



Dear shareholders:

I hereby present the operating results of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2001. The Group's turnover amounted to RMB20,197.4 million (HK\$19,043.4 million), representing a decrease of 5.08%, as compared to that of last year. Profit before tax amounted to RMB145.8 million (HK\$137.5 million), representing a decrease of 86.5%, as compared to the same period last year. Profit after tax and minority interests amounted to RMB116.0 million (HK\$109.4 million), representing a decrease of 86.5%, as compared to the same period last year. Net assets per share decreased to RMB1.83 per share from RMB1.88 per share in 2000.

As most of our investors had expected, the global economic slowdown resulted in a cyclical downturn of the petrochemical industry with sluggish demand in the international petrochemical market. Prices of principal petrochemical products were significantly lower than the previous year, despite a mild drop in the average prices of international crude oil, as compared to the same period last year. At home, China's economy was able to achieve a solid GDP growth of 7.3% against a backdrop of global economic weakness. Our economic growth was, however, primarily driven by domestic consumption. On the export front, demand for petrochemical products from domestic light textile manufacturers decreased as light textile exports experienced a setback following a considerable slowdown in China's export growth reflecting general weakness of the international market. As a result, domestic petrochemical prices fell in tandem with the international market.

Confronted by such difficulties in the market, the Company's staff strived to alleviate the external pressure on the Company's profitability by devoting their utmost efforts to explore new resources, secure cost savings, optimise production structures and lower product costs. Thanks to the hard work of all the staff of the Company, the principal production operations of the Company maintained steady growth in 2001. Our capital expenditure projects, notably the Phase IV project, achieved substantial progress. Our crude oil processing capacity and consolidated commercial production capacity reached historical highs, and the materials and energy consumption levels of our major products were significantly lowered. Remarkable results were achieved in technological innovation and marketing. These efforts partially offset the negative impact of the significant drop in the prices of major products on the operating results.

The year 2002 will be crucial for the Company. First of all, whether the cyclical downturn of the petrochemical industry will come to an end with a return to positive environment for its development is dependent on the occurrence of a global economic recovery. Secondly, following China's official entry into WTO, the undertakings by the Chinese government to external governments become effective. This will mean opportunities as well as increased competition in the domestic petrochemical market. Finally, the Company's Phase IV project will be completed and commissioned by the first half of the year and our future profit growth will be contingent upon the stable and efficient operation of the Phase IV units.

Industry analyses have shown that the domestic and international economic situations and the movements in crude oil prices are the two major factors influencing the business environment of the petrochemical industry. The Company expects the U.S. economy to gradually return to moderate growth in 2002, steering the global economy towards positive development. This would be favourable to the recovery of petrochemical industry worldwide and would drive the demand for petrochemical products. Meanwhile, China's economy is expected to maintain a relatively high growth rate, which in turn will provide the basis for considerable growth in domestic demand to continue. Recently, the international crude oil market remained over-supplied. Notwithstanding, OPEC did manage to keep the price of crude oil at around USD20 per barrel. With its output reduction tactic. Crude oil prices might continue to fall as OPEC's ability to control crude oil prices is expected to weaken with increasing output from non-OPEC members. On the other hand, crude oil prices might resurge if the demand for crude oil increases as a result of global economic recovery. With other uncertainties affecting crude oil prices, the international market for crude oil is expected to remain volatile in 2002.

The impact of China's WTO accession on the Company should not be under-estimated, according to her existing WTO commitments. In terms of tariff concessions, the impact might not be evident in the near term, since prior to China's WTO accession there has already been a significant gap between statutory tariffs and the favourable tariffs actually charged to special economic zones, processing of imported materials and border trades, etc. However, the cancellation of non-tariff barriers and the liberalisation of trading and investment rights are set to provide international petrochemical companies with more convenient access to the China market and will therefore intensify the competition in the domestic petrochemical market. On a positive note, WTO entry will be conducive to China's further economic growth and, therefore, a more favourable environment for the development of the petrochemical industry. Reductions in import tariffs will also substantially lower our raw materials and investment costs. The petrochemical market will gradually take a positive turn as growth in exports of downstream petrochemical products will result in demand for upstream products. For this reason, we must capitalise on any favourable opportunities and utilise the short transition period of China's entry into WTO to increase the Company's competitiveness, so as to strengthen our position among strong competitors in the domestic and international petrochemical markets and to carve out a greater niche for the Company's future developments.

Last but not least, I would like to express on behalf of the Board of Directors our sincere gratitude to all the staff of the Company for their hard work as well as to the shareholders for their unfailing support throughout the year.



Lu Yiping
Chairman

Shanghai, 29 March 2002