

4 November 2016

*To: The Independent Board Committee of
Anhui Tianda Oil Pipe Company Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER
BY ANGLO CHINESE CORPORATE FINANCE,
LIMITED ON BEHALF OF
VALLOUREC TUBES SAS FOR ALL THE ISSUED H SHARES IN
ANHUI TIANDA OIL PIPE COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY VALLOUREC TUBES SAS
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 4 November 2016 jointly issued by Anhui Tianda Oil Pipe Company Limited (the “Company”, together with its subsidiaries, the “Group”) and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

The Offeror and the Company jointly issued an announcement dated 2 February 2016 which stated that on 29 January 2016, the Offeror had entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Offeror had conditionally agreed to purchase and the Vendors had conditionally agreed to sell the Sale Shares, representing approximately 50.61% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$846,600,000, equivalent to HK\$1.66 per Sale Share.

Immediately after the Effective Transfer Date which took place on 28 October 2016 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned 706,000,000 Shares, consisting of 510,000,000 Domestic Shares and 196,000,000 H

Shares, collectively representing approximately 70.07% of the entire issued share capital of the Company. Accordingly under Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued H Shares at not less than HK\$1.66 per Offer Share, other than those H Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it at the time when the Offer is made. No offer is being made for the Domestic Shares, as with effect from the Effective Transfer Date the Offeror held all Domestic Shares issued by the Company.

The Offeror and the Company jointly issued an announcement dated 4 August 2016 pursuant to which the Offeror amended the proposed terms of the mandatory unconditional cash offer by offering the additional consideration of HK\$0.01 per Offer Share conditional on the passing of the Delisting Resolution. As the condition has been met, the Offer Price is now HK\$1.67 per Offer Share.

The Independent Board Committee comprising Mr. Zhao Bin, Mr. Wang Bo and Mr. Wang Jie (all being independent non-executive Directors) has been formed to advise the Independent H Shareholders on whether the Offer is fair and reasonable and as to the acceptance of the Offer. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off the opinion letter from the independent financial adviser contained in (i) the circular dated 24 December 2014 in respect of the continuing connected transactions for the Company; and (ii) the circular dated 10 September 2016 in respect of the proposed Withdrawal of Listing (as defined below). Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, the Offeror or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all

statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The Offeror Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that in relation to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in the Composite Document (other than those expressed by the Group, the Directors and Gram Capital) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statements in the Composite Document misleading.

The Offeror Parent Management Members jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that in relation to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in the Composite Document (other than those expressed by the Group, the Directors and Gram Capital) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statements in the Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that in relation to the Offeror Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in the Composite Document (other than those expressed by the Offeror Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statements in the Composite Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer.

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date. The Independent H Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offer

The Offeror and the Company jointly issued an announcement dated 2 February 2016 which stated that on 29 January 2016, the Offeror had entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Offeror had conditionally agreed to purchase and the Vendors had conditionally agreed to sell the Sale Shares, representing approximately 50.61% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK\$846,600,000, equivalent to HK\$1.66 per Sale Share.

Immediately after the Effective Transfer Date which took place on 28 October 2016 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned 706,000,000 Shares, consisting of 510,000,000 Domestic Shares and 196,000,000 H Shares, collectively representing approximately 70.07% of the entire issued share capital of the Company. Accordingly under Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued H Shares at not less than HK\$1.66 per Offer Share, other than those H Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it at the time when the Offer is made. No offer is being made for the Domestic Shares, as with effect from the Effective Transfer Date the Offeror held all Domestic Shares issued by the Company.

The Offeror and the Company jointly issued an announcement dated 4 August 2016 pursuant to which the Offeror amended the proposed terms of the mandatory unconditional cash offer by offering the additional consideration of HK\$0.01 per Offer Share conditional on the passing of the Delisting Resolution. As the condition has been met, the Offer Price is now HK\$1.67 per Offer Share.

The Offer

The Offer Price of HK\$1.67 for each Offer Share is equal to the purchase price of HK\$1.66 for each Offer Share that was paid for each Sale Share by the Offeror pursuant to the Sale and Purchase Agreement plus the additional consideration of HK\$0.01 for each Offer Share which is payable as a result of the passing of the Delisting Resolution.

As at the Latest Practicable Date, the Company had 497,626,000 H Shares in issue. There are no outstanding options, warrants, derivatives or convertible securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

No offer is being made for the Domestic Shares, as from the Effective Transfer Date, the Offeror holds all Domestic Shares issued by the Company.

Principal terms of the Offer

For each Offer Share HK\$1.67 in cash

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Offer Shares or any other conditions.

The Offer Shares to be acquired under the Offer shall be fully paid, free from all Encumbrances and with all rights and benefits at any time accruing and attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made, i.e., the date of the Composite Document (but excluding the Special Dividend).

Total consideration for the Offer Shares

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Closing Date and based on the Offer Price of HK\$1.67 per Offer Share and the 1,007,626,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at approximately HK\$1,682,735,420.

The Offer will be made to the Offer Shareholders, who in aggregate held 301,626,000 Offer Shares as at the Latest Practicable Date. In the event that the Offer is accepted in full, the maximum amount payable by the Offeror under the Offer will be approximately HK\$503,715,420.

(2) Information on the Group

The principal business activities of the Group are designing, developing, manufacturing and selling of seamless steel pipes for oil and natural gas exploration, transmission and refining, as well as other seamless steel pipes for boilers and vessels and petrochemical machinery accessories.

Set out below is the consolidated financial results of the Group for the two years ended 31 December 2015 and for the six months ended 30 June 2016 (with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report") and the Company's interim report for the six months ended 30 June 2016 (the "2016 Interim Report") respectively:

	For the year ended 31 December 2015 RMB'000 (audited)	For the year ended 31 December 2014 RMB'000 (audited)	Year on year change %
Revenue	2,032,445	2,881,955	(29.48)
Gross profit	85,916	246,431	(65.14)
Profit/(Loss) for the year	(19,050)	57,779	N/A
	For the six months ended 30 June 2016 RMB'000 (unaudited)	For the six months ended 30 June 2015 RMB'000 (unaudited)	Year on year change %
Revenue	766,402	1,085,988	(29.43)
Gross profit	20,322	67,194	(69.76)
Profit/(Loss) for the period	(69,351)	14,629	N/A

As depicted from the above table, the Group recorded a significant decrease in revenue of approximately 29.48% for the year ended 31 December 2015 ("FY2015") as compared to the year ended 31 December 2014 ("FY2014"). The Group also recorded substantial decrease in gross profit from FY2014 to FY2015 and net loss for FY2015 as compared to net profit for FY2014. With reference to the 2015 Annual Report and as confirmed by the Directors, the decrease in revenue was mainly attributable to certain factors including the excess supply, the fierce market competition caused by excess supply (major competitors of the Group include Tianjin Pipe (Group) Corporation, Hunan Valin Steel Co., Ltd., Baoshan Iron and Steel Company Limited, Inner Mongolia Baotou Steel Union Co., Ltd. and Pangang Group Chengdu Steel & Vanadium Co., Ltd.) and the decrease in the average pricing of raw material steel. As advised by the Directors, the cost of raw material steel is one of the major factors in determining the selling price of products of the Company.

The price drop in raw material steel would lead to decrease in both of the production cost and selling price of products of the Company. The average selling price per tonne of products of the Company decreased from approximately RMB4,239 in FY2014 to approximately RMB3,355 in FY2015, representing a decrease of approximately 20.9% and the sales volumes decreased from 679,790 tonnes in FY2014 to 605,830 tonnes in FY2015, representing a decrease of approximately 10.9%.

According to the 2015 Annual Report and as confirmed by the Directors, the decrease in gross profit and gross profit margin was mainly due to: (1) the competition being fiercer as a result of the decrease in market demand. As a result of the decline in the crude oil price, there was a slowdown in the exploitation of oil wells which led to a decrease in demand of oil well pipes (being the main products of the Group). As such, the Group adjusted its product mix to focus on the seamless steel pipes which have product specifications for oil and gas transmission. The Group also attempted to expand its customer bases to overseas/sizeable enterprises and sought for high value orders. Despite the Group's active adjustments of product and customer base structures, the sales volume was still adversely influenced by the change in demand which led to a double-digit decrease; and (2) the market selling price of products decreased to a greater extent than the decline in market cost of raw materials. The Group recorded net loss for FY2015 was mainly due to the decrease in the Group's gross profit as a result of the decrease in market demand as mentioned above.

With reference to the 2015 Annual Report, the Group takes advantages to strengthen its cost management and risk control and adopts the differential business strategy (i.e. the Group provides customized services to its customers to meet their different requirements) and premium business strategy (i.e. the Group focuses on the seamless steel pipe which has product specifications for oil and gas transmission) which highlights the characteristics and advantage of the Group's various products. In addition, the Group also optimises the adjustment of the product mix and customer base structures.

As depicted from the above table, the Group recorded further loss for the six months ended 30 June 2016. The gross profit and gross profit margin for the six months ended 30 June 2016 were also decreased as compared to the corresponding period in 2015. According to the 2016 Interim Report, such decrease was mainly due to the fact that under the circumstances where the macro-economy is gloomy, the demand in the specialized pipe industry was weak and the competition is fierce, the decrease in market selling price to a greater extent than the decrease in raw materials cost.

With reference to the section headed "4. MATERIAL CHANGE" of Appendix II to the Composite Document, the Group recorded a decrease in (a) revenue and cost of sales for the nine months ended 30 September 2016 as compared to the corresponding period in 2015; and (b) gross profit and gross profit margin for the nine months ended 30 September 2016 as compared to the corresponding period in 2015. The decrease in sales volume and gross profit for the nine months ended 30 September 2016, together with the decrease in other income and gains; and the

increase in other expenses, caused the Group to record net loss for the nine months ended 30 September 2016 as compared to a net profit for the corresponding period in 2015.

China Steel Construction Society (“CSCS”) was established in June 1984 by scientists, engineering experts and enterpriser and is a national industrial professional organisation under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC. According to the 2015年度全國性社會組織評估等級結果公示 (Results of Assessment and Rating on National Social Organization in the PRC (2015)*) as published by the Ministry of Civil Affairs of the PRC, CSCS was rated AAAA among the national industrial organisation in the PRC in 2015. We noted that Mr. Li Qiang, being the chairman (理事長) of Steel Pipe Branch Association of China Steel Construction Society, reported at a member session on 25 April 2016 (the “Report”) that the output and performance consumption of seamless steel pipes has been experiencing year-on-year decrement since 2014. As indicated by historical data of the output and consumption of seamless steel pipes in PRC, the output and consumption of seamless steel pipes in PRC reached its peak in 2013 with a year-on-year increase of 13.69% and 16.92% respectively, subsequently there was a year-on-year decrease of 2.21% and 3.18% respectively in 2014, and a year-on-year decrease of 6.70% and 5.32% respectively in 2015.

As mentioned in the Report, the followings are the key factors which lower the output of seamless steel pipes:

- (i) the decline in crude oil price since 2014 led to decrease in investment to domestic and international oil and gas industries; slowdown in oil and gas exploration and development; and decreasing trend in the consumption of oil pipes and pipelines;
- (ii) the sluggish growth of domestic and overseas economy; and
- (iii) the weak demand of related downstream industries.

In light of the aforementioned background of CSCS, we consider the Report to be a reasonable source of reference.

In addition, we noted that the average selling price of the Company’s products decreased from approximately RMB5,457 per tonne in the first quarter of 2011 to approximately RMB2,920 per tonne in the fourth quarter of 2015. As advised by the Directors, the average selling price of the Company’s products in the third quarter of 2016 mildly recovered to RMB3,167.

Having considered the above and that the revenue of the Group has been in a general decreasing trend since 2011, we consider that it is uncertain as to whether the financial performance of the Group will improve in future.

* For identification purpose only

The Offeror proposes to delist the Company from the Stock Exchange following the Closing Date. Accordingly pursuant to Rule 6.12 of the Listing Rule, the General Meeting was held on 7 October 2016 for, amongst other business, Independent Shareholders to consider and vote on the Delisting Resolution. The H Share class meeting was also held on 7 October 2016 for Independent H Shareholders to consider and vote on the Delisting Resolution. The Delisting Resolution was passed by the Independent Shareholders by way of a poll vote at the General Meeting and by the Independent H Shareholders by way of a poll vote at the H Share class meeting but it will not become effective until after the end of the Offer Period.

The Company has made an application for the listing of the H Shares to be withdrawn from the Stock Exchange (the “**Withdrawal of Listing**”) in accordance with the Listing Rules. The Withdrawal of Listing shall take effect following the end of the Offer Period. Shareholders will be notified by way of an announcement of the date of the last day of dealings in the H Shares and the date on which the Withdrawal of Listing will become effective.

(3) Information on the Offeror

To provide Independent H Shareholders with basic information on the background of the Offeror, set out below is the key information on the Offeror as extracted from the “Letter from Anglo Chinese” of the Composite Document (the “**Anglo Chinese Letter**”):

The Offeror is a company incorporated in France and is a wholly-owned subsidiary of the Offeror Parent, being Vallourec SA, a French limited liability company which is listed on Euronext Paris. The Offeror Group is a leading provider of premium tubular solutions, primarily for the energy markets and other industrial application. The Offeror Group has two main activities: (i) seamless tubes; and (ii) speciality products, it also has holding, sales and marketing companies.

(4) Intentions of the Offeror regarding the Group

With reference to the Anglo Chinese Letter, building on a successful long-term partnership with the Company, the Offeror intends to leverage the Company’s technologically-advanced industrial assets and low cost pipes to develop a more competitive product offering for the enlarged Offeror Group, in particular by exploiting synergies that will exist between the Offeror Group and the Group following the Offeror becoming the majority owner of the Company by combining the Offeror Group’s proprietary technology with the Group’s cost competitive pipes (the “**Intended Actions**”). The Offeror considers the Offer to be in its and the Company’s long-term commercial interest.

We consider the above-mentioned intention of the Offeror to be beneficial to the Group. Nevertheless, we cannot foresee the effect of the Intended Actions on the Group’s future financial performance. Given also the unsatisfactory financial performance of the Group and the unfavourable market conditions as demonstrated under the section headed “(2) Information on the Group” above, it is also doubtful as to whether the Intended Actions can improve the financial performance of the Group in foreseeable future.

The Offeror is currently reviewing the overall businesses of the Group and will keep the Shareholders and investors informed by further announcement if it makes any decision which requires disclosure pursuant to the Takeovers Code. Except as otherwise described in the Joint Announcement, the Circular and the Composite Document (i.e. the Intended Actions), the Offeror, having had regard to the current general business conditions relevant to the Group and the Offeror Group does not intend to introduce any major changes to the existing business and operations of the Group following the Closing Date. The Offeror will continue to ensure good corporate governance, monitor and review the Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group.

Any restructuring, if it materialises, will be conducted in accordance with all applicable laws, rules and regulations and the Company will make further announcement(s) in compliance with the Listing Rules as and when required. Save as in connection with the Offeror's intention regarding the Group as set out above and the proposed Board Changes as set out under the section headed "Board Changes" in the Anglo Chinese Letter, the Offeror has no plan to terminate the employment of employees or other personnel of the Group.

(5) The Offer Price

The Offer Price of HK\$1.67 per Offer Share represents:

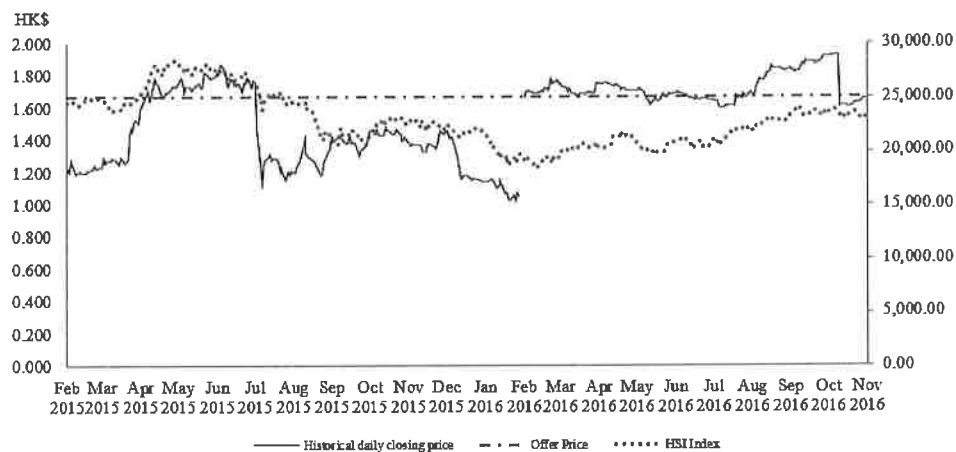
- (a) a premium of approximately 0.6% over the closing price of HK\$1.66 per H Share as at the Latest Practicable Date;
- (b) a premium of approximately 59% over the closing price of HK\$1.05 per H Share as quoted on the Stock Exchange on 29 January 2016, being the Last Trading Day;
- (c) a premium of approximately 59% over the average closing price of the H Shares as quoted on the Stock Exchange for the last 5 consecutive full trading days immediately prior and including the Last Trading Day, being approximately HK\$1.05 per H Share;
- (d) a premium of approximately 49% over the average closing price of the H Shares as quoted on the Stock Exchange for the last 30 consecutive full trading days immediately prior and including the Last Trading Day, being approximately HK\$1.12 per H Share;
- (e) a premium of approximately 35% over the average closing price of the H Shares as quoted on the Stock Exchange for the last 60 consecutive full trading days immediately prior and including the Last Trading Day, being approximately HK\$1.24 per H Share;
- (f) a premium of approximately 28% over the average closing price of the H Shares as quoted on the Stock Exchange for the last 90 consecutive full trading days immediately prior and including the Last Trading Day, being approximately HK\$1.30 per H Share;

- (g) a premium of approximately 20% over the average closing price of the H Shares as quoted on the Stock Exchange for the last 180 consecutive full trading days immediately prior and including the Last Trading Day, being approximately HK\$1.39 per H Share;
- (h) the closing price of the H Shares on 4 August 2016, being the date of announcement for the revised Offer Price; and
- (i) a discount of approximately 23% to the unaudited net asset value per Share as at 30 June 2016 (the "NAV Discount").

Historical price performance of the H Shares

Set out below is a chart showing the movement of the daily closing price of the H Shares and Hang Seng Index ("HSI") as quoted from Bloomberg from 2 February 2015, being approximately one year prior to the date of commencement of Offer Period, up to and including the Latest Practicable Date (the "Review Period"):

Historical daily closing price per H Share, the HSI Index and the Offer Price



Source: Bloomberg

Note: Trading in the H Shares was suspended from 1 February 2016 to 2 February 2016 (both days inclusive).

During the Review Period, the lowest and highest closing prices of the H Shares as quoted from Bloomberg were HK\$1.02 per H Share recorded on 26 January 2016 and HK\$1.92 per H Share recorded on 29 September 2016 and 30 September 2016. The closing prices per H Share for the majority of the trading days during the Review Period were below the net asset value per Share of RMB2.06 (equivalent to approximately HK\$2.42) as at 30 June 2015, RMB1.91 (equivalent to approximately HK\$2.24) as at 31 December 2015 and RMB1.84 (equivalent to approximately HK\$2.16) as at 30 June 2016. As illustrated in the above diagram, the Offer Price of HK\$1.67 is within the historical price range during the Review Period.

We also noted that the closing prices of the H Shares moved in a general increasing trend from February 2015 to April 2015. The closing prices of the H Shares then surged substantially from April 2015 and reached HK\$1.87 per H Share on 5 June 2015. After the closing price of the H Shares reached HK\$1.87 per H Share on 5 June 2015, the closing price of the H Shares then decreased substantially during the remaining period of June 2015 and beginning of July 2015. The closing price of the H Shares then fluctuated within a range from HK\$1.02 to HK\$1.49 from 3 July 2015 to 29 January 2016, being the Last Trading Day. As confirmed by the Directors, the Directors were not aware of any reason/event which caused the aforesaid movements of the closing price per H Share. As shown by the above chart, the movement of the daily closing price of the H Shares was generally in line with the movement of the HSI during the period from 2 February 2015 to the Last Trading Day.

After the publication of the Joint Announcement on 2 February 2016, the closing price of the H Shares surged from HK\$1.05 on 29 January 2016 to HK\$1.67 on 3 February 2016, representing a significant upsurge of approximately 59.05% (the "Upsurge"). As advised by the Directors, they are of the view that the upsurge of the closing price of the H Shares was mainly attributable to the positive market reaction to the Offer. Since 3 February 2016, being the first trading day after the publication of the Joint Announcement, and up to 4 August 2016, the closing price of the H Shares has been moving close to the Offer Price. The closing price of the H Shares increased gradually after 4 August 2016 and reached HK\$1.93 on 4 October 2016. The Offer Price was below the closing prices of the H Shares in 122 out of 183 trading days during the period from 3 February 2016 to the Latest Practicable Date. Nevertheless, after 12 October 2016, being the ex-entitlement date of the Special Dividend, and up to the Latest Practicable Date, the closing prices of the H Shares were below the Offer Price. In light of the above, we wish to highlight to the Independent H Shareholders that the sustainability of the increased price level after the Upsurge was uncertain. As also shown by the above chart, save for the Upsurge, the movement of the daily closing price of the H Shares was generally in line with the movement of the HSI during the period from 3 February 2016 to the Latest Practicable Date.

In conclusion, the Offer Price represents premium to the closing price of the H Shares during the most recent period prior to and including the Last Trading Day (i.e. 3 July 2015 to 29 January 2016). Should there be no Offer and publication of the Joint Announcement, the closing price of the H Shares might not be recovered to a level close to/higher than the Offer Price after 3 February 2016.

As aforementioned, the Offer Price of HK\$1.67 per Offer Share represents a discount of approximately 23% to the unaudited net asset value per Share as at 30 June 2016. We consider that the NAV Discount is acceptable as the closing prices per H Share for the majority of the trading days during the Review Period were below the net asset value per Share of RMB2.06 (equivalent to approximately HK\$2.42) as at 30 June 2015, RMB1.91 (equivalent to approximately HK\$2.24) as at 31 December 2015 and RMB1.84 (equivalent to approximately HK\$2.16) as at 30 June 2016.

Historical trading liquidity of the H Shares

The number of trading days, the average daily number of the H Shares traded per month and the respective percentages of the H Shares' monthly trading volume as compared to total number of issued H Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") Number of H Shares	% of the Average Volume to total number of issued H Shares held by the public as at Latest Practicable Date (Note 1) %	% of the Average Volume to total number of issued H Shares as at Latest Practicable Date (Note 2) %
2015				
February	17	117,000	0.05	0.02
March	22	683,727	0.27	0.14
April	19	1,295,664	0.51	0.26
May	19	867,105	0.34	0.17
June	22	1,088,668	0.43	0.22
July	22	975,455	0.39	0.20
August	21	769,340	0.31	0.15
September	20	396,100	0.16	0.08
October	20	193,970	0.08	0.04
November	21	214,505	0.09	0.04
December	22	249,769	0.10	0.05
2016				
January	20	190,800	0.08	0.04
February (Note 3)	16	8,537,665	3.39	1.72
March	21	1,426,281	0.57	0.29
April	20	730,241	0.29	0.15
May	21	872,285	0.35	0.18
June	21	261,050	0.10	0.05
July	20	799,220	0.32	0.16
August	22	2,062,308	0.82	0.41
September	21	2,151,519	0.85	0.43
October	19	4,666,266	1.85	0.94
November (up to and including the Latest Practicable Date)	2	3,497,000	1.39	0.70
Maximum			3.39	1.72
Minimum			0.05	0.02
Average			0.58	0.29

Source: Bloomberg



Notes:

1. The total number of issued H Shares held by the public was 251,907,000 as at the Latest Practicable Date.
2. The total number of issued H Shares was 497,626,000 as at the Latest Practicable Date.
3. Trading in the H Shares was suspended from 1 February 2016 to 2 February 2016 (both days inclusive).

We noted from the above table that trading in the H Shares had been thin (the Average Volume to total number of issued H Shares held by the public as at Latest Practicable Date was below 2.0%) during each month of the Review Period, except for February 2016. The Average Volume to total number of issued H Shares held by the public as at Latest Practicable Date was relatively high in February 2016 as compared to the rest of the months in the Review Period. This may be caused by the market reaction to the publication of the Joint Announcement. After the Withdrawal of Listing which shall take effect following the end of the Offer Period, the liquidity of the H Shares may be severely reduced.

As the H Shares are illiquid, the disposal of a large block of H Shares held by Independent H Shareholders in the open market may trigger a price slump of the H Shares. For this reason, there is no guarantee that Independent H Shareholders will be able to realise their investments in the H Shares (especially those with relatively sizeable shareholdings) at a price which is substantially higher than the Offer Price and we consider that the Offer provides an exit alternative with the Offer Price being fair and reasonable for the Independent H Shareholders who would like to realise their investments in the H Shares.

Nonetheless, if any Independent H Shareholders who would like to realise their investments in the H Shares are able to dispose of their H Shares in the open market and/or identify potential purchaser(s) to acquire their H Shares at a price higher than the Offer Price, those Independent H Shareholders may consider not accepting the Offer but selling their H Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their H Shares would exceed the net amount receivable under the Offer.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the financial information as described under the section headed "Financial information on the Group" of this letter and we consider that it is uncertain as to whether the financial performance of the Group will improve in the future;

- (ii) the Offer Price of HK\$1.67 represented premium over (a) the closing price on the last full trading day prior to the suspension of trading in the H Shares on 1 February 2016; and (b) the average closing price of the H Shares for the last 5, 30, 60, 90 and 180 consecutive full trading days respectively prior to the suspension of trading in the H Shares on 1 February 2016;
- (iii) the Offer Price equals to the closing price of the H Shares on 4 August 2016, being the date of announcement for the revised Offer Price;
- (iv) the Offer Price represents premium to the closing price of the H Shares during the most recent period prior to and including the Last Trading Day (i.e. 3 July 2015 to 29 January 2016). Should there be no Offer and publication of the Joint Announcement, the closing price of the H Shares might not be recovered to a level close to/higher than the Offer Price after 3 February 2016;
- (v) the Offer Price was below the closing prices of the H Shares in 122 out of 183 trading days during the period from 3 February 2016 to the Latest Practicable Date. Nevertheless, after 12 October 2016, being the ex-entitlement date of the Special Dividend, and up to the Latest Practicable Date, the closing prices of the H Shares were below the Offer Price;
- (vi) the NAV Discount is acceptable as the closing prices per H Share for the majority of the trading days during the Review Period were below the net asset value per Share of RMB2.06 (equivalent to approximately HK\$2.42) as at 30 June 2015, RMB1.91 (equivalent to approximately HK\$2.24) as at 31 December 2015 and RMB1.84 (equivalent to approximately HK\$2.16) as at 30 June 2016;
- (vii) the sustainability of the increased price level after the publication of the Joint Announcement is uncertain; and
- (viii) the H Shares are illiquid, the disposal of large block of H Shares held by the H Shareholders in the open market may trigger a price slump of the H Shares,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent H Shareholders to accept the Offer.

Those Independent H Shareholders who (after considering the financial information as described under the section headed "Financial information on the Group" of this letter and our view that it is uncertain as to whether the financial performance of the Group will improve in the future) are still optimistic about the future financial performance of the Group may, having regard to their own circumstances, consider retaining all or any part of their H Shares (the "Retaining Shareholders").

The Offeror has no rights under the laws of the PRC and the articles of association of the Company to compulsorily acquire the Offer Shares outstanding and not tendered for the acceptance under the Offer after the close of the Offer.

In the event that the Retaining Shareholders do not accept the Offer and given that the Withdrawal of Listing shall take effect following the end of the Offer Period, (i) this will result in the Retaining Shareholders holding unlisted H Shares and the liquidity of the H Shares may be severely reduced; (ii) the rights/interests of the Retaining Shareholders will no longer be protected by the Listing Rules; and (iii) the Company may not continue to be subject to the Takeovers Code after the completion of the Offer depending on whether it remains as a public company in Hong Kong and the rights/interests of the Retaining Shareholders may no longer be protected by the Takeovers Code.

As different H Shareholders have different investment criteria, objectives and/or circumstances, we would recommend any H Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.