



Dear shareholders:

I am pleased to present the operating results of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2002. The Company has achieved satisfactory results in 2002. The Group's turnover amounted to RMB22,323 million (HK\$21,034 million), representing an increase of 10.5% compared to the same period last year. Profit before tax amounted to RMB1,045 million (HK\$985 million), an increase of 6.17 times compared to the same period last year. Profit after tax and minority interests amounted to RMB916 million (HK\$863 million), a 6.90 times increase compared to the same period last year. Net assets per share increased to RMB1.94 per share from RMB1.81 per share in 2001. The operating results suggest that the Group has overcome the adversities of last year to restore its profits to a more desirable level.

The Board of Directors has recommended a final dividend of RMB0.05 per share for 2002, equivalent to RMB5.00 per American Depositary Share ("ADS"). This represents an aggregate annual dividend payment of RMB360 million. Subject to shareholders' approval at the 2002 annual general meeting ("AGM") to be held on June 18, 2003, the final dividend will be payable to holders of H Shares whose names appear on the register of the Company on May 16, 2003 and holders of ADSs whose names appear on the register of the Company on May 15, 2003. Details of the record date, method and timing for dividend payments to holders of A Shares will be announced separately.

During 2002, the global economy showed signs of slow recovery as the negative impact of the September 11 incident in the United States began to subside and the world's major economies adopted various measures to boost economic recovery. While developments were sometimes volatile and imbalanced, overall the situation was better than expected and improvements were seen over the previous year. China's economy continued to stand out in the global arena, with strong ongoing growth and an annual GDP increase of 8.0%. China's accession to the WTO has given the country new vitality, witnessed by the fast export growth and increased investment and spending that supported China's economic growth, which in turn provided a favorable setting for China's petrochemical industry.

During 2002, the petrochemical market took a positive turn in tandem with the world economy. In China, the country's fast-growing economy and relatively low labor costs attracted massive investments that provided the impetus for stronger growth in downstream processing, which in turn increased the demand for petrochemical products. Driven by the rise in crude oil prices and increase in demand, prices of petrochemical products recovered and stabilised within a more reasonable range after maintaining extended lows. Operating conditions for the domestic petrochemical industry improved and the Company was able to leverage on its expanded capacity and integrated capabilities in refining and chemical products. In short, the substantial growth of the Company's operating results for 2002 was attributable to gradual improvements in the external environment coupled with the ongoing enhancement of the Company's operating efficiency.



2002 has undoubtedly been a crucial year for the Company, which was faced with the challenge of overcoming the poor results of 2001 and at the same time had to undertake not only its daily operations but also the additional task of completing the "Phase IV" project. Once again, through their dedication, the Company's staff achieved satisfactory results on all fronts, remarkably completing all construction and production tasks, amid huge pressure, and always aspiring to advanced standards whilst not losing sight of the details. The completion of the Phase IV project has increased the Company's competitiveness and provided solid foundations for our future development.

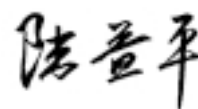
The Company has also been making ongoing improvements in corporate governance and information disclosure in accordance with the regulatory requirements of stock exchanges in New York, Hong Kong and Shanghai, with due emphasis on credibility, diligence and fairness. Internal regulations were formulated or revised and controls and reviews were implemented with reference to the securities laws and regulations of the above three places to improve the Company's corporate governance and information disclosure.

Looking ahead to 2003, fiscal stimulus packages offered by major economies are expected to produce a positive impact on the world economy, despite volatility arising from uncertainties and unfavorable factors. In general, the world economy is expected to recover further in 2003 and China's economy is expected to maintain steady growth.



The Company expects that international crude oil prices will remain at relatively high levels in the near term in 2003, but judging from the demand and supply scenario will gradually retreat in the coming months, barring unforeseen circumstances. Nevertheless, given the string of uncertainties affecting international crude oil prices, substantial volatility is still anticipated. Continued improvement of the petrochemical market is also expected amid global economic recovery, high crude oil prices and relative undersupply of chemical products. In view of an improved economic environment and market conditions, the Company shall seek to enhance its operating standards and results on the back of crude oil resource optimisation, improvements in integrated crude oil consumption, on-target utilisation of newly built facilities and further refinement of internal management.

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



Lu Yiping  
Chairman

Shanghai, 26 March 2003

