

# Report of the Supervisory Committee

Dear shareholders:

During the reporting 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 reporting period, through participation in general meetings, meetings of the Board of Directors, interview with management members and on-site inspection and investigation of companies, the Supervisory Committee strengthened the supervision on the progress of the major investment projects. Five meetings were convened by the Committee during the reporting period to review certain important resolutions of the Board of Directors and monitor the regularity of the decision-making process of the Board of Directors. The Supervisory Committee is not aware of any contravention of the relevant laws and regulations of the PRC and the provisions of the Hong Kong Stock Exchange by the Board of Directors during the reporting period.

In 2006, the Supervisory Committee focused on the enforcement of the Company's financial management system. Having discussed with the management and reviewed relevant information, the Supervisory Committee recognized the efforts made by the Company in enhancing the basic financial management, improving the financial regulation system, establishing a budget analysis system for all levels and regulating the compliance with the code of conduct of a listed company, etc. In addition, the Committee has made recommendations on strengthening the management of the Company's accounts receivable and large value funds to our Board of Directors and the management, which aroused the Company's attention.

Set out below are independent opinions of the Supervisory Committee on its work in 2006:

1. The Supervisory Committee reviewed the financial reports of the Company and considers that the financial budget, final accounts, annual report and interim report of the Company are true and reliable.
2. The Supervisory Committee monitored the Company's financial system and considers that it has established a more complete internal control system in respect of cash management, purchase and payment system. By applying the system, the management was able to control various operational risks of the Company, thereby ensuring the smooth running of various activities of the Company.
3. The Supervisory Committee monitored the Company's significant investment projects and considers that the significant investment projects are progressed and implemented on schedule according to the resolutions of the Board of Directors.
4. The Supervisory Committee has monitored the Company's connected transactions and is not aware of any act detrimental to the interests of the Company and shareholders in regard to the connected transactions in the reporting period. The disclosure obligation under the Listing Rules was discharged in respect of all connected transactions.
5. In 2006, some former directors have seriously violated certain rules and regulations of the PRC Communist Party in their personal capacities. However, the Supervisory Committee considers that the current members of the Board of Directors and the management have carried out their duties set out in the Articles of Association of the Company diligently and faithfully.
6. The Supervisory Committee considers that, since the listing on the Hong Kong Stock Exchange, the Company has continuously improved its corporate structure and implemented various internal control systems which enhanced the operational efficiency and business development of the Company. In the coming year, the Supervisory Committee will continue to fulfill its monitoring duties, with an aim to protect the interests of the Company and all shareholders.

By order of the Supervisory Committee,

**Cheng Zuomin**

Chairman

Shanghai, PRC

13 April 2007