

## Report of the Supervisory Committee

Dear shareholders,

During the report period, the supervisory committee (the "Supervisory Committee") of Shanghai Electric Group Company Limited (the "Company") discharged their duties of supervision faithfully in accordance with the Company Law of the PRC, the Securities Law of the PRC, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and the Articles of Association of the Company, thereby pro-actively protecting the interest of shareholders and the Company.

During the report period, the Supervisory Committee devoted efforts to identifying new ways of work according to the characteristics of the industry and management model of the Group. Through participation in general meetings, meetings of the Board of Directors, on-site inspection and investigation of companies, interview with management members and convention of Committee meetings, the members of the Supervisory Committee acted pro-actively to apply their respective expertise and perform the functions of the Committee.

In the first half of 2005, the Supervisory Committee organised various interviews with the management with a focus on financial management. The Committee acknowledged the management's work on strengthening basic financial management, improving financial regulation framework and establishing budget analysis systems at various levels. It also made recommendations in respect of strengthening the management of financial controllers of subsidiaries so as to enhance the quality of operations and standard of financial management.

On-site inspection and investigation were conducted by the Supervisory Committee to examine the standard of operation. The companies subject to the inspection were requested to improve the management of accounts receivables and inventories. Emphasis was also placed on strengthening the guidance of mid- to long-term planning and the step-by-step implementation with a stress on operability.

Set out below are independent opinions of the Supervisory Committee on its work in 2005:

--- The Supervisory Committee reviewed the financial systems and reports of the Company and considers that the financial budget, final accounts, annual report and interim report of the Company are true and reliable and that the auditors engaged by the Company produced objective and fair opinions.

- The Supervisory Committee supervised the operations of the Company and considers that the Company has established a relatively comprehensive internal control system and spent much efforts on the improvement and implementation of the system, thereby effectively managed various operational risks.
- The Supervisory Committee reviewed the application of proceeds of the Company. Up to date, the proceeds were utilised in accordance with the disclosures in the listing prospectus of the Company and the relevant projects progressed steadily as scheduled.
- The Supervisory Committee monitored the connected transactions of the Company. Connected transactions during the report period were carried out to consolidate and strengthen the business of the Company and were entered into at arm's length commercial terms. The transactions were fair and reasonable and the Committee was not aware of any act detrimental to the interests of the Company and shareholders. The disclosure obligation under the Listing Rules were discharged in respect of all connected transactions, except for the connected transaction on 14 June 2005 which had been omitted as a result of inadvertent oversight of the staff and subsequently disclosed on 27 October 2005. All continuing connected transactions were conducted for amounts within their respective caps for exemption.
- The Supervisory Committee monitored the discharge of duties of the Directors and managers. All members of the Board of Directors and the managers have diligently and faithfully discharged their duties under the Articles of Association of the Company. They have worked towards maximising the interests of the shareholders and the Company and have been dedicated to promoting the development of the Company. No act was committed during their discharge of duties that were in contradiction to the laws or regulations of the PRC or the Articles of Association or detrimental to the interests of shareholders of the Company. The Supervisory Committee believes that the shareholding structure of the Company has been diversified and internationalised since its listing on the Stock Exchange, laying down a robust foundation for the consolidation and improvement of corporate governance structure and acceleration of business growth of the Company. In the coming year, the Supervisory Committee will further seek innovation to better deliver its supervisory functions and protect the interests of shareholders as a whole.

By order of the Supervisory Committee,

**Cheng Zuomin**

*Chairman*

Shanghai, the PRC

25 April 2006