

Chairman's Statement

Dear Shareholders,

I take great pleasure in sending my second message to all the shareholders, with the first interim report of Paul Y. Engineering Group Limited ("Paul Y Engineering" or the "Company") for the six months ended 30th September, 2005 after completion of the Group's restructuring in January 2005.

GROUP RESTRUCTURING

As noted in my first annual report for the year ended 31st March, 2005, the successful restructuring has enabled Paul Y Engineering to resume trading on the Stock Exchange and recover from its unsatisfactory results for the past few years. As further witnessed by this interim report, I believe that the restructuring will continue to ensure that stable returns are being generated for all shareholders.

FINANCIAL PERFORMANCE AND DIVIDEND

I am pleased to report that the Company has recorded a net profit after taxation and minority interests of approximately HK\$46 million representing a return on your equity of approximately 14% for the half-year period. Riding on our quality services, the Group's net profits have been substantially increased.

Our satisfactory performance is backed by our enhanced profit margins and a balance sheet with strong net cash position. Cash inflow from operations for the six-month period amounted to approximately HK\$103 million and the net cash increased to approximately HK\$257 million. The Group is committed to a consistent dividend policy and we are pleased to announce an interim dividend of 3.0 cents per share, equivalent to a pay-out ratio of about 38% for the six-month financial period.

CORPORATE GOVERNANCE

The Company's management and the Board members have continued to comply with the requirements set down in the Code on Corporate Governance Practices (the "Code") under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. In compliance with the recommended best practices C.2.5 of the Code, the Audit Committee is currently reviewing the needs to set up an internal audit function and, in due course, will make the necessary recommendation to the Board for approval.

PROSPECTS

For its existing core areas of businesses, the Group is tendering actively for construction projects both in Hong Kong and China.

The Group is also looking vigorously for new China business opportunities in project management and facilities management which will bring stable returns. We are encouraged by the successful establishment of our facilities management business during the reporting period and look forward to seeing this enhancing the growth of the Group as a whole.

APPRECIATION

On behalf of the Board I wish to express my appreciation to all shareholders for their continuing support. We also highly value the confidence of our clients, and the dedication of consultants and major business partners. I take this opportunity also to thank our colleagues on the Board and our diligent employees for their hard work, loyal service and contributions.

Ir Ronald James Blake, OBE, JP

Chairman

Hong Kong, 13th December, 2005