MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the unaudited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the six months ended June 30, 2006 follows below:

BUSINESS REVIEW

Property development

The Hong Kong economy continued to be favourable, leading to improvement in local employment and a boost in consumer spending, as well as in home buyers' confidence. The Group reported satisfactory returns from completion of property sales during the period, while solid progress was made in marketing, sales and operations.

The Group has been adding value to the Bel-Air project with high-quality architecture, layout and clubhouse facilities. While providing premium customer care and after-sales service, the Group also offers a wide range of apartment and house sizes to suit different customer needs.

The Group recognised approximately HK$5,125 million in revenue for the six months ended June 30, 2006. Profit before taxation and interest income during the interim period was approximately HK$655 million, compared with approximately HK$236 million for the corresponding period in 2005.

In June 2006, the fourth batch of net surplus proceeds for the Cyberport project, totalling HK$1,800 million, was allocated between the Government of the Hong Kong Special Administrative Region ("HKSAR") and the Group. The Government of the HKSAR received an aggregate amount of approximately HK$1,162 million, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK$638 million for the six months ended June 30, 2006.

The Group's telephone exchange redevelopment project in Hong Kong continues to make progress. Located in Wo Fung Street, Sheung Wan, the site will be redeveloped into approximately 150 boutique apartments. Works is currently on schedule and pre-sales are expected in 2007, with completion targeted for end of 2008.

In mainland China, the Group acquired a residential site located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing for RMB510 million through public auction in January 2006. With a development gross floor area of approximately 46,300 square metres, this project is expected to reach completion in 2008/09. Convenient transportation links are envisaged following the opening of a subway service in 2007, and valuable synergies will be created with the Group's adjacent property, Pacific Century Place.

Property investment

The Group owns a premium-grade investment building, Pacific Century Place, in Beijing city centre. 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. Demand for office and retail space is expected to increase, given mainland China's strengthening economy and the accelerating pace of corporate expansion. Pacific Century Place enjoyed an average occupancy rate of 96 per cent for the six months ended June 30, 2006. Upgrading works are scheduled for 2007/08.

The Group's gross rental income for the six months ended June 30, 2006 amounted to approximately HK$111 million, compared with approximately HK$121 million for the same period in 2005.

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 six months ended June 30, 2006 amounted to approximately HK$40 million, compared with approximately HK$38 million for the corresponding period in 2005.

FINANCIAL REVIEW

Review of results

The Group recorded a consolidated turnover of approximately HK$5,276 million for the six months ended June 30, 2006, representing an increase of 58.1 per cent compared with approximately HK$3,338 million for the corresponding period in 2005. The increase in turnover was mainly due to revenue being recognised during the current period from sales of Bel-Air on the Peak as it reached completion.

The Group's consolidated gross profit for the six months ended June 30, 2006 was approximately HK$852 million, representing an increase of 91.9 per cent from a gross profit of approximately HK$444 million for the same period in 2005. The increase resulted from an improvement to the Group's gross operating profit margin and increase in turnover coupled with effective cost management.

The Group recorded consolidated net profit of approximately HK$703 million for the six months ended June 30, 2006, representing an increase of 167.3 per cent compared with approximately HK$263 million for the same period in 2005. The increase was attributable to an increase in turnover and higher interest income. Basic earnings per share during the period was 29.23 Hong Kong cents comparing to 11.77 Hong Kong cents for the corresponding period in 2005.

The Group has adopted HK-Interpretation 3 ("HK-Int 3") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") to recognise revenue arising from pre-sales of development properties. Since HK-Int 3 requires revenue and profits to be recognised only upon completion of the development and when significant risks and rewards of ownership have been transferred, the revenue and profits from the sale of property development is highly driven by the timing of the completion of construction works for each phase. Since certain phases of development were completed in the first six months of 2006, revenue and profits recognised in the first six months of 2006 increased substantially as compared to the corresponding period in 2005.

Current assets and liabilities

As at June 30, 2006, the Group held current assets of approximately HK$12,783 million (December 31, 2005: HK$15,034 million), comprising properties under development, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The decrease in current assets was attributable to a reduction in properties under development. Properties under development were decreased from approximately HK$5,669 million as at December 31, 2005 to approximately HK$2,599 million as at June 30, 2006. Cash and bank balances amounted to approximately HK$2,815 million as at June 30, 2006 (December 31, 2005: HK$3,354 million). Sales proceeds held in stakeholders' accounts was declined by 14.3 per cent from HK$4,293 million as at December 31, 2005 to approximately HK$3,681 million as at June 30, 2006. Restricted cash was increased from HK$1,332 million as at December 31, 2005 to approximately HK$3,100 million as at June 30, 2006.

Total current liabilities as at June 30, 2006 amounted to approximately HK$9,494 million, compared with HK$11,320 million as at December 31, 2005.

Capital structure, liquidity and financial resources

As at June 30, 2006, total borrowings of the Group amounted to approximately HK$5,065 million, representing a decrease of HK$614 million compared with total borrowings of HK$5,679 million as at December 31, 2005. As at June 30, 2006, all the Group's long-term borrowings were from PCCW group. A portion of the borrowings comprising approximately HK$2,542 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 1 per cent per annum, and is repayable at 120 per cent of the outstanding principal amount at maturity in 2014. As all borrowings are from the Company's majority shareholder, PCCW, gearing ratio is not provided.

As at June 30, 2006, the Group had a banking facility of approximately HK$20 million for the purpose of providing a guarantee to the Government of the HKSAR in relation to the Cyberport project (December 31, 2005: 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 and the newly acquired residential site in Beijing, the People's Republic of China ("PRC"), were denominated in Renminbi. Renminbi denominated revenue represented approximately 2.1 per cent of the Group's total turnover, while PRC assets represented approximately 22 per cent of the Group's total assets.

All 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.

The Group recorded a net cash outflow from operating activities for the six months ended June 30, 2006 of approximately HK$406 million, compared to a net cash inflow from operating activities of approximately HK$29 million for the same period in 2005.

Taxation

Taxation for the six months ended June 30, 2006 was approximately HK$135 million compared to approximately HK$50 million for the same period in 2005.

Contingent liabilities

As at June 30, 2006, the Group had an outstanding performance guarantee of approximately HK$1 million granted to the Government of the HKSAR for certain entrustment works in relation to Cyberport project (December 31, 2005: HK$1 million).

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2006, the Group employed approximately 385 staff, most of whom were based in Hong Kong. The Group's remuneration policies, which 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.

INTERIM DIVIDEND

The board of directors of the Company has declared an interim dividend of 1.5 Hong Kong cents per share for the six months ended June 30, 2006 (2005: 1.5 Hong Kong cents per share) or an aggregate amount of approximately HK$36 million (2005: HK$36 million) to shareholders whose names appear on the register of members of the Company on October 6, 2006. The interim dividend will be paid on or around October 13, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from October 4, 2006 to October 6, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend of 1.5 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, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00pm on October 3, 2006.

OUTLOOK

The Group continues to benefit from an improving economy, lower unemployment and a vibrant property market in Hong Kong and mainland China. A limited supply of high-end residential developments is likely to support the rising trend in property prices in the luxury sector. Demand for rental properties increasing as a result of an influx of professionals in support of Hong Kong's economic growth implies sustainable rental growth. Therefore, the Group maintains an optimistic view of the property market for the coming years.

The Bel-Air project remains the Group's leading property development project. Proceeds from sales of the remaining phases of Bel-Air, together with revenue from a number of development opportunities, are expected to continue to drive the Group's revenue over the next few years.

Other opportunities to enhance the Group's income in Hong Kong are being explored through feasibility studies on planning and upgrading a number of PCCW-owned telephone exchange buildings. Redevelopment of telephone exchanges will be a potential source of prime residential and commercial projects in the coming years. The first telephone exchange redevelopment project is located in Wo Fung Street, Sheung Wan. Completion is targeted for end of 2008.

In mainland China, the development of the site located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing is expected to enhance the Group's revenue stream on completion in 2008/09.

The alliance between PCCW and China Network Communications Group Corporation is also expected to offer 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. This redevelopment, which is still subject to government approval, is expected to be a high-end residential and/or commercial complex.

The Group believes that increasing business opportunities in mainland China will continue to have a positive impact on the Group. The Group's new residential project in Chaoyang district in Beijing, together with a number of potential projects in China currently being considered, will enhance the Group's future profitability. These projects will benefit from the buoyant property market in mainland China and will support the growth in the Group's asset value.

The Group will continue to apply its expertise in developing premium residential and commercial properties both in Hong Kong and in mainland China. The Group's unique brand will continue to create value for the Company's shareholders.