MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the year ended December 31, 2005 follows below:

OPERATIONS REVIEW

Property Development

Fueled by a buoyant economy and continued interest in Hong Kong property market's luxury residential sector, sales of Bel-Air in 2005 remained strong. More than 210 Bel-Air units were sold, generating proceeds of approximately HK$3,551 million in 2005.

The Group recognised approximately HK$4,821 million in revenue for the year ended December 31, 2005. Profit before taxation and interest income during the year was approximately HK$548 million, compared with a profit before taxation and interest income of approximately HK$551 million in 2004. In aggregate, more than 1,980 Bel-Air units were sold between the time sales began in 2003 and December 31, 2005, generating approximately HK$22,311 million in proceeds.

In June and September 2005, the second and third batch of the net surplus proceeds for the Cyberport project, totalling HK$2,050 million, were allocated between the Government of the Hong Kong Special Administrative Region ("The Government") and the Group. The Government received an aggregate amount of approximately HK$1,323 million in accordance with the Cyberport Project Agreement, while the Group retained approximately HK$727 million for the year ended December 31, 2005.

All 660 units in Phase II of Residence Bel-Air (South Towers), the residential portion of the Cyberport project, were handed over to buyers in 2005. Handover of detached houses commenced in November 2005, while handover of units in Bel-Air on the Peak began in January 2006.

The Group's first telephone exchange redevelopment project in Hong Kong is located on Wo Fung Street in Sheung Wan. The site will be redeveloped into approximately 150 boutique apartments. Work is currently on schedule and pre-sales are expected in 2007, while completion is targeted for end of 2008.

The Group successfully acquired through public auction a residential site located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing, the People's Republic of China ("PRC") for RMB510 million in January 2006. With a total development gross floor area of approximately 46,300 square metres, this project is expected to reach completion in 2008/09. Further details are set out under "Material Acquisitions and Disposals" below.

Property Investment

The Group holds a premium-grade investment building, Pacific Century Place, in the city centre of Beijing. With a gross floor area of more than 162,000 square metres, this mixed-use development is currently home to many multinational corporations, world-class retailers and residential tenants. In February 2005, the Group completed disposal 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 year ended December 31, 2005 amounted to approximately HK$233 million, compared with approximately HK$358 million for the previous year. The decrease was mainly attributable to the sale of PCCW Tower, which contributed approximately HK$150 million in gross rental income in 2004. Overall occupancy of the rental portfolio remained closed to 100 percent.

Other Businesses

Other businesses include the property management division, which provides property management, facilities management, corporate services and asset management services. Revenue from the property management division for the year ended December 31, 2005 amounted to approximately HK$73 million, compared with approximately HK$58 million for the corresponding year in 2004.

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, to which Partner Link agreed to guarantee to the purchaser the sum of HK$13,338,000 per month in net monthly rentals during the five-year period commencing from the date following the completion date of the transaction.

As referred to under "Property Development" above, on January 23, 2006, the Group successfully acquired an approximately 23,000 square metre residential site in the PRC for RMB510 million through a public auction. Located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing, this site is in close proximity to one of the Group's assets, Pacific Century Place. Upon completion in 2008/09, this development is expected to enhance and provide synergies with the Group's Beijing property portfolio. This development will comprise a total gross floor area of approximately 46,300 square metres.

FINANCIAL REVIEW

Review of Results

The Group recorded a consolidated turnover of approximately HK$5,127 million for the year ended December 31, 2005, representing a decrease of 12.1 percent compared with approximately HK$5,831 million in 2004. The decrease was mainly the result of a change in accounting policy with sales from 2005 onwards being recognised only on completion of construction together with reduced rental income following the disposal of PCCW Tower in February 2005.

The Group changed its accounting policy on recognition of revenues and profits from pre-sales of development property on adoption of *HK-Interpretation 3* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Revenue from sales transactions for which legally binding unconditional sales contracts were signed after December 31, 2004 is recognised only when the property is completed. The Group continues to recognise revenues and profits arising from sales of development properties based on the percentage of construction completed in cases where legally-binding unconditional sales contracts were signed prior to January 1, 2005 as permitted under the transitional provision of *HK-Interpretation 3*.

The Group's consolidated gross profit for the year ended December 31, 2005 was approximately HK$926 million, representing a decrease of 10.2 percent from a gross profit of approximately HK$1,031 million for the year 2004. The reduction reflected a decrease in turnover while gross profit margin remained stable.

The Group recorded consolidated net profit of approximately HK$597 million for the year ended December 31, 2005, representing an increase of 69.6 percent compared with approximately HK$352 million in 2004. The increase was partly attributable to the increase in interest income generated from the proceeds received from sale of PCCW Tower in February 2005. Basic earnings per share during the year were 25.77 Hong Kong cents compared with 20.22 Hong Kong cents in 2004.

Current Assets and Liabilities

As at December 31, 2005, the Group held current assets of approximately HK$15,034 million (December 31, 2004: HK$7,049 million), comprising properties under development, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The increase in current assets was attributable to the increase in cash proceeds generated from the sale of PCCW Tower and the transfer from non-current portion of properties under development due to expected completion and handover of Bel-Air on the Peak in 2006. Properties under development rose from approximately HK$469 million as at December 31, 2004 to approximately HK$5,669 million as at December 31, 2005. Cash and bank balances amounted to approximately HK$3,354 million as at December 31, 2005 (December 31, 2004: HK$1,018 million). Sales proceeds held in stakeholders' accounts decreased by 2.8 percent from HK$4,418 million as at December 31, 2004 to approximately HK$4,293 million as at December 31, 2005. Restricted cash increased from HK$904 million as at December 31, 2004 to approximately HK$1,332 million as at December 31, 2005.

Total current liabilities as at December 31, 2005 amounted to approximately HK$11,320 million, compared with HK$7,533 million as at December 31, 2004.

Capital Structure, Liquidity and Financial Resources

As at December 31, 2005, total borrowings of the Group amounted to approximately HK$5,679 million, representing a decrease of HK$1,849 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 issued to PCCW Limited ("PCCW") was converted into shares of the Company. As at December 31, 2005, all the Group's long-term borrowings were from PCCW group. A portion of the borrowings comprising approximately HK$3,180 million is interest free and is expected to be repaid from surplus proceeds distributed from the Cyberport project, 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 in 2014. As all borrowings are from the majority shareholder, gearing ratio is not provided.

As at December 31, 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, the PRC, were denominated in Renminbi. Renminbi denominated revenue represented approximately 4.1 percent of the Group's total turnover, while PRC assets represented approximately 18.2 percent of the Group's total assets.

All of the Group's borrowings were denominated in Hong Kong dollars. Cash and bank balances 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 year ended December 31, 2005 was approximately HK$40 million while cash inflow from operating activities in 2004 was approximately HK$1,484 million.

Taxation

Taxation for the year ended December 31, 2005 was approximately HK$113 million compared with a tax credit of approximately HK$39 million in 2004. The tax credit in 2004 was mainly the result of the change in accounting standards with deferred tax being reversed and restated.

Contingent Liabilities

As at December 31, 2005, the Group had an outstanding performance guarantee of approximately HK$0.8 million granted to The Government for certain entrustment works in relation to the Cyberport project (2004: HK$0.8 million).

New Accounting Standards

The Group has changed certain of its accounting policies following 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$677 million decrease in profit attributable to equity holders of the Company for 2005 and a HK$135 million decrease in profit attributable to equity holders of the Company for 2004. Hence, the Group's reported profit attributable to equity holders for 2005 of HK$597 million increased by 69.6 percent over the profit attributable to equity holders, as restated, for 2004 of HK$352 million. Without adoption of the new HKFRSs, the increase in profit attributable to equity holders of the Company in 2005 from 2004 would have been 161.6 percent. For more details on the new HKFRSs and the related financial impact, please refer to Note 2(b) of the Notes to the Financial Statements of the Company's Annual Report for 2005.

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 in the Company 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.

Novation of Convertible Note

The Company has agreed in principle with PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW and also the holder of the HK$2,420 million tranche B convertible note (the "Note") issued by the Company in May 2004, that the Company's rights and obligations under the Note will be assigned and novated to a wholly-owned subsidiary of the Company. The subsidiary's obligations under the Note will be guaranteed by the Company. Other than the identity of the issuer of the Note and the guarantee by the Company, there will be no change to the terms and conditions of the Note. The novation and guarantee will not have any material impact on the Company's consolidated financial statements or the Company's other contractual commitments.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2005, the Group employed approximately 528 staff, most of who were based in Hong Kong. The Group's remuneration policies are in line with prevailing industry practices, have been formulated on the basis of performance and experience and will be reviewed regularly. Bonus is paid on a discretionary basis according to individual performance and the Group's performance. The Group also provides comprehensive benefits including medical insurance, choice of provident fund or mandatory provident fund and training programmes.

The share option scheme of the Company adopted on March 17, 2003 was terminated on May 13, 2005 and 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 shareholders of PCCW. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

DIVIDENDS

The Board has recommended the payment of a final dividend of 5.5 Hong Kong cents (2004: 7 Hong Kong cents) per share or an aggregate amount of approximately HK$132 million (2004: HK$168 million) for the year ended December 31, 2005 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. An interim dividend of 1.5 Hong Kong cents per share (2004: nil) was paid by the Company on September 16, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 11, 2006 to May 16, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend of 5.5 Hong Kong cents per share, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on May 10, 2006. Dividend warrants will be despatched on or around May 23, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company.

OUTLOOK

Continued economic growth, coupled with a robust real estate market in Hong Kong and the PRC, enabled the Group to achieve strong results in 2005. In light of the positive macro economic environment with reducing unemployment and a limited supply of luxury residential properties, the Group maintains an optimistic view of the property market in Hong Kong over the next few years.

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

In PRC, the development of the newly-acquired site located along No.4 Gong Ti Bei Lu, Chaoyang District, Beijing, is expected to provide synergies with the Group's mainland portfolio and enhance the Group's revenue stream on completion in 2008/09.

Proceeds from sales of the remaining phases of Bel-Air, together with revenue from a number of development opportunities, are expected to drive Group revenue over the next few years.

The alliance between PCCW and China Network Communications Group Corporation ("CNC") offers vast opportunities for the Group to broaden its development portfolio in PRC's thriving property market. A prototype site has been identified in the central business district of Beijing. This redevelopment, which is still subject to government approval, is expected to be a high-end residential and/or commercial complex. Feasibility studies for other potential sites within CNC's portfolio are also under way.

Capitalising on the Group's expertise in premium residential developments, together with the Company's unique brand, the Group is also actively exploring development opportunities in other parts of the Asia-Pacific region to grow its core business and enhance shareholder value.