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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 – RENEWAL OF THE EXISTING ZS FRAMEWORK AGREEMENT**

Reference is made to the announcement of the Company dated 29 April 2013 and the circular of the Company dated 14 May 2013 in respect of the Existing ZS Framework Agreement entered into between the Company and Zhejiang Shangfeng for the purchase of raw materials from ZS Group.

As the Existing ZS Framework Agreement will expire on 31 December 2015, the Company had on 16 December 2015 entered into the New ZS Framework Agreement with Zhejiang Shangfeng in respect of the Continuing Connected Transactions.

Zhejiang Shangfeng is a company controlled by Mr. He Jianfeng (the son of Mr. He Xiangjian who is the controlling shareholder of Midea, and Midea is the controlling shareholder of the Company with approximately 68.64% indirect shareholding interest in the Company). Accordingly, Zhejiang Shangfeng is a connected person of the Company under the Listing Rules.

As the applicable percentage ratios exceed 0.1% but less than 5% on an annual basis, the transactions contemplated under the New ZS Framework Agreement constitute continuing connected transactions of the Company under Rule 14A.76(2) of the Listing Rules which are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempted from independent shareholders' approval.

#### **BACKGROUND**

Reference is made to the announcement of the Company dated 29 April 2013 and the circular of the Company dated 14 May 2013 in respect of the Existing ZS Framework Agreement entered into between the Company and Zhejiang Shangfeng for the purchase of raw materials from ZS Group.

As the Existing ZS Framework Agreement will expire on 31 December 2015, the Company had on 16 December 2015 entered into the New ZS Framework Agreement with Zhejiang Shangfeng in respect of the Continuing Connected Transactions.

## THE NEW ZS FRAMEWORK AGREEMENT

Date:	16 December 2015
Parties:	(1) The Company (2) Zhejiang Shangfeng
Nature of transactions:	Pursuant to the New ZS Framework Agreement, the Group will purchase raw materials, including varnished wires from ZS Group.
Term:	The New ZS Framework Agreement has a fixed term commencing on 1 January 2016 and ending on 31 December 2018.
Pricing policy:	The pricing policy under the New ZS Framework Agreement shall be determined in accordance with the following principles:

- (1) Tender price: The tender process is an open process based on market participation from qualified suppliers and the price shall be ultimately determined in accordance with the tender process.
- (2) Market price: The market price is applied only in the case that all the tenderers cannot meet the tender requirements. The market price shall be agreed between the parties on an arm's length basis and by reference to the prevailing market prices of comparable products and the terms and conditions of the sale and purchase shall be no less favourable than those available to the Group from independent suppliers from time to time.

In any event, the terms of the purchase of raw materials shall be conducted in accordance with applicable law and regulations, prevailing market conditions, normal commercial terms and the principle of fairness.

Existing annual caps and historical figures:	<b>For the year ended 31 December 2013 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>	<b>For the nine months ended 30 September 2015 RMB'000</b>
Existing annual caps	300,000	400,000	500,000
Transaction amounts	109,026	113,246	98,554

Proposed annual caps:	The Company estimates that the proposed annual caps for the purchase of raw materials from ZS Group shall not exceed RMB155,000,000 for each of the three financial years ending 31 December 2018.
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In arriving at the aforesaid caps, the Directors have determined mainly by reference to the historical transaction amounts for the purchase of raw materials from ZS Group under the Existing ZS Framework Agreement, and the potential price fluctuations arising from inflation or price surge of raw materials.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

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

- (1) The Group has built a trusted and long-term business relationship with ZS Group. Over the past years, ZS Group had consistently been able to provide quality goods to the Group with reliable and timely delivery services due to its close proximity to our principal manufacturing bases in the PRC.
- (2) The Group is expected to enjoy the bulk purchase discount of raw materials from ZS Group, which will in turn help the Group to achieve a lower cost of procurement and enhance overall operational efficiency.

Taking into account the commercial benefits to the Group, the Directors (including the Independent Non-executive Directors) believe that the transactions contemplated under the New ZS Framework 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.

## **INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**

The following internal control and risk management measures have been implemented in order to ensure and safeguard that the transactions contemplated under the New ZS Framework Agreement will not be prejudicial to the interests of the Company and the Shareholders:

- (1) The procurement department of the Group will conduct research on the market price and invite qualified suppliers to express their interest in tendering for the supply of raw materials. In the case that all the tenderers cannot meet the tender requirements, the Group shall obtain at least three quotes from independent suppliers, and compare such quotes with those offered by ZS Group to ensure that the price is fair and reasonable, on normal commercial terms, as well as no less favorable than terms available to the Group from independent suppliers.
- (2) The accounts department of the Group shall be responsible for monitoring the actual transaction amounts of the Continuing Connected Transactions on a monthly basis to ensure it does not exceed the caps.
- (3) The Independent Non-executive Directors have reviewed and will continue to review the Continuing Connected Transactions to ensure that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the New ZS Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.
- (4) The auditor of the Company will conduct an annual review on the pricing and annual caps of the Continuing Connected Transactions.

## **LISTING RULES IMPLICATIONS**

Zhejiang Shangfeng is a company controlled by Mr. He Jianfeng (the son of Mr. He Xiangjian who is the controlling shareholder of Midea, and Midea is the controlling shareholder of the Company with approximately 68.64% indirect shareholding interest in the Company). Accordingly, Zhejiang Shangfeng is a connected person of the Company under the Listing Rules.

As the applicable percentage ratios exceed 0.1% but less than 5% on an annual basis, the transactions contemplated under the New ZS Framework Agreement constitute continuing connected transactions of the Company under Rule 14A.76(2) of the Listing Rules which are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempted from independent shareholders' approval.

## **INFORMATION OF THE COMPANY AND ZHEJIANG SHANGFENG**

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.

Zhejiang Shangfeng is primarily engaged in research, development and production of ventilation, air-cooled, water-cooled and air-conditioning equipment, environmental protection equipment, refrigeration and frozen equipment and molds, electrical, metal and steel composite pipes, profiles, undertaking environmental engineering, and import and export business. It is a company listed on the Shenzhen Stock Exchange. Mr. He Jianfeng is the ultimate controller of Zhejiang Shangfeng by virtue of his controlling interest in Yingfeng Investment Holding Co., Ltd., which in turn is the single largest shareholder of Zhejiang Shangfeng.

## **DEFINITIONS**

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

“Board”	the board of Directors
“Company”	Welling Holding Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange (stock code: 382)
“Continuing Connected Transactions”	the purchase of raw materials, including varnished wires by the Group from ZS Group as contemplated under the New ZS Framework Agreement
“Director(s)”	the director(s) of the Company
“Existing ZS Framework Agreement”	the agreement entered into between the Company and Zhejiang Shangfeng on 29 April 2013 in relation to the purchase of raw materials, including varnished wires by the Group from ZS Group for a fixed term from 1 January 2013 to 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
“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 68.64% of the issued share capital of the Company as at the date of this announcement
“New ZS Framework Agreement”	the agreement entered into between the Company and Zhejiang Shangfeng on 16 December 2015 in relation to the purchase of raw materials, including varnished wires by the Group from ZS Group for a fixed term from 1 January 2016 to 31 December 2018
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhejiang Shangfeng”	浙江上風實業股份有限公司 (Zhejiang Shangfeng Industrial Holdings Co., Ltd.*), a company listed on the Shenzhen Stock Exchange. Mr. He Jianfeng is the ultimate controller of Zhejiang Shangfeng by virtue of his controlling interest in Yingfeng Investment Holding Co., Ltd., which in turn is the single largest shareholder of Zhejiang Shangfeng
“ZS Group”	Zhejiang Shangfeng, its subsidiaries and associates
“%”	per cent

In addition, the terms “associate”, “connected person”, “connected transactions”, “controlling shareholder”, “percentage ratios”, “holding company” 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.*

On behalf of the Board  
**Welling Holding Limited**  
**Xiang Weimin**  
*Chairman*

Hong Kong, 16 December 2015

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

Executive Directors:	Mr. Xiang Weimin (Chairman), Mr. Zhong Lin (Chief Executive Officer), Ms. Pan Xinling, Mr. Li Li, Ms. Yuan Liqun and Mr. Li Feide
Independent Non-executive Directors:	Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao