MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the unaudited consolidated financial results and operations relating to the businesses of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the six months ended June 30, 2005 follows below:

REVIEW OF FINANCIAL RESULTS AND OPERATIONS

The Group recorded a consolidated turnover of approximately HK$3,338 million for the six months ended June 30, 2005, representing an increase of 44.8 percent compared with approximately HK$2,306 million for the corresponding period in 2004. The increase in turnover was mainly due to revenue being recognised during the current period from sales of Bel-Air in 2004, and sales from South Tower as it reached completion.

The Group's gross profit for the six months ended June 30, 2005 was approximately HK$444 million, representing a decrease of 1.8 percent from a gross profit of approximately HK$452 million for the same period in 2004. The drop resulted from an increase in cost of sales and the loss of rental income from PCCW Tower following its disposal in February 2005 (six-month period up to June 30, 2004: HK$76 million).

Cost of sales during the period increased from approximately HK$1,854 million for the six months ended June 30, 2004 to approximately HK$2,894 million. The increase was attributable to higher sales revenue and more provision made for the entitlement of the Government of the Hong Kong Special Administrative Region (the "Government") under the terms of Cyberport Project Agreement. Such entitlement is considered as part of the development costs for the Cyberport project. Under the Cyberport Project Agreement, the Government is entitled to a percentage of the surplus sales proceeds of the Bel-Air residential units after certain deductions.

The Group recorded consolidated net profit of approximately HK$263 million for the six months ended June 30, 2005, representing an increase of 21.8 percent compared with approximately HK$216 million for the same period in 2004. Basic earnings per share during the period were 11.77 Hong Kong cents compared with 12.86 Hong Kong cents for the corresponding period in 2004. The Company issued 118,000,000 shares in a share placement in November 2004 and 520,000,000 shares from the conversion of tranche A convertible note by PCCW Limited ("PCCW") in March 2005.

PROPERTY DEVELOPMENT

Bel-Air achieved an impressive sales performance in the first six months of 2005. Pre-sales of Bel-Air luxury units continued to benefit from the recovery of Hong Kong's property market and the economy in general, with 197 units sold and sales proceeds of approximately HK$3,107 million generated as at June 30, 2005.

1,962 Bel-Air units were sold between the time sales began in 2003 and June 30, 2005, generating approximately HK$21,867 million in proceeds. The Group recognised approximately HK$3,179 million in revenue for the six months ended June 30, 2005. Profit from operations during the interim period was approximately HK$236 million, compared with profit from operations of approximately HK$209 million for the corresponding period in 2004.

The Group has changed its accounting policy on a prospective basis for recognition of revenues and profits from pre-sales of development property on adoption of HK Interpretation 3 "Revenue - Pre-completion Contracts for the Sale of Development Properties" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In the case of sales transactions for which legally binding unconditional sales contracts were signed after December 31, 2004, revenue is recognised when the property is completed. The Group continues to recognise revenues and profits arising from sale of development properties based on the percentage of construction completed in cases in which legally binding unconditional sales contracts were signed and exchanged prior to January 1, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In June 2005, the second portion of net surplus proceeds for the Cyberport project totaling HK$1,403 million was allocated between the Government and the Group. The Government was paid approximately HK$906 million in accordance with the Cyberport Project Agreement, while the Group retained approximately HK$497 million.

660 units in South Tower of the residential portion of the Cyberport project, known as Residence Bel-Air, was handed over to the buyers in March 2005.

PROPERTY INVESTMENT

The Group holds a premium-grade investment building, Pacific Century Place, in the city center of Beijing. In February 2005, the Group disposed of the 43-storey PCCW Tower in Quarry Bay, Hong Kong, for a consideration of HK$2,808 million. Details of the transaction are set out under "Material Acquisitions and Disposals" below. The Group's gross rental income for the six months ended June 30, 2005 amounted to approximately HK$121 million compared with approximately HK$177 million for the same period the previous year. The decrease was mainly attributable to the sale of PCCW Tower, which contributed approximately HK$76 million gross rental income in the first half of 2004. Overall occupancy of the rental portfolio remained above 90 percent.

OTHER BUSINESSES

Other businesses include the property management division, which provides property management, facilities management, corporate services and asset management services. Income from the property management division for the six months ended June 30, 2005 amounted to approximately HK$38 million, compared with approximately HK$33 million for the corresponding period in 2004.

DIVIDENDS

The board of directors of the Company has declared an interim dividend of 1.5 Hong Kong cents per share (2004: nil), or an aggregate amount of approximately HK$36 million (2004: nil) for the six months ended June 30, 2005. A final dividend of 7 Hong Kong cents per share (2003: nil) for the year ended December 31, 2004 was paid by the Company on May 19, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from September 6, 2005 to September 9, 2005 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on September 5, 2005. The interim dividend is expected to be paid on or around September 16, 2005 to shareholders whose names appear on the register of members of the Company on September 9, 2005.

TAXATION

Taxation for the six months ended June 30, 2005 was approximately HK$50 million compared with approximately HK$57 million for the same period in 2004.

CURRENT ASSETS AND LIABILITIES

As at June 30, 2005, the Group held current assets of approximately HK$14,813 million (December 31, 2004: HK$7,049 million), comprising properties under development, cash and cash equivalents, sales proceeds held in stakeholders' accounts and restricted cash. Properties under development rose from approximately HK$469 million as at December 31, 2004 to approximately HK$5,578 million as at June 30, 2005. Cash and cash equivalents amounted to approximately HK$3,384 million as at June 30, 2005 (December 31, 2004: HK$1,018 million). Sales proceeds held in stakeholders' accounts rose by 8.9 percent from HK$4,418 million as at December 31, 2004 to approximately HK$4,812 million as at June 30, 2005. Restricted cash decreased from HK$904 million as at December 31, 2004 to approximately HK$852 million as at June 30, 2005.

Total current liabilities as at June 30, 2005 amounted to approximately HK$6,882 million, compared with HK$3,602 million as at December 31, 2004.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2005, total borrowings of the Group amounted to approximately HK$5,885 million, representing a decrease of HK$1,643 million compared with total borrowings of HK$7,528 million as at December 31, 2004. On March 1, 2005, the entire tranche A convertible note of HK$1,170 million was converted into shares of the Company. As at June 30, 2005, all of the Group's long-term borrowings were from PCCW. The Cyberport loan of approximately HK$3,410 million is interest free and repayable out of Bel-Air sales proceeds, while the tranche B convertible note of HK$2,420 million carries a fixed interest rate of one percent per annum, and is repayable at 120 percent of the outstanding principal amount at maturity. As most of the loans are regarded as shareholders' loans, the gearing ratio is not provided.

As at June 30, 2005, the Group had a banking facility of approximately HK$20 million for the purpose of providing a guarantee to the Government in relation to the Cyberport project (December 31, 2004: HK$20 million).

The majority of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars. Transactions, assets and liabilities relating to Pacific Century Place in Beijing in the People's Republic of China (the "PRC"), were denominated in Renminbi. Renminbi denominated revenue represented approximately 3.1 percent of the Group's total turnover, while PRC assets represented approximately 17.9 percent of the Group's total assets.

All of the Group's borrowings were denominated in Hong Kong dollars. Cash and cash equivalents were held mainly in Hong Kong dollars, with the balance 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.

Cash inflow from operating activities for the six months ended June 30, 2005 was approximately HK$526 million, which included the distribution of surplus proceeds of approximately HK$497 million from the Cyberport project. Cash inflow from operating activities was approximately HK$35 million for the same period of 2004.

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$0.1 each at HK$2.25 per share, pursuant to the terms of the convertible note. As a result of the conversion, on March 1, 2005, the Company allotted and issued 520,000,000 new shares to Asian Motion Limited (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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

On December 21, 2004, Partner Link Investments Limited ("Partner Link"), an indirect wholly-owned subsidiary of the Company, entered into an agreement for the disposal of PCCW Tower, a 43-storey office building in Quarry Bay, Hong Kong, for a cash consideration of HK$2,808 million. The consideration was determined after arm's length negotiations, taking into account 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 has guaranteed the purchaser the sum of HK$13,338,000 per month by way of guaranteed net monthly rental during the five-year period commencing on the completion date of the transaction.

CONTINGENT LIABILITIES

As at June 30, 2005, the Group had an outstanding performance guarantee of approximately HK$1 million granted to the Government for certain entrusted works in relation to Cyberport development engineering infrastructure (December 31, 2004: HK$1 million).

CHARGES ON GROUP ASSETS

The Group recorded a charge on its bank deposit of approximately HK$1 million for a banking facility as at June 30, 2005 (December 31, 2004: HK$1 million).

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2005, the Group employed approximately 482 staff, most of whom worked in Hong Kong. The Group's remuneration policies, which are in line with prevailing industry practices, are formulated on the basis of performance and experience of individual employee and will be reviewed regularly. A discretionary bonus is paid to employees based on individual performance and the Group's performance. The Group also provides 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 on March 17, 2003 was terminated on May 13, 2005 and was replaced by a new share option scheme, which was approved by shareholders on the same date. The new share option scheme was adopted on May 23, 2005 following approval from PCCW shareholders. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

NEW ACCOUNTING STANDARDS

The Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations ("new HKFRSs"), which became effective for accounting periods on or after January 1, 2005. The adoption of new HKFRSs is in accordance with HKICPA's objective of full convergence with International Financial Reporting Standards and interpretations established by the International Accounting Standards Board. Comparative figures for 2004 have been restated as required to conform with the new HKFRSs. It should be noted that none of these changes affect the Group's underlying business operation or cashflow.

The adoption of the new HKFRSs from January 1, 2005 has resulted in a HK$71 million decrease in profit attributable to equity holders of the Company in the first half of 2005 and a HK$5 million increase in profit attributable to equity holders of the Company in the first half of 2004. Hence, the Group's reported profit attributable to equity holders of the Company for the six months ended June 30, 2005 of HK$263 million increased by 21.8 percent over the profit attributable to equity holders of the Company, as restated, for the six months ended June 30, 2004 of HK$216 million. Without adoption of the new HKFRSs, the increase in profit attributable to equity holders of the Company when comparing 2005 with 2004 would have been 58.3 percent. For more details on the new HKFRSs and the related financial impact, please refer to Note 2 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

OUTLOOK

Benefiting from the improving economy, lower unemployment and a vibrant property market in Hong Kong, the Group continued to achieve remarkable results in the first half of 2005.

Looking forward, the Group expects to see continued growth in the Hong Kong property market.

With a limited supply of high-end residential developments expected over the next few years, coupled with an improving economic outlook, the Group has confidence in the Hong Kong property market.

Proceeds from the sales of remaining phases of 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 are 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 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. A prototype site has been identified in the central business district of Beijing and will be redeveloped into a high-end residential and/or commercial complex.

The Group is also exploring opportunities in other areas of Asia Pacific and will continue to harness the power of the Bel-Air brand to capitalise on projects with growth potential.