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Welling

WELLING HOLDING LIMITED

威靈控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 382)

CONTINUING CONNECTED TRANSACTIONS THE NEW LOGISTIC SERVICE AGREEMENT

Reference is made to the announcement of the Company dated 11 January 2013 in relation to, among other things, the continuing connected transactions contemplated under the Existing Logistic Service Agreement for a term of three years ending 31 December 2015. Since the Existing Annual Caps set out in the Existing Logistic Service Agreement are expected to be insufficient to fulfill the operation needs of the Group and shall be revised upward to cover the estimated additional transaction amount, the Board announces that on 23 June 2014, the Company entered into the New Logistic Service Agreement with Annto for a term of three years commencing from 1 January 2014 and ending on 31 December 2016 and set out the New Annual Caps of the logistic service fees payable thereunder for the three years ending 31 December 2016.

As Annto is a subsidiary of Midea which is a controlling shareholder of the Company, each of Annto and its subsidiaries is an associate of Midea and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the New Logistic Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the New Annual Caps as set out in the New Logistic Service Agreement, on an annual basis, exceed 0.1% but are less than 5%, the transactions contemplated thereunder and the New Annual Caps are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 11 January 2013 in relation to, among other things, the continuing connected transactions contemplated under the Existing Logistic Service Agreement for a term of three years ending 31 December 2015. Since the Existing Annual Caps set out in the Existing Logistic Service Agreement are expected to be insufficient to fulfill the operation needs of the Group and shall be revised upward to cover the estimated additional transaction amount, the Board announces that on 23 June 2014, the Company entered into the New Logistic Service Agreement with Annto for a term of three years commencing from 1 January 2014 and ending on 31 December 2016 and set out the New Annual Caps of the logistic service fees payable thereunder for the three years ending 31 December 2016.

THE NEW LOGISTIC SERVICE AGREEMENT

- Date:** 23 June 2014
- Parties:** The Company (as the services recipient); and Annto (as the services provider)
- Nature of transaction:** Provision of the Logistic Services by Annto and/or its subsidiaries to the Group.
- Term:** The New Logistic Service Agreement shall substitute and replace the Existing Logistic Service Agreement with retrospective effect from 1 January 2014 in its entirety for a term of three years ending 31 December 2016.
- Pricing policy:** The pricing policy was determined by the Company and Annto on an arm's length basis, based on applicable laws and regulations, prevailing market conditions, normal commercial terms and the principle of fairness.

To ensure Annto is providing Logistic Services at the prevailing market prices and terms, the Group has implemented the following review procedures and approval process against the assessment criteria when obtaining the Logistic Services from Annto:

- (a) The designated staff of the Group would obtain not less than three quotations from logistic service providers, including Annto and other independent logistic service providers for comparison against the assessment criteria referred to in paragraph (b) below;
- (b) The logistic service fees will be determined with reference to the prevailing market rate, together with quantity, distance and timing of the orders. If after comparison, the designated staff confirmed that the prices and terms of the Logistic Services available for the Group provided by Annto are no less favourable than those offered by other independent logistic service providers for the same or similar logistic services on the same or similar conditions, they would submit the application to the responsible manager for review; and
- (c) After reviewed by the responsible manager, the application, if assessed to be in compliance with the terms set out in the New Logistic Service Agreement, would be further submitted to the senior manager for final approval.

EXISTING AND NEW ANNUAL CAPS

The Existing Annual Caps under the Existing Logistic Service Agreement and the New Annual Caps under the New Logistic Service Agreement for the provision of the Logistic Services by Annto and/or its subsidiaries to the Group are as follows:

	Year ending 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Existing Annual Caps	12,000	14,000	-
New Annual Caps	65,000	80,000	100,000

The Existing Annual Caps set out in the Existing Logistic Service Agreement were determined on 11 January 2013 after taking into account (i) the estimated logistic service fees payable to Annto and its subsidiaries; and (ii) the demand for Logistic Services according to the then business plan of the Group for the three years ending 31 December 2015.

The historical actual amounts of logistic service fees paid by the Group to Annto for the year ended 31 December 2013 and for the four months ended 30 April 2014 amounted to RMB5,659,000 and RMB2,507,000, respectively. No service fee was paid by the Group to Annto for the year ended 31 December 2012.

The total transportation expenses of the Group for the two years ended 31 December 2013 amounted to RMB63,450,000 and RMB85,104,000, respectively. For the four months ended 30 April 2014, the total transportation expenses of the Group amounted to RMB30,098,000.

In view of the current circumstances that Midea Group has established its own logistic service platform through Annto in order to take advantage of its relatively competitive terms as a result of providing a centralised and comprehensive suite of Logistic Services to all members within Midea Group, the Existing Annual Caps will no longer be sufficient and shall be revised upward to cover the estimated additional transaction amount to be shifted from other logistic service providers in respect of the Logistic Services subject to the price to be offered by Annto under the New Logistic Service Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LOGISTIC SERVICE AGREEMENT

The Continuing Connected Transactions are conducted because of the business needs and operations of the Group. The Directors are of the view that the Group would benefit from entering into the New Logistic Service Agreement for the following principal reasons:

The policy of the Group for selecting logistic service providers is mainly based on service quality and price. Annto has been one of the logistic service providers of the Group since 2008. As Annto has a thorough understanding of the Group's requirements for its operations, this enables Annto to provide more efficient and reliable Logistic Services to the Group.

Given that the fees payable by the Group for the Logistic Services to be provided by Annto shall be no less favourable than those offered by other logistic service providers for the same or similar logistic services on the same or similar conditions, the Group can benefit from lower cost of logistic service charges resulting from the economies of scale of Midea Group.

The entering into of the New Logistic Service Agreement does not preclude the Group from using other logistic service providers. The Group still has the discretion in selecting other logistic service providers as it thinks fit and appropriate for the benefits of the Group.

Taking into account the commercial benefits to the Group, the Directors (including the Independent Non-executive Directors) believe that the transactions (including the New Annual Caps) contemplated under the New Logistic Service Agreement have been entered into in the ordinary and usual course of business and on normal commercial terms that are fair and reasonable in the interests of the Company and the Shareholders as a whole.

Both Ms. Yuan Liqun and Mr. Li Feide are directors of the Company and Midea. They were regarded as having a material interest in the transactions contemplated under the New Logistic Service Agreement and had abstained from voting in respect of the relevant Board resolutions for considering and approving the New Logistic Service Agreement. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the New Logistic Service Agreement.

LISTING RULES IMPLICATIONS

As Annto is a subsidiary of Midea which is a controlling shareholder of the Company, each of Annto and its subsidiaries is an associate of Midea and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the New Logistic Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the New Annual Caps as set out in the New Logistic Service Agreement, on an annual basis, exceed 0.1% but are less than 5%, the transactions contemplated thereunder and the New Annual Caps are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INFORMATION OF THE COMPANY

The Company is an investment holding company. The Group is principally engaged in the manufacturing and distribution of motors and electronic and electric components for electrical household appliances, including principally air-conditioners, washing machines, dishwashers, water heaters and refrigerators.

INFORMATION ABOUT ANNTO

Annto is a subsidiary of Midea with its principal business engaged in logistic and transportation services including cargo agent services, general road cargo transportation, warehousing management and logistic technologies consultation services.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“Annto”	安得物流股份有限公司 (Annto Logistics Co., Ltd.*), a company incorporated in the PRC with limited liability and a subsidiary of Midea
“Board”	the board of Directors
“Company”	Welling Holding Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 382)
“Continuing Connected Transactions”	the provision of the Logistic Services by Annto and/or its subsidiaries to the Group as contemplated under the New Logistic Service Agreement
“Director(s)”	the director(s) of the Company
“Existing Annual Caps”	the annual caps in respect of the Logistic Services set out in the Existing Logistic Service Agreement for each of the three years ending 31 December 2015
“Existing Logistic Service Agreement”	the agreement dated 11 January 2013 entered into between the Company and Annto in relation to the provision of the Logistic Services by Annto and/or its subsidiaries to the Group for a term of three years ending 31 December 2015
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Logistic Services”	the logistic and transportation services including cargo transportation, cargo distribution, warehousing and custody, transshipment and loading and unloading, as well as other related ancillary services provided under the Existing Logistic Services Agreement and to be provided under the New Logistic Service Agreement
“Midea”	美的集團股份有限公司 (Midea Group Co., Ltd.*), a company incorporated in the PRC with limited liability (the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000333)) and is the controlling shareholder of the Company holding approximately 68.81% of the issued share capital of the Company as at the date of this announcement
“Midea Group”	Midea and its subsidiaries

“New Annual Caps”	the proposed annual caps in respect of the Logistic Services set out in the New Logistic Service Agreement for each of the three years ending 31 December 2016
“New Logistic Service Agreement”	the agreement dated 23 June 2014 entered into between the Company and Annto for a term of three years commencing from 1 January 2014 and ending 31 December 2016
“PRC”	People’s Republic of China, but for the purposes of this announcement and for geographical reference only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“Shareholder(s)”	holder(s) of the ordinary share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

In addition, the terms “associate”, “connected person”, “controlling shareholder”, “percentage ratios” and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.

* The Chinese names of the PRC entities have been translated into English in this announcement for reference only. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.

By order of the Board
Welling Holding Limited
Tang Wai Ying, Tracy
Company Secretary

Hong Kong, 23 June 2014

As at the date of this announcement, the Directors of the Company are:

Executive Directors:	Mr. Zhou Xiangyang (Chairman and Chief Executive Officer), Mr. Yu Yong Hua, Mr. Li Xianlu, Mr. Luo Huagang, Ms. Yuan Liqun and Mr. Li Feide
Independent Non-executive Directors:	Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao