

Dear Shareholders,

I take great pleasure in sending this message to all shareholders, with the first annual report of Paul Y. Engineering Group Limited for the year ended 31st March, 2005.

### Group Restructuring

This has been an eventful year which brought about significant improvement to your group as well as the restoration of our creditors' and shareholders' value. We have successfully implemented the capital, assets and debt restructuring in January this year. As a result, we have recovered from the serious assets deficiency situation and the prolonged suspension of trading on the Stock Exchange. I can report that we have satisfactorily taken over the respectable business of Paul Y Construction from Paul Y. - ITC Construction Holdings Limited and consequently, re-branded your group as Paul Y Engineering to better reflect our new core business focus.

### Financial Performance and Dividend

I am also pleased to report that your group has returned to profitability after many years of significant losses, with net profit of \$80m and a return on your equity in excess of 25%. Cash flow has been particularly strong at \$125m. With a net cash position of \$152m, your board has resolved to propose to declare a final dividend of 6 cents per share, which is equivalent to a pay-out ratio of about 43% for this financial year. Please pay attention to details in the scrip dividend plan, which provides shareholders with an opportunity to reinvest their dividends in Paul Y Engineering at a 5% discount to market.

### Corporate Governance

Since the resumption of trading on the Stock Exchange in January this year, all necessary steps have been taken to comply with the listing rules. These rules relate to the implementation of the Code on Corporate Governance, and applied to Paul Y Engineering from 1st April, 2005.

For those unfamiliar with these new rules, they provide for the separation of responsibilities between the oversight role of your Board of Directors, and the executive management team led by the Managing Director. As Chairman it is my task to ensure that directors receive

adequate and timely information, especially the Independent Non-Executive Directors to enable them to properly discharge their responsibilities to shareholders.

I was delighted to welcome Mr. Iain Bruce and Professor CF Lee on their joining the Board. With myself the Board now comprises three Independent Non-Executive Directors, one Non-Executive Director, and two Executive Directors. One of whom Mr. Billy Wong is our Managing Director. Your Board has taken action to fully comply with the Stock Exchange Code on Corporate Governance.

### Future Prospects

Looking to future opportunities, the smooth transition for Hong Kong's new Chief Executive is perhaps reason to expect growing confidence in the territory and hopefully a related improvement in the construction sector, during the years ahead. I believe that Paul Y Engineering is well placed to take advantage of this.

We have also been encouraged by the successful achievement of last year's budget target for the construction business, despite the difficult conditions experienced by the construction industry in Hong Kong. The Group will continue to take cautious steps in increasing our presence in China where we target our major growth market. Your board is looking forward to the group's management and business prospects delivering growth to our shareholders' value in the coming year.

### Appreciation

On behalf the Board I wish to express my appreciation to all shareholders for their continuing support, or to those who bring new support to Paul Y Engineering. Directors and management alike appreciate your confidence in our work. We also highly value the confidence of our clients, and the dedication of consultants and staff alike, whose efforts on behalf of the Paul Y Engineering continued throughout the past year.

**Ir Ronald James Blake**, *OBE, JP*  
*Chairman*

Hong Kong, 22nd July, 2005



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*Chairman*

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