



Report of the Supervisory Committee

Dear Shareholders

During the reporting period, the Supervisory Committee of Shanghai Prime Machinery Company Limited (the "Company") has actively and effectively performed its duties in compliance with relevant provisions of the Company Law of the PRC, Securities Law of the PRC, Articles of Association of the Company and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules"). The Committee has carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner, practically protected the interests of our shareholders and the Company.

Within the reporting period, the Supervisory Committee reviewed the interim results, financial accounts and financial budgets of the Company and the auditor's report, and proposed reasonable advice by Board meetings, conducting on-the-spot inspections and convening meetings of the Supervisory Committee. The business expertise of the Committee members was given full play in performing their duties.

With respect to annual progress of the Company in 2006, the Supervisory Committee has the following views:

- The Supervisory Committee has examined details of the implementation of financial management system and financial reports of the Company. It confirms that the budget report, financial report and interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company produced objective and fair opinions.
- The Supervisory Committee has supervised the operating activities of the Company. It believes that the Company has established a relatively mature internal control system and an internal control management structure, and has made great efforts to improve and execute the system and structure, which mitigated various operating risks of the Company.
- The Supervisory Committee has examined the use of

proceeds of the Company. It confirms that the use of proceeds of the Company is in concert with those disclosed in the listing prospectus of the Company. The projects are being executed progressively according to schedule.

- The Supervisory Committee has supervised the connected transactions of the Company. It believes that the connected transactions between the Company and Shanghai Electric (Group) Corporation, its controlling shareholder, and Shanghai Electric Group Company Limited during the reporting period are fair and impartial without damaging the interests of other Shareholders and the Company. In 2006, all continuing connected transactions were conducted for amounts within their respective caps for exemption.
- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company. It confirms that the Directors, chief executive officer and other senior management have exercised every rights granted by shareholders and discharged every duties in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees as of the date of this report.

In 2007, all members of the Supervisory Committee will continue to comply with relevant provisions of the Company law of the PRC, Articles of Association of the Company and the Listing Rules. With dedication to protect the interests of the Company and its shareholders, the Committee will endeavor to perform its supervising duties for the benefits of all shareholders.

By order of the Supervisory Committee

Chen Jiaming
Chairman
Shanghai, PRC
30 March 2007