We will build on the luxury lifestyle concept we have created to add value to our projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On May 10, 2004, Pacific Century Premium Developments Limited (the "Company") acquired various property interests of PCCW Limited ("PCCW"). The details of the transaction are set out in the section headed "Material Acquisitions and Disposal" (the "Transaction"). The Company and its subsidiaries (the "Group") are now principally engaged in the development and management of property and infrastructure projects and own an investment portfolio of premium-grade buildings.

Under generally accepted accounting principles in Hong Kong, the Transaction is accounted for as a reverse acquisition since the issuance of the consideration shares and convertible notes resulted in PCCW becoming the controlling shareholder of the Company. For accounting purposes, Ipswich Holdings Limited, a subsidiary of PCCW, and its subsidiaries (the "Property Group") are treated as the acquirer while the Company and its subsidiaries are deemed to have been acquired by the Property Group.

The management critically reviewed the strategic roles of certain subsidiaries of the Company existing prior to the Transaction and decided to divest such subsidiaries when opportunities arise. As certain subsidiaries have been acquired and held exclusively with a view to their subsequent disposal in the near future, the investments in certain subsidiaries are accounted for as other investments and recorded as "investment in unconsolidated subsidiaries" under current assets in the consolidated balance sheet.

Accordingly, the consolidated financial results for the year ended December 31, 2004 have been prepared as a continuation of the consolidated financial results of the Property Group. All comparative financial information for the year ended December 31, 2003 represents comparative financial information for the Property Group.

In order to align the Company's accounting year-end with PCCW, the financial year-end date has been changed from March 31 to December 31.

A management's discussion and analysis of the financial results and operations relating to the Group's businesses for the year ended December 31, 2004 follows below:

REVIEW OF FINANCIAL RESULTS AND OPERATIONS

The Group had a consolidated turnover of approximately HK$5,831 million for the year ended December 31, 2004, representing an increase of 28.8 percent compared with a consolidated turnover of approximately HK$4,528 million for the year ended December 31, 2003. The increment in the Group's consolidated turnover reflected the strong sales of Bel-Air luxury units, the residential portion of the Cyberport project, during the year.

The Group recorded a consolidated net profit of approximately HK$487 million for the year ended December 31, 2004, compared with the Group's consolidated net profit of approximately HK$3 million for the year ended

December 31, 2003. Net profit increased by approximately HK$484 million compared with last year, reflecting a higher gross profit margin attributable to higher selling prices of Bel-Air residential units sold in 2004.

PROPERTY DEVELOPMENT

During the year of 2004, Bel-Air achieved impressive sales performance. Pre-sales of Bel-Air luxury units continued to ride on the recovery of the Hong Kong property market and achieved total sales of more than 560 units and sales proceeds of HK$8,995 million as at December 31, 2004.

Since the commencement of sales in 2003 and up to December 31, 2004, 1,765 Bel-Air units had been sold, generating approximately HK$18,760 million in sales proceeds. The total sales proceeds generated were more than sufficient to fund the remaining construction costs for the Cyberport project. The Group recognised HK$5,415 million in revenue for the year ended December 31, 2004, on the basis of percentage of completion, in accordance with industry practice. Profit from operations for the year was HK$551 million, comparing to a loss from operations of HK$32 million the previous year.

In August 2004, the first portion of the surplus proceeds totaling HK$2,595 million was allocated between The Government of the Hong Kong Special Administrative Region (the "Government") and the Group. The Group received approximately HK$920 million according to its share of the contribution in the project.

The commercial portion of the Cyberport project was completed on June 28, 2004 and has already won a crop of accolades. These include a Merit Award of Excellence from the American Institute of Architects and the internationally-acclaimed Intelligent Building of the Year Award from the Intelligent

The commercial portion of the Cyberport project was completed on June 28, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community Forum, which is part of the World Teleport Association. The Cyberport office went on to collect Overall Winner, Gold and Silver Awards in the Best Landscape competition organised by the Leisure and Cultural Services Department of the Government.

In addition, the Arcade at Cyberport was named the Most Innovative Interior Design for a Retail Department in the first annual Retail Future Projects Awards at the MAPIC international commercial retail space event. The Arcade also won the Special Award 2003 in Structural Engineering from the Hong Kong Institute of Engineers and the Institute of Structural Engineers.

In November last year, our marketing team drew applause after winning all three categories of the Property Marketing Awards 2004, as well as the Best of the Best Awards in the marketing and brochure classes. The scheme was organised by the Hong Kong Institute of Surveyors to recognise excellence in property marketing.

The occupation permit of the first phase of the residential portion of the Cyberport project, known as Residence Bel-Air, was issued in June 2004.

PROPERTY INVESTMENT

The Group's property business also has an investment portfolio of premium-grade buildings, such as the Pacific Century Place city-center complex in Beijing and the 43-storey PCCW Tower in Hong Kong. The Group disposed of PCCW Tower at a consideration of HK$2,808 million in February 2005. Details of the transaction are set out under "Material Acquisitions and Disposal" below. The gross rental income for the year ended December 31, 2004 amounted to HK$358 million, a slight increase of 3.5 percent from the previous year. Revenue contributed by the PCCW Tower for the year ended December 31, 2004 was HK$150 million. Overall occupancy rate of the rental portfolio remained above 90 percent.

The Arcade at Cyberport was named the Most Innovative Interior Design for a Retail Department in the first annual Retail Future Projects Awards at the MAPIC international commercial retail space event.

OTHER BUSINESSES

Other businesses include the property management division which provides services of property management, facilities management, corporate services and asset management. Income from the property management division for the year ended December 31, 2004 amounted to HK$58 million, compared with HK$71 million in last year. This division has been appointed to provide property management services for the deluxe apartments, houses and clubhouse at Residence Bel-Air commencing in September 2004.

DIVIDEND

The Board has recommended the payment of a final dividend of 7 Hong Kong cents (2003: nil) per share or an aggregate amount of approximately HK$168 million (2003: nil) for the year ended December 31, 2004 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

TAXATION

Taxation for the year ended December 31, 2004 was HK$130 million compared with HK$30 million in 2003. The increase in taxation charge was primarily due to higher profit before taxation recorded during the year.

CURRENT ASSETS AND LIABILITIES

As at December 31, 2004, the Group had current assets of HK$7,080 million (2003: HK$5,648 million), comprising liquid funds, sales proceeds held in stakeholders' accounts and restricted cash. Liquid funds amounted to HK$1,018 million as at December 31, 2004 (2003: HK$124 million). Sales proceeds held in stakeholders' accounts rose by 83.9 percent from HK$2,402 million as at December 31, 2003 to HK$4,418 million as at December 31, 2004. Restricted cash decreased from HK$2,701 million as at December 31, 2003 to HK$904 million as at December 31, 2004, primarily due to the distribution of surplus proceeds totaling HK$2,595 million.

Total current liabilities as at December 31, 2004 amounted to HK$3,602 million, compared with HK$5,714 million as at December 31, 2003.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Company carried out the following capital reorganisation during the year ended December 31, 2004 as a result of the acquisition of various property interests of PCCW. Details of the Transaction are set out in the section headed "Material Acquisitions and Disposal":

MANAGEMENT'S DISCUSSION AND ANALYSIS

(i) every issued share of HK$0.40 was reduced in value by canceling HK$0.39 per share and the cancellation of each unissued share ("Capital Reduction");

(ii) every 10 shares of HK$0.01 each of the Company were consolidated into one share of HK$0.10 each;

(iii) an amount of approximately HK$47.14 million standing to the credit of the share premium account of the Company was cancelled ("Share Premium Cancellation");

(iv) the aggregate amount of the credit balance of the share premium account of the Company and the credit arising from the Capital Reduction and the Share Premium Cancellation, in the amount of approximately HK$500.03 million, was transferred to the contributed surplus account of the Company. The credit was used to set off against the accumulated losses of the Company; and

(v) the authorised share capital was increased from HK$11,612,654 to HK$1,000,000,000 by the creation of an additional 9,883,873,460 shares of HK$ 0.10 each.

As at December 31, 2004, total borrowings of the Group amounted to approximately HK$7,528 million, representing a decrease of HK$485 million compared with total borrowings of HK$8,013 million as at December 31, 2003. During the year, the Group repaid the bank loans of HK$1,151 million. As at December 31, 2004, the long-term borrowings were from PCCW as detailed in the circular of the Company dated April 2, 2004 (the "Circular"). The Cyberport loan of approximately HK$3,907 million is interest free and repayable by the sales proceeds of Bel-Air development while the convertible note (tranche A) for HK$1,170 million is interest free and the convertible note (tranche B) for HK$2,420 million carries a fixed interest rate of one percent per annum and repayable at 120 percent of the outstanding principal amount at maturity. As most of the loans are regarded as shareholder's loans, the gearing ratio is not provided.

As at December 31, 2004 the Group had been granted a banking facility amounting to approximately HK$20 million for the purpose of providing guarantee to the Government.

The majority of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars. For the transactions, assets and liabilities relating to Pacific Century Place in Beijing, the People's Republic of China (the "PRC"), they were denominated in Renminbi and the revenue contributed approximately 3.5 percent of the Group's revenue while the assets formed approximately 19.0 percent of the total assets of the Group.

Borrowings were denominated in Hong Kong dollars. Cash and cash equivalents were held mainly in Hong Kong dollars and the rest were in Renminbi and US dollars. Given the exchange rates of these currencies are fairly stable, the Group has no significant exposure to foreign exchange fluctuation and has not adopted any material hedging measures.

The cash inflow from operating activities for the year ended December 31, 2004 was HK$1,046 million which included the distribution of surplus proceeds of approximately HK$920 million from Cyberport project. For the year of 2003, the cash outflow from operating activities was HK$545 million as more cash was kept in restricted cash for Cyberport project.

SHARE PLACEMENT

On October 28, 2004, Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of PCCW, agreed to sell 118 million shares to independent third parties at a price of HK$2.18 per share. The Company also entered into a subscription agreement with Asian Motion for the subscription of 118 million new shares at HK$2.18 per share.

The net proceeds of approximately HK$248 million was to be used as general working capital.

CONVERSION OF CONVERTIBLE NOTE

On February 24, 2005, PCCW elected to convert the entire tranche A convertible note in the principal amount of HK$1,170 million into new shares of HK$0.10 each at HK$2.25 per share, pursuant to the terms of the convertible note (the "Conversion") which was issued by the Company to PCCW on May 10, 2004.

As a result of the Conversion, the Company allotted and issued 520 million new shares to Asian Motion (as directed by PCCW), representing about 27.62 percent of the then existing issued share capital of the Company and 21.64 percent of the enlarged issued share capital of the Company. The shares were issued on March 1, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSAL

Acquisition of various property interests of PCCW

On March 5, 2004, PCCW and the Company jointly announced that the Company had conditionally agreed to purchase:

(i) the entire issued share capital of the Property Group, being the group of companies holding Pacific Century Place located in Beijing, PCCW Tower located in Hong Kong, other investment properties and related property and facilities management companies of PCCW Group and includes Cyber-Port Limited (the developer of the Cyberport project);

(ii) the property situated at Ko Shing Street and Wo Fung Street, Western, Hong Kong; and

(iii) approximately HK$3,529 million in aggregate of interest-bearing loans owing by the relevant members of the Property Group to PCCW.

The aggregate consideration of approximately HK$6,557 million was satisfied:

(i) as to HK$2,967 million, by the allotment and issue of approximately 1,648 million new shares of par value of HK$0.10 each by the Company, credited as fully paid at an issue price of HK$1.80 per new share; and

(ii) as to the remaining HK$3,590 million, by the issue of the convertible notes by the Company to PCCW.

The above purchase was completed on May 10, 2004, details of which are set out in the Circular.

The Company was also granted the right of first refusal to jointly redevelop with PCCW the telephone exchanges in Hong Kong, subject to the approval by the relevant authorities of the Government.

Disposal of Gas Operation

As disclosed in the Company's announcement dated September 8, 2004, Dong Fang Gas (China) Limited, an indirect wholly-owned subsidiary of the Company, has entered into a conditional agreement on September 7, 2004 with See Hup Seng Limited ("SHSL"), a Singapore company listed on the Singapore Exchange Securities Trading Limited, for the disposal of the Company's entire interest in a gas operation for a consideration of approximately HK$80 million (approximately HK$10 million to be settled by cash and the balance to be settled by securities of SHSL). The consideration of HK$80 million was arrived at after arm's length negotiations. At the date of this report, the transaction had not yet been completed.

Disposal of PCCW Tower

On November 19, 2004, Partner Link Investments Limited ("Partner Link"), an indirect wholly-owned subsidiary of the Company, entered into a provisional agreement for the disposal of PCCW Tower, a 43-storey office tower at 979 King's Road, Quarry Bay, Hong Kong, for a cash consideration of HK$2,808 million. The consideration was determined after arm's length negotiations and taking into account the prevailing market conditions and independent valuation. The sale was completed on February 7, 2005.

Pursuant to the agreement, Partner Link entered into the Deed of Rental Guarantee with the purchaser pursuant to which Partner Link would guarantee the sum of HK$13,338,000 per month to the purchaser by way of guaranteed net monthly rental during the five-year period commencing on the completion date of the transaction.

Pacific Century Place, our premium-grade investment property in Beijing, is occupied by tenants including multinational corporations and embassies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at December 31, 2004, the Group had an outstanding corporate guarantee granted to the Government for certain entrusted works in relation to engineering infrastructure for the Cyberport development for an amount of approximately HK$0.8 million.

In April 1997, the Company and one of its wholly-owned subsidiaries had executed guarantees in favour of the lender of a convertible loan in the principal amount of US$12 million granted to one of its wholly-owned unconsolidated subsidiaries.

CHARGES ON GROUP ASSETS

The Group recorded a charge on its bank deposit of approximately HK$1 million for a banking facility as at December 31, 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2004, the Group employed approximately 454 staff, most of whom worked in Hong Kong. The Group's remuneration policies are in line with prevailing industry practices, are formulated on the basis of performance and experience and will be reviewed regularly. A discretionary bonus is paid to employees based on individual performance and the Group's performance. The Group also provided employees with comprehensive benefits including medical insurance, choice of provident fund or mandatory provident fund and training programs.

The share option scheme of the Company adopted pursuant to a resolution passed on October 13, 1998 and becoming effective on December 24, 1999 was terminated on March 17, 2003 and replaced by a new share option scheme being approved and adopted on the same date. The new share option scheme is valid and effective for a period of ten years from the date of adoption.

OUTLOOK

Overall economic improvement, a robust demand for luxury residential properties and a buoyant real estate market in Hong Kong all contributed towards the Group's remarkable results in 2004.

Looking forward, the Group expects the Hong Kong property market to continue to grow.

With a limited supply of high-end residential developments expected over the next few years, coupled with positive economic sentiment, the Group maintains a bright outlook on the Hong Kong property market. The Group is committed to growing its core business, keeping a sharp focus on developing premium properties and creating shareholder value.

Proceeds from the sales of remaining phases at the Bel-Air are expected to be the main source of Group revenue over the next few years.

The Group is considering proposals to redevelop a number of PCCW-owned telephone exchange buildings, which will be a potential source of prime residential and commercial projects over coming years. The telephone exchange at Ko Shing Street and Wo Fung Street, Western, will be the first to be redeveloped into residential property. Completion is targeted for end of 2008.

The alliance formed between PCCW and China Network Communications Group Corporation offers vast opportunities for the Group to broaden its development portfolio in mainland China's thriving property market.

The Group is also exploring various opportunities in other Asia Pacific real estate markets and will continue to harness its experience and expertise to high-quality residential developments that unlock value.