



To all shareholders:

I am pleased to report to the shareholders of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (collectively the "Group") that the Company achieved satisfactory operating results in 2004. The Group's turnover for the year ended 31 December 2004 amounted to RMB39,402.5 million (HK\$37,042.9million), an increase of 33% compared to the corresponding period in 2003. Profit before taxation grew 195%, year-on-year, to RMB4,696.2 million (HK\$4,415.0 million), while net profit after taxation and minority interests amounted to RMB3,971.1 million (HK\$3,733.3 million), an increase of 183% compared to the corresponding period of the previous year, heralding a track record of consecutive greater growth over three years. Net asset value per share at the end of 2004 increased to RMB2.56 per share from RMB2.09 per share at the end of 2003, as shareholders' equity grew in tandem with operating results. The growth in net asset value per share three 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 RMB0.2 per share for 2004, equivalent to RMB20.0 per share per American Depositary Share ("ADS"). This represents an aggregate annual dividend payment of RMB1,440 million. Subject to shareholders' approval at the 2004 annual general meeting ("AGM") to be held on 28 June 2005, the final dividend will be payable to holders of H Shares whose names appear on the register of members of the Company on 27 May 2005 and to holders of ADSs whose names appear on the register of members of the Company on 26 May 2005. Details of the record date and the method and timing for dividend payments to holders of A Shares will be announced separately.

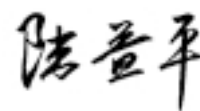
In 2004, as the world economy maintained a favorable growth momentum, China's economy continued to enjoy a rapid pace of development. The global petroleum and petrochemical industry has entered into a prosperous stage of a new development cycle. China's petroleum and petrochemical industry continued to enhance the quality of its economic operation, resulting in a significant improvement of profitability for the industry. During 2004, the Company continued to adhere to its operating objectives of "improving economic efficiency and enhancing international competitiveness". Capitalising on the market opportunities arising from rapid development of the national economy, strong demand for petrochemical products and consistently high oil price level, the Company conscientiously conducted its production operation and continuously intensified its marketing efforts. In addition, we implemented corporate reforms, further strengthened our internal management; and expedited the construction of key capital expenditure projects, the establishment of the ERP (Enterprise Resource Planning) system and the preparation for future development. Our efforts have resulted in a significant improvement in our operating performance production, output and sales and efficiency. Historic highs were achieved in 2004 in respect of a number of key production indicators such as crude oil processing volume, production volume of petrochemical products such as ethylene, and production volume of petroleum products. A substantial year-on-year increase was recorded in selling prices, while the output to sales ratio and the receivables collection ratio were both maintained at 100%. In addition, costs and expenses were effectively controlled, which have led to the significant year-on-year growth in the Company's operating results in 2004.

Looking forward to 2005, the global economic recovery is expected to continue, albeit at a slower growth rate compared to 2004. Following the implementation of macro-economic measures in China, the Chinese economy is expected to remain steady and strong at a growth rate about 8.5%. The global petroleum and petrochemical industry will maintain a positive outlook as demand growth exceeds capacity growth, although the likely substantial fluctuations of international oil prices may put inherent pressure on economic growth. Oil production volume and export volume in the Middle East, Eastern Europe, Russia and Africa will continue to grow in 2005, resulting in basically sufficient global oil supply to satisfy demand. An increase in oil consumption driven by the global economic growth may result in a corresponding increase in price. Also geopolitical situations may affect oil supply. Other factors such as the oil price bubble due to speculative capital, the OPEC's policy of maintaining prices through limiting production, the devaluation of the US dollar and other contingent events may lead to fluctuations in international crude oil prices. Meanwhile, problems such as insufficient growth in oil supply, gradual depletion of oil resources and increasing exploration costs have not been solved. All the above factors and problems mean that international crude oil prices will still stay at a high level and may be subject to high volatility due to any unforeseen factors.

In 2005, China's petroleum and petrochemical industry is faced with enormous market development potentials as a result of the recovery of the world economy and China's steady and strong economic development. Such potentials look promising also because China's industrialization is entering into the stage of heavy chemicals, and because of the fast development in various industries including automobile, iron and steel, electricity and E&M as well as large-scale development projects in construction, transport and energy infrastructure.

In 2005, 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 in the international arena. It will devote more efforts to reforms, optimization and enhancement of operational efficiency. It will strengthen management, standardize operation, reduce business risk exposure, grasp opportunities, expedite development and enhance core strengths and international competitiveness. The Company has set targets for the coming year, and endeavored to ensure success in production operation, reforms and development through implementing a series of practical measures, with a view to laying a solid foundation for the comprehensive, harmonious and sustainable development of the Company.

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 unflinching support throughout the year.



Lu Yiping  
Chairman

Shanghai, 23 March 2005

