



## Chairman's Statement

I wish to report that Enerchina Holdings Limited ("Enerchina" or the "Company") and its subsidiaries (collectively the "Group") recorded less than satisfactory results during the year ended 31 December 2006 amidst challenging business environment.

### YEAR 2006 FINANCIAL RESULTS

For the year ended 31 December 2006, the Group recorded a turnover of HK\$3,804.2 million, representing an increase of 34.9% as compared to the same period last year. Gross profit decreased to HK\$559.5 million for the year ended 31 December 2006, a decrease of 13.9% as compared to the same period last year. Revenue from the sale of electricity decreased by 10.1% whilst that of Panva Gas Holdings Limited ("Panva Gas") recorded a 73.0% increase.

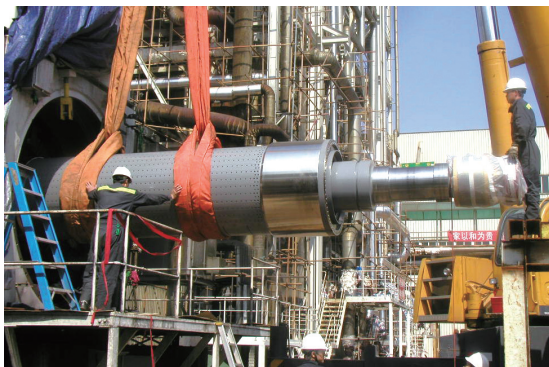
The Group's operating expenses for the year increased by 102.3% to HK\$447.5 million as compared to HK\$221.2 million last year.

The Group's audited consolidated loss attributable to shareholders for the year ended 31 December 2006 amounted to HK\$79.6 million, a 141.7% decrease as compared to last year's profit of HK\$191.0 million.



### OVERVIEW

In 2006, China's economy grew at a faster pace than the previous year. The gross domestic product ("GDP") posed double-digit growth in all four consecutive quarters. GDP in the fourth quarter of the year rose to 10.7%, which is 0.8% higher than that for the corresponding period last year. Consumption of power continued to grow at a rapid growth. According to statistics provided by the State Power Information Network, the total power generation in Guangdong Province was approximately 235.8 billion kwh for the period ended 31 December 2006, representing an increase of more than 6% over the corresponding period last year.



During the year, the Group's on-grid electricity amounted to 1,946 million kwh, representing a decrease of 12.9% as compared to 2,233 million kwh over the last period. The main cause of the decrease was a technical malfunction of one power generator which affected the overall power output.





Cost control remained the main challenge faced by the Group's management. Although heavy oil price has slid from the peak during the second half of the year, the Group's power generation business was still under enormous pressure. The gross profit margin of the electricity generation business for the period increased despite the reduced turnover and was partially offset by the fuel subsidies from the Shenzhen Government.



Conversion from using heavy oil to natural gas is underway. When completed, this would allow the Group to use a more economical source of fuel without incurring additional fixed cost because the power generators would have dual-fuel firing capabilities. The Group is striving to secure long term natural gas supply to coincide with the completion of the power plant conversion.

The Group's investment in gas fuel business through Panva Gas achieved a breakthrough in 2006. During the year, Panva Gas focused on the development of the piped gas business while allocating an appropriate amount of resources to the liquefied petroleum gas ("LP Gas") business and further rationalised its existing operations. On the piped gas front, Panva Gas acquired a 90% equity interest in Fuxin Gas Co., Ltd. ("Fuxin Gas") in Liaoning for a consideration of RMB71 million.



Moreover, the Group, Panva Gas and Hong Kong & China Gas (China) Limited ("HKCG") announced that the Panva Gas has agreed to acquire the entire issued capital of each of the eight companies held by HKCG which hold equity interests in ten PRC companies that are engaged in piped gas fuel businesses. In consideration of the acquisition which includes taking assignment of the shareholder loans, Panva Gas agreed to issue approximately 773 million new shares to HKCG, which represented 43.97% of the enlarged issued share capital of Panva Gas. The acquisition has provided Panva Gas with the opportunity of gaining a higher market share in the northeastern and northern PRC regions.

## OUTLOOK

The power shortage situation in Guangdong Province should be alleviated in 2007 following the peaking of power generation in 2006. However, power consumption is expected to remain at a high level. It is estimated that power consumption in Guangdong Province will exceed 330 billion kwh in 2007, representing a 10.5% year-on-year increase.

China's Premier Wen Jiabao called for the development of "environmental friendly technologies" and "clean production" in his work report. This coincides with our mission to become a major clean energy provider in China. The Group will continue to explore the opportunities to expand in the clean energy sector in China.



## Chairman's Statement

Effective 1 March 2007, Enerchina's shareholding in Panva Gas was decreased from 57.94% to 30.5% and Towngas has become the major shareholder of Panva, holding an approximate 43.9% interest. The Group believes that the new major shareholder can offer tremendous value to enhance Panva's management, operations and services. I am extremely optimistic about Panva's future business prospects as well as its long-term return potential, and have faith in its mission to become the market leader in China's city gas distribution industry.

In 2007, Panva Gas will work closely with Towngas to create operational synergies for both parties by adopting a two-pronged approach. While it will make new project development a top priority, it will capitalise on the support of Towngas to enhance internal controls, engineering and safety management and to obtain higher operational efficiency.

On 1 March 2007, to maintain the public float in Panva Gas at above 25%, Enerchina placed down 34 million shares in Panva Gas. The proceeds generated by this sale of shares will be applied towards the working capital of the Group.

During the year, the Company commenced a program of repurchasing Enerchina's shares (the "Shares") to enhance and better reflect the value in the Company. Approximately 50 million Shares were recently repurchased and cancelled. The program is expected to continue throughout 2007 in an effort to further enhance value to shareholders.

### APPRECIATION

On behalf of the board of directors of the Company (the "Board"), I would like to express my gratitude to all staff for their devoted efforts and hard work. I would also like to thank all our shareholders for their support over the past year.

**Ou Yaping**

*Chairman*

Hong Kong, 19 April 2007