

REPORT OF THE DIRECTORS



The directors present their report and the audited financial statements of Beijing Enterprises Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 21 to the financial statements. During the year, the Group withdrew from the retail operation and property construction and development operation that were operated by Beijing Wangfujing Department Store (Group) Co., Ltd. (“Wangfujing”), further details of which are included in note 12 to the financial statements. There were no other significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 158.

An interim dividend of HK\$0.10 per ordinary share was paid on 9 November 2006. The directors recommend the payment of a final dividend of HK\$0.20 per ordinary share in respect of the year to shareholders on the register of members on 21 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on pages 159 to 160. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 16 and 17 to the financial statements, respectively.

SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share options of the Company and the Group and the Group’s convertible bonds during the year, together with the reasons therefor, are set out in notes 36 and 39 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$619,665,000, of which HK\$124,500,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$4,839,497,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's turnover and total purchases for the year, respectively.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yi Xi Qun (*Chairman*)

Mr. Zhang Hong Hai (*Vice Chairman and Chief Executive Officer*)

Mr. Li Fu Cheng (*Vice Chairman*)

Mr. Bai Jin Rong (*Vice Chairman*)

Mr. Guo Ying Ming (resigned on 27 June 2006)

Mr. Liu Kai (*Vice President*)

Mr. Zheng Wan He

Mr. Guo Pu Jin

Mr. Zhou Si

Mr. E Meng (*Vice President*)

Mr. Zhao Chang Shan (appointed on 27 June 2006)

Mr. Lei Zhen Gang (appointed on 27 June 2006)

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose

Dr. Lee Tung Hai, Leo

Mr. Wang Xian Zhang

Mr. Wu Jiesi

Mr. Robert A. Theleen

Subsequent to the balance sheet date, on 5 January 2007, Mr. Zheng Wan He resigned as a director of the Company.

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DIRECTORS *(continued)*

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Li Fu Cheng, Lau Hon Chuen, Ambrose, Liu Kai, Wu Jiesi, Zhao Chang Shan and Lei Zhen Gang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the five independent directors of the Company, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Yi Xi Qun has a service contract with the Company for a term of five years commencing on 1 June 2003 with an unexpired period of approximately 17 months as at 31 December 2006. This service contract, which was entered into before 1 February 2004, is exempt from the shareholders' approval requirement under Rule 13.68 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which has taken effect since 1 February 2004.

Each of Messrs. Zhang Hong Hai, Liu Kai and E Meng has a service contract with the Company for a term of three years commencing on 3 December 2006, 16 January 2007 and 17 June 2005, respectively, with respective unexpired periods of approximately 32 months, 33 months and 15 months as at the date of this report.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 24 to 27 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in underlying shares of the Company and its associated corporations:

The interests of the directors in the share options of the Company and Beijing Development (Hong Kong) Limited ("Beijing Development", a company which ceased to be a subsidiary of the Company and became an associate of the Company in December 2006) are separately disclosed in note 36 to the financial statements.

Long positions in shares of associated corporations:

Name of directors	Name of associated corporation	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Li Fu Cheng	Beijing Yanjing Brewery Company Limited ("Yanjing Brewery") [@]	38,898 [#]	0.0035%
Mr. E Meng	Beijing Development ^{@*}	<u>901,000[#]</u>	<u>0.1433%</u>

[@] All interests in these associated corporations are indirectly held by the Company.

^{*} This corporation ceased to be a subsidiary of the Company and became an associate of the Company in December 2006.

[#] All interests are directly beneficially owned by the directors.

Save as disclosed above, as at 31 December 2006, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

Pursuant to the share reform plan implemented by Yanjing Brewery during the year, Mr. Li Fu Cheng, a director of the Company, received 8,270 shares of Yanjing Brewery as compensation based upon the 30,628 shares of Yanjing Brewery that he owned prior to the completion of the share reform plan of Yanjing Brewery.

Apart from the foregoing and save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Others	Total	
Modern Orient Limited	100,050,000	–	100,050,000	16.07%
Beijing Enterprises Investments Limited ("BEIL")	223,950,000	100,050,000 (a)	324,000,000	52.05%
Beijing Holdings Limited ("BHL")	–	324,000,000 (b)	324,000,000	52.05%
Deutsche Bank Aktiengesellschaft	64,744,500	40,737,480 (c)	105,481,980	16.94%
JP Morgan Chase & Co.	1,000	31,211,923 (d)	31,212,923	5.01%
Merrill Lynch & Co., Inc.	–	43,607,435 (e)	43,607,435	7.01%
T. Rowe Price Associates, Inc and its affiliates	–	37,838,000 (f)	37,838,000	6.08%

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes:

- (a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is held directly as to 100% by BEIL. Accordingly, BEIL is deemed to be interested in the shares owned by Modern Orient Limited.
- (b) The interest disclosed includes the shares owned by BEIL and Modern Orient Limited. BEIL, the holding company of Modern Orient Limited, is held indirectly as to 72.72% by BHL. Accordingly, BHL is deemed to be interested in the shares owned by BEIL and Modern Orient Limited.
- (c) The interest disclosed includes 5,434,000 shares held as an investment manager and 35,303,480 shares held as a person having a security interest in the shares.
- (d) The interest disclosed includes 2,562,000 shares held as an investment manager and 28,649,923 shares held as a custodian corporation/ approved lending agent.
- (e) The interest disclosed is held through corporations controlled by Merrill Lynch & Co., Inc.
- (f) The interest disclosed is held as an investment manager.

Short positions:

Name	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Others	Total	
BEIL	60,000,000	–	60,000,000	9.64%
BHL	–	60,000,000(a)	60,000,000	9.64%
Deutsche Bank Aktiengesellschaft	341,000	25,136,275(b)	25,477,275	4.09%

Notes:

- (a) The interest disclosed includes the shares owned by BEIL. BHL, the holding company of BEIL, is deemed to be interested in the shares owned by BEIL.
- (b) The interest disclosed is held for a person having a security interest in the shares.

Lending pool:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
JP Morgan Chase & Co.	28,649,923	4.60%

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in notes 31 and 53 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iv) within the prescribed limits as set out in the waiver letters in respect of connected transactions granted by the Stock Exchange to the Company.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 54 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'Ye Jiaoyang', written in a cursive style.

Chairman

Hong Kong
3 April 2007