

To: all shareholders:

I am pleased to report to the shareholders of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (the "Group") that the Company achieved satisfactory operating results in 2003. The Group's turnover for the year ended 31 December 2003 amounted to RMB29,567 million (HK\$27,744 million), an increase of 32.5% compared to the corresponding period in 2002. Profit before taxation grew 52.3%, year-on-year, to RMB1,590 million (HK\$1,492 million), while profit after taxation and minority interests amounted to RMB1,402 million (HK\$1,316 million), an increase of 53.0% compared to the corresponding period in the previous year, heralding a track record of consecutive growth over two years. Net asset value per share at the end of 2003 increased to RMB2.09 per share from RMB1.94 per share at the end of 2002, as shareholders' equity grew in tandem with operating results. The growth in net asset value per share for two years in a row reflected the continuous sound production management and capital operations of the Company.

The Board of Directors has recommended a final dividend of RMB0.08 per share for 2003, equivalent to RMB8.00 per share per American Depositary Share ("ADS"). This represents an aggregate annual dividend payment of RMB576,000,000. Subject to shareholders' approval at the 2003 annual general meeting ("AGM") to be held on 18 June 2004, the final dividend will be payable to holders of H Shares whose names appear on the register of members of the Company on 18 May 2004 and holders of ADSs whose names appear on register of members of the Company on 17 May 2004. Details of the record date and the method and timing for dividend payments to holders of A Shares will be announced separately.

During 2003, the Group continued to focus on safety, stability, optimisation and enhancement in its operations, in close adherence to its operating objectives of "increasing profitability and enhancing international competitiveness". Capitalising on favourable conditions resulting from the global economic recovery and China's increased economic growth as well as opportunities presented by the rapid recovery of the global petrochemical industry, the Group overcame the adverse impact of SARS and sustained high levels of crude oil prices to fully make use of the Company's expanded capacity and technological edge following the commissioning of the "Phase IV" Project. Further restructuring of the management regime and remuneration allocation system and the optimisation of production units were implemented, whilst improvements were also made to marketing strategies. The construction of key capital expenditure projects was expedited while increased efforts were devoted to technology upgrades, new product development and information management. As a result, historical highs were achieved in 2003 in respect of a number of key production indicators such as crude oil processing volumes, gross commodity sales and production volumes of polyolefins, oil products, synthetic resins and synthetic fibres. A substantial year-on-year increase was recorded in selling prices, while the production to sales ratio and the receivables collection ratio were both maintained at 100%, thereby leading to the significant year-on-year growth in the Company's operating results in 2003.

Looking forward to 2004, the global economic recovery is expected to gain pace at a faster growth rate compared to 2003. China's petrochemical industry will enjoy the favourable market conditions as the nation maintains its rapid economic growth, which growth will drive the full-scale recovery of primary industries. With the rapid expansion of downstream petrochemical industry, domestic demand for petrochemical products is expected to maintain relatively stronger growth.

The volume of crude oil imports by China exceeded 90 million tons for the first time in 2003, while crude oil processing volumes amounted to 240 million tons. As such, the nation is increasingly subject to greater uncertainties in relation to fluctuating trends in the international crude oil market. International demand for crude oil is expected to grow steadily in 2004 as the global economy continues to show signs of positive development. Meanwhile, as Iraq is gradually resuming normal crude oil processing and Russia and Africa are continuing to increase crude oil production, OPEC is facing mounting pressure arisen from shrinkage in its market shares. As a result, its currently adopted pricing policy of maintaining price through limiting production may no longer be feasible. Barring unforeseen circumstances and significant events that affect crude oil supplies, global supplies are expected to increase in 2004 which will lead to prices downward adjustment as compared with previous year. However, due to the depreciation of the US dollar, the possibility of substantial price reductions for the year appears to be minimal.

The Company will continue to pursue its strategic aim of positioning itself as a first-rate company in China as well as an advanced enterprise on the international scene. It will further its efforts in aspiring to advanced standards and sophisticated management by rolling out various production and operational activities in 2004. Given the full completion of the "Phase IV" Project in 2002, the major production indicators of the Company in 2004 are expected to be at par with the 2003 levels. As such, the Company must carry out management optimisation to ensure that sound operating results are delivered. For this purpose, the Company has set targets for the year 2004 and identified key focal areas for the next 10 years and will seek breakthroughs in the establishment of a Health, Safety and Environment (HSE) system, operational management of units, organisational restructuring and construction of new projects, with a view to achieving further growth in its operating results in 2004.

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


Lu Yiping
Chairman

Shanghai, 26 March 2004