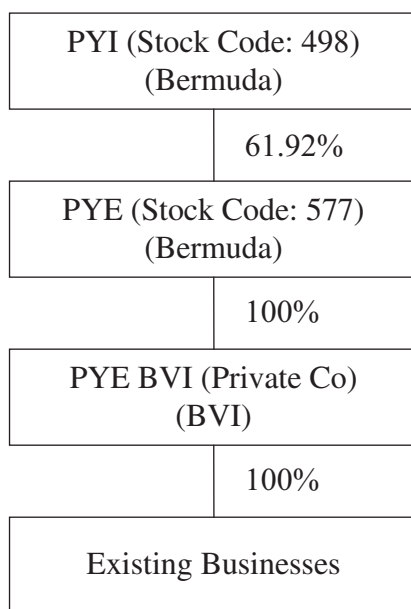
UNDERTAKING TO VOTE BY PYI AND ITS ASSOCIATES AND THE INTER-CONDITIONALITY OF THE TRANSACTIONS

PYI and its associates, which hold shares in PYE, have undertaken to Legendary that they will vote in favour of all the resolutions to implement the Transactions apart from the resolution to approve the Distribution in Specie on which PYI and its associates will abstain from voting. However, in the event that the resolution approving the Distribution in Specie, which will be the first resolution to be proposed at the PYE SGM, is not passed, PYI and its associates will have the right to vote for or against any or all of the remaining resolutions to be proposed at that meeting. If any of those resolutions are not passed, none of the Transactions will be implemented. On the other hand, if all the resolutions apart from the Distribution in Specie are passed and all the other conditions to which the Placing is subject are fulfilled, all the Transactions other than the Distribution in Specie will be implemented. Accordingly, all the Transactions are inter-conditional, apart from the Distribution in Specie.

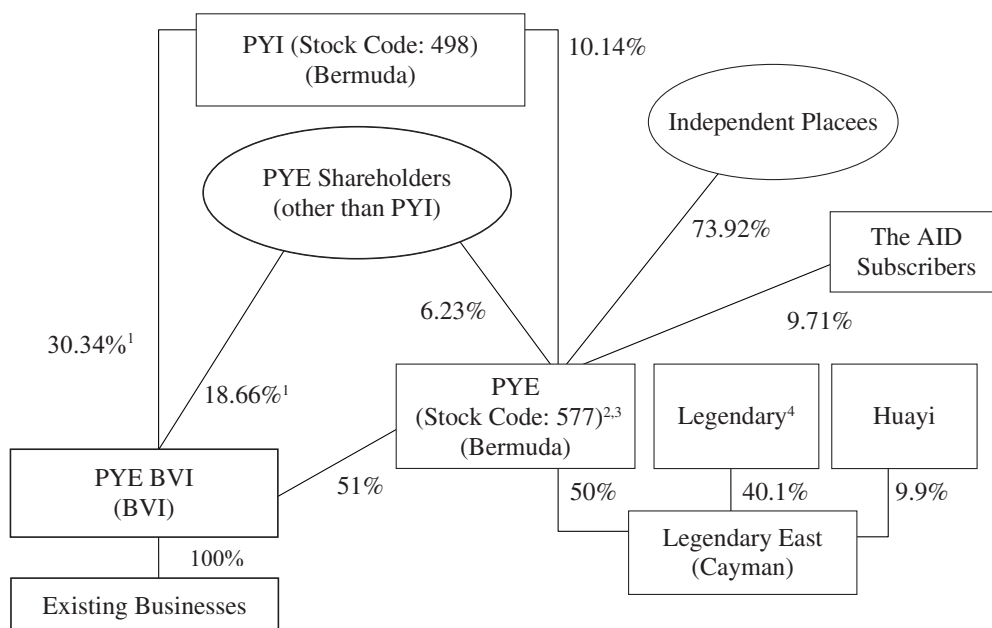
STRUCTURE OF INTERESTS BEFORE AND AFTER THE TRANSACTIONS

Set out below are simplified diagrams of the structure of the interests of PYE and PYI before and after completion of the Transactions and the Placing (assuming no exercise of the Upsize Options). They do not illustrate the effect of any exercise of the Exchange Rights.

Current structure:



Proposed structure:



Notes

- 1 The diagram assumes that the Distribution in Specie is effected on a strictly pro rata basis. In circumstances where all PYE Shareholders other than PYI receive the Cash Alternative, PYE BVI would be held as to 51% by PYE and 49% by PYI.
- 2 The diagram shows the relative shareholdings in PYE assuming that no PYE Shareholders elect to receive New Shares pursuant to the Scrip Alternative.
- 3 In the event of exercise, in full, of the Upsize Options, the Independent Placees will hold 75.59% of the issued share capital of PYE as enlarged by the Upsize Options. For more detail, please refer to the table above, under the heading “Changes to the Existing Issued Share Capital of PYE as a result of the Placing”.
- 4 JV Management Members may collectively be granted an aggregate shareholding interest of up to 11% of the issued share capital of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East.

D. PROPOSED NEW DIRECTORS

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

Mr. Wu King Shiu, Kelvin (“Mr. Wu”), Aged 41

Proposed Position

An executive Director of PYE. In addition, Mr. Wu is to be appointed the Chief Executive Officer of Legendary East.

Experience

Mr. Wu has over 15 years of experience in the finance and investment industries. He is the Principal Partner of AID Capital and was formerly the chief executive officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited, a leading film entertainment company whose shares are listed on the Stock Exchange. Mr. Wu was previously President of Investec Asia Ltd, where he managed its direct investment business. Mr. Wu also worked for other investment banks, including as Managing Director of China Everbright Capital Ltd., Head of Corporate Finance for Grand Cathay Securities (Hong Kong) Limited, Director of Corporate Finance Department of Core Pacific-Yamaichi Capital Limited and held senior position in of BNP Prime Peregrine Capital Limited. Besides, Mr. Wu also served as Chief Operating Officer of Sega.com Asia Networks Limited and Executive Director of China Mining Resources Group Limited, whose shares are listed on the Stock Exchange. He graduated from The Chinese University of Hong Kong with a bachelor’s degree in business administration.

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

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

Interests in Shares

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

Service contract

It is proposed that there will be a director’s service contract entered into between Mr. Wu and the PYE Group. Mr. Wu will receive a director’s fee as determined by the PYE Board, pursuant to the authority given by the PYE Shareholders at general meeting from time to time, with reference to his duties and responsibilities for PYE and the prevailing market situation. Further details of Mr. Wu’s service contract will be included in the PYE circular.

Other

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

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

Mr. Chang Tat Joel (“Mr. Chang”), Aged 43

Proposed Position

An executive Director of PYE. In addition, Mr. Chang is to be appointed the Chief Financial Officer of Legendary East.

Experience

Mr. Chang has considerable strategic financial and advisory experience. He has worked closely with Mr. Wu King Shiu, Kelvin for many years and, in particular, was formerly the executive director and chief financial officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited. Mr. Chang co-founded AID Capital with Mr. Wu and is currently the managing partner and an investment committee member of AID Capital. Prior to the establishment of AID Capital, Mr. Chang was the chief investment officer of Investec Asia Limited and a managing director of China Everbright Capital Limited and an Executive Director of BNP Prime Peregrine Capital Limited. Mr. Chang is also a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chang obtained a bachelor’s degree in economics from Monash University in 1990.

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

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

Interests in Shares

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

Service contract

It is proposed that there will be a director’s service contract entered into between Mr. Chang and the PYE Group. Mr. Chang will receive a director’s fee as determined by the PYE Board, pursuant to the authority given by the PYE Shareholders at general meeting from time to time, with reference to his duties and responsibilities for PYE and the prevailing market situation. Further details of Mr. Chang’s service contract will be included in the PYE circular.

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

INFORMATION ON PYE

The PYE Group is an international engineering services group serving Hong Kong, the PRC and the international market with its 60 years' of expertise. Through its subsidiary, PYE BVI, it has three core areas of business: management contracting, property development management and property investment.

Following the completion of the Transactions, the PYE Group will also be engaged in the business of the development and production of movies through its investment in the Film Joint Venture.

INFORMATION ON PYI AND ITS SUBSIDIARIES

Following the completion of the transactions, the principal business activities of the PYI and its subsidiaries will remain unchanged and the PYI and its subsidiaries will still principally engage in the business of development and investment in port and other infrastructure projects, land and property development and investment in association with port facilities, treasury investment and provision of comprehensive engineering and property-related services through its direct and indirect interests in PYE BVI.

GENERAL

A circular containing, amongst other things, further particulars on the Transactions in so far as they apply to PYE, a letter of advice from an independent financial adviser as regards the Distribution in Specie and the Cash Alternative and notice of the PYE SGM will be despatched to PYE Shareholders as soon as practicable by not later than 30 September 2011. This is longer than the 15 business days envisaged by the Listing Rules and reflects the time which the parties believe will be necessary to settle and enter into the Joint Venture Agreement, for the Placing Agent to conduct their due diligence in relation to the Transactions and also for the PYE Board to obtain updated property valuations for the purposes of demonstrating the value of the Existing Businesses and to obtain the advice of an independent financial adviser as regards the Distribution in Specie and the Cash Alternative.

A circular containing, amongst other things, further particulars on the Transactions in so far as they apply to PYI and notice of the PYI SGM will be despatched to PYI Shareholders as soon as practicable by not later than 30 September 2011. This is longer than the 15 business days envisaged by the Listing Rules and reflects the facts that the content of the PYI circular needs to be aligned with the content of the PYE circular, making simultaneous or near-simultaneous despatch of the circulars a necessary feature of the execution of the Transactions.

The PYI Directors anticipate that all PYI Shareholders will be eligible to vote upon each of the resolutions to be proposed at the PYI SGM, as the interests of all PYI Shareholders are aligned in all material respects as regards the Transactions.

PYE and PYI will make a further announcement in due course concerning the detailed timetable for the Transactions (and in PYE's case, details of the Record Date and related book close period). However, PYE and PYI's best current estimate is that the Transactions, including the Distribution in Specie, the Cash Dividend and Scrip Alternative and the Placing, should be completed by not later than 31 December 2011.

As completion of the various Transactions is, in each case, subject to the fulfilment of a number of conditions precedent and effectively all inter-conditional, apart from the Distribution in Specie, the various Transactions may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of PYE and/or PYI.

An application will, in due course, be made to the Stock Exchange for the listing of, and permission to deal on the Stock Exchange in, the New Shares in issue on the Capital Reduction Effective Date, the Placing Shares, the New Shares to be allotted pursuant to the Scrip Alternative and the New Shares to be allotted on exercise of the Exchange Rights.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“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

“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 PYE’s share capital and share premium account 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, being a date to be announced by PYE in due course. The Capital Reduction Effective Date will be scheduled not later than 31 October 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 Alternative Election Form”	the form of election to be sent to PYE Shareholders after the Record Date pursuant to which each Eligible Qualifying PYE Shareholder will be able to elect to receive cash, pursuant to the Cash Alternative in lieu of his or her pro rata entitlement to PYE BVI Shares pursuant to the Distribution in Specie
“Cash Dividend”	the conditional cash dividend proposed to be declared and paid by PYE in the amount of HK\$0.25 per New Share held by Qualifying PYE Shareholders on the Record Date
“Connected Person(s)”	has the meaning ascribed to it in Chapter 1 of the Listing Rules
“Distribution in Specie”	the proposed Distribution in Specie by PYE of one PYE BVI Share for every one New Share held by Qualifying PYE Shareholders on the Record Date
“Eligible Qualifying PYE Shareholder”	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 transfer of PYE Shares pursuant to the Distribution in Specie and/or, the allotment of New Shares pursuant to the Scrip Alternative, in either case, on account of any legal restrictions or the requirements of any relevant regulatory body applicable to the jurisdiction of the place of address of such Overseas PYE Shareholder

“Excess Application Form”	the excess application form to be sent to PYE Shareholders after the Record Date pursuant to which each Eligible Qualifying PYE Shareholder will be able to apply to purchase additional PYE BVI Shares as will be available should those PYE BVI Shares the subject of the Distribution in Specie not all be required to be distributed to PYE Shareholders on a strictly pro rata basis
“Exchange Rights”	the rights of each of the members of Legendary East (other than PYE), on the one hand, and PYE, on the other hand, to require an exchange of the Legendary East Shares (as held by the members of Legendary East, other than PYE) for shares in PYE, as further described in this announcement
“Existing Businesses”	the existing businesses of the PYE Group, as owned by PYE’s wholly-owned subsidiary, PYE BVI, comprising a management contracting division, a property development management division and a property investment division
“Film Joint Venture”	the establishment and operation of Legendary East as a company that will develop, finance, acquire, produce, distribute and exploit films based on the terms of the Heads of Agreement, and in due course, the Joint Venture Agreement
“Final Dividend”	the final dividend proposed by the PYE Board in the amount of HK\$0.01 per Share held by Qualifying PYE Shareholders as announced by PYE on 24 June 2011
“Heads of Agreement”	the legally-binding heads of agreement dated 21 August 2011 entered into between PYE, Legendary, Huayi and Legendary East in respect of the Film Joint Venture
“High Budget Chinese Co-Productions”	films based on Chinese history, mythology or culture, filmed predominantly in the English language, with a direct-cost budget which equals to or is greater than US\$50 million that will qualify as a Chinese co-production under applicable Chinese government regulations
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Huayi”	Huayi Brothers International Limited, a company incorporated in Hong Kong

“Huayi Group”	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) 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 Agent 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 entered into by and between PYE and the Placing Agent in relation to the conditional placing of 2,740 million Placing Shares plus an additional 440 million Placing Shares pursuant to the Placing Agent’s Upsize Option (if exercised)
“Joint Venture Agreement”	the joint venture agreement or shareholders’ agreement proposed to be entered into by and among PYE, Legendary and Huayi (or their respective subsidiaries) and, if applicable, Legendary East, in respect of the Film Joint Venture based upon the Heads of Agreement
“JV Closing”	the contribution of cash and assets to Legendary East on satisfaction of all the conditions precedent of the Joint Venture Agreement
“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 United States of America
“Legendary East”	Legendary East Ltd., a company incorporated in the Cayman Islands with limited liability
“Legendary East Share(s)”	ordinary share(s) in the share capital of Legendary East
“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

“New Shares”	the proposed new ordinary share(s) of HK\$0.20 each in the share capital of PYE as will exist on the Capital Reduction Effective Date
“NYSE”	New York Stock Exchange
“Overseas PYE Shareholder(s)”	PYE Shareholder(s) whose address(es), as shown on the share register or branch share register of PYE on the Record Date, is/are outside Hong Kong
“Placees”	the placees (including the Independent Placees) to subscribe for any of the Placing Shares on the terms and subject to the conditions set out in the Placing Agreements
“Placing”	the proposed placing of the Placing Shares pursuant to the terms of the Placing Agreements
“Placing Agent”	UBS AG, Hong Kong Branch
“Placing Agent’s Upsize Option”	the option granted by PYE to the Placing Agent pursuant to the Independent Placing Agreement by virtue of which PYE may be required by the Placing Agent to allot and issue to Independent Placees up to an additional 440 million Placing Shares
“Placing Agreements”	the Independent Placing Agreement and the AID Subscription Agreement
“Placing Completion Date”	the fifth Business Day after the satisfaction of all the relevant conditions precedent, the fulfilment of which has not been waived by the Placing Agent or the AID Subscribers (as the case may be, if applicable) of the Independent Placing Agreement and AID Subscription Agreement, or such other date as may be agreed by and between PYE and the Placing Agent or the AID Subscribers (as the case may be) (and provided always that all of the conditions precedent, to the extent not waived, remain satisfied on the Placing Completion Date)
“Placing Period”	the period from the execution of the Placing Agreements up to and including 31 December 2011
“Placing Price”	the placing price per Placing Share being HK\$0.65
“Placing Share(s)”	the New Shares proposed to be placed pursuant to the Placing, being 3,100 million New Shares (in the absence of exercise of the Upsize Options) or up to 3,600 million New Shares (on the exercise in full of the Upsize Options)

“Potential Additional PYE BVI Shares Acquisition”	the conditional obligation on the part of PYI to purchase distribution entitlements in respect of up to 231,128,005 PYE BVI Shares, equating to approximately 18.66% of the issued share capital of PYE BVI, from Eligible Qualifying PYE Shareholders obliged to receive, or electing to receive, the Cash Alternative
“PRC”	the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed New Directors”	Mr. Wu King Shiu, Kelvin and Mr. Chang Tat Joel
“PYE”	Paul Y. Engineering Group Limited (HK Stock Code: 577), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
“PYE Board”	the board of directors of PYE
“PYE BVI”	Paul Y. Engineering (BVI) Limited, a private company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PYE
“PYE BVI Share(s)”	share(s) in the issued share capital of PYE BVI
“PYE BVI Shares Deed of Undertaking”	the deed poll dated 21 August 2011 executed by PYI pursuant to which PYI has undertaken, conditional on the Distribution in Specie being effected, to complete the Potential Additional PYE BVI Shares Acquisition
“PYE Directors”	the directors of PYE
“PYE Group”	PYE and its subsidiaries
“PYE SGM”	the special general meeting of PYE to be convened to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
“PYE Shareholder(s)”	shareholder(s) of PYE
“PYI”	PYI Corporation Limited (HK Stock Code: 498), a company incorporated in Bermuda, the issued shares of which are listed on the main board of Stock Exchange
“PYI Board”	the board of directors of PYI
“PYI Directors”	the directors of PYI

“PVI SGM”	the special general meeting of PVI to be convened and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
“PVI Shareholder(s)”	shareholder(s) of PVI
“Qualifying Films”	films 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 Heads of Agreement
“Qualifying PVI Shareholders”	all PVI Shareholders registered on PVI’s share register or branch share register on the Record Date
“Record Date”	the record date for the purposes of ascertaining entitlements of the PVI Shareholders to the Distribution in Specie or Cash Alternative and/or the Cash Dividend or Scrip Alternative, being a date to be announced by PVI in due course and which will be a date that follows both the PVI SGM and the Capital Reduction Effective Date. The Record Date will be scheduled not later than 31 October 2011
“RMB”	Renminbi, the lawful currency of the PRC
“Scrip Alternative”	the proposed scrip dividend arrangements of PVI pursuant to which Eligible Qualifying PVI Shareholders will have the option to elect to receive New Shares in lieu of the Cash Dividend as further described in this announcement
“Scrip Dividend Election Form”	the form of election to be sent to PVI Shareholders, after the Record Date, pursuant to which each Eligible Qualifying PVI Shareholder will be able to elect to receive New Shares pursuant to the Scrip Alternative
“Share(s)”	the existing ordinary share(s) of HK\$0.50 each in the share capital of PVI
“Specific Mandate”	a specific mandate to be sought from the PVI Shareholders at the PVI SGM to allot and issue (1) the Placing Shares pursuant to the Placing Agreements; and (2) the New Shares upon the exercise of the Investors’ Put Right
“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
“Upsize Options”	the Placing Agent’s Upsize Option and the AID Upsize Option
“US\$”	United States dollars, the lawful currency of the United States of America

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

Hong Kong, 21 August 2011

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

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

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

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

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

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

* *For identification purpose only*