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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 MIDEA FRAMEWORK AGREEMENT**

##### **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 Midea Framework Agreement entered into between the Company and Midea for (i) the sale of Products by the Group to Midea Group; and (ii) the purchase of Raw Materials by the Group from Midea Group.

Given that the Existing Midea Framework Agreement will expire on 31 December 2016, the Company had on 18 April 2016 entered into the 2016 Midea Framework Agreement with Midea for the revision, setting of new annual caps and extension of the term of the Existing Midea Framework Agreement for a term of three years commencing from 1 January 2017 to 31 December 2019 (both days inclusive).

##### **LISTING RULES IMPLICATIONS**

Midea is the controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. As the applicable percentage ratios exceed 5% on an annual basis, the transactions contemplated under the 2016 Midea Framework Agreement constitute continuing connected transactions of the Company which are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

##### **VOTING AT EGM**

The Company will convene the EGM for the purpose of seeking the approval of the Independent Shareholders on the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder. The relevant resolution to be proposed at the EGM will be voted by poll in compliance with the Listing Rules.

As Midea is the controlling shareholder of the Company and is a party interested in the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder, Midea and its associates will abstain from voting on the relevant resolution to be proposed at the EGM.

An independent board committee of the Company comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder. Optima Capital has been appointed and approved as the independent financial adviser by the Board to advise the independent board committee of the Company and the Independent Shareholders in this regard.

### **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) details of the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder; (ii) a letter of advice from the independent board committee of the Company; (iii) a letter of advice from Optima Capital to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 10 May 2016.

### **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 Midea Framework Agreement entered into between the Company and Midea for (i) the sale of Products by the Group to Midea Group; and (ii) the purchase of Raw Materials by the Group from Midea Group.

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### **2016 MIDEA FRAMEWORK AGREEMENT**

Date: 18 April 2016

Parties: (1) The Company  
(2) Midea

Nature of transactions: Pursuant to the 2016 Midea Framework Agreement, the Group will (i) sell Products to Midea Group; and (ii) purchase Raw Materials from Midea Group.

The Group and Midea Group will enter into individual contracts setting out specific terms of the Midea Sales CCTs and Midea Purchase CCTs. The terms of the individual contracts shall be consistent with the principles and the terms of the 2016 Midea Framework Agreement. If there is any conflict between the terms of an individual contract and the 2016 Midea Framework Agreement, the latter shall prevail.

**Term:** The 2016 Midea Framework Agreement has a fixed term commencing on 1 January 2017 and ending on 31 December 2019 (both days inclusive). Each party may serve notice to the other party at least three months prior to the expiry of the 2016 Midea Framework Agreement to renew the Continuing Connected Transactions subject to compliance with the then applicable regulations and requirements, including but not limited to the Listing Rules. Either party may terminate the 2016 Midea Framework Agreement during the term by giving three-month prior notice.

**Condition:** The 2016 Midea Framework Agreement is conditional upon the approval of the Independent Shareholders at the EGM. If such condition is not fulfilled by 31 December 2016 or such later date as may be agreed by the Company and Midea in writing, the 2016 Midea Framework Agreement shall terminate with immediate effect and none of the parties shall have any rights against the other party except in relation to any antecedent breach of the 2016 Midea Framework Agreement.

**Payment terms:** The payment terms for the Continuing Connected Transactions will be stipulated in the relevant individual contracts. Depending on the Products to be sold or Raw Materials to be purchased (as the case may be), the Continuing Connected Transactions will normally be settled in the form of cash or promissory notes within one month after issuance of invoices or on an agreed period basis.

**Pricing policy:** As a general principle, the price and terms of the individual contracts in respect of the Continuing Connected Transactions will be on normal commercial terms negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third parties. If the Group obtains more reasonable prices and terms for the contemplated Products or Raw Materials under the Continuing Connected Transactions from an independent third party, the Group will negotiate with Midea Group for comparable price and terms of the Products or Raw Materials and has full discretion to decide whether to engage Midea Group if comparable price and terms cannot be obtained.

Subject to the general principle, the Group will also consider and follow the internal pricing policy and procedures of the Group when determining the price of the individual orders:

#### Sale of the Products

The pricing terms for individual orders shall be determined by reference to (a) the costs of the Products (such as the direct labor cost, delivery cost, and/or cost of raw materials (as the case may be)) as calculated by the accounts department and the sales and marketing department of the Group; (b) the prevailing market price of products of comparable quality, specifications, quantities and related delivery costs (the "Prevailing Market Terms") based on the market information collected by the sales and marketing department of the Group through its network from time to time; and (c) where applicable, the terms agreed with independent third parties for products of comparable quality, specifications, quantities and related delivery costs in recent transactions (the "Independent Products Pricing Terms"). Based on the above, the sales and marketing department of the Group will ensure that the pricing terms agreed with Midea Group are not less favourable than the Prevailing Market Terms or the Independent Products Pricing Terms.

## Purchase of the Raw Materials

The pricing terms for individual orders of Raw Materials shall be determined by reference to (a) the prevailing market price of similar raw materials as publicly announced on the established websites selected by the procurement department of the Group; or (b) the pricing terms of raw materials of comparable quality, specifications, quantities and required time of delivery offered by the independent suppliers (the “Independent Raw Material Pricing Terms”) to the Group based on the quotations obtained from at least two independent suppliers on the Group’s approved list of suppliers selected by the criteria of quality and stability. By comparison, the procurement department of the Group will ensure that the pricing terms of the Raw Materials are no less favourable than the prevailing market price or the Independent Raw Material Pricing Terms available to the Group.

Existing annual caps and historical transaction amounts: The table below sets out the existing annual caps in respect of Midea Sales CCTs and Midea Purchase CCTs as contemplated under the Existing Midea Framework Agreement and the historical transaction amounts for the three years ending 31 December 2016:

	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>	<b>For the year ended 31 December 2015 <i>RMB'000</i></b>	<b>For the year ending 31 December 2016 <i>RMB'000</i></b>
(1) Existing annual caps of Midea Sales CCTs	5,000,000	6,000,000	7,380,000
Historical transaction amounts	3,262,292	2,943,019	717,615 <sup>(Note)</sup>
(2) Existing annual caps of Midea Purchase CCTs	160,000	195,000	238,000
Historical transaction amounts	36,085	37,966	31,768 <sup>(Note)</sup>

Note: This is the historical transaction amount for the three months ended 31 March 2016.

Proposed annual caps:

The table below sets out the proposed annual caps in respect of Midea Sales CCTs and Midea Purchase CCTs as contemplated under the 2016 Midea Framework Agreement for the three years ending 31 December 2019:

	<b>For the year ending 31 December 2017 RMB'000</b>	<b>For the year ending 31 December 2018 RMB'000</b>	<b>For the year ending 31 December 2019 RMB'000</b>
(1) Proposed annual caps of Midea Sales CCTs	4,250,000	4,650,000	5,100,000
(2) Proposed annual caps of Midea Purchase CCTs	48,000	53,000	58,000

In arriving at the aforesaid annual caps, the Directors have determined mainly by reference to:

#### Midea Sales CCTs

(i) the historical compounded annual growth rate of the total sales of the Group for the period from 2005 to 2015<sup>(Note 1)</sup> of approximately 10%; (ii) the average ratio of sales to Midea Group over the total sales of the Group (the “Midea Sales Ratio”) for the period from 2009 to 2015<sup>(Note 1)</sup> of approximately 47%; and (iii) a 15% buffer catering for the potential price fluctuations arising from inflation or price surge of raw materials.

#### Midea Purchase CCTs

(i) the historical compounded annual growth rate of the total sales of the Group for the period from 2005 to 2015<sup>(Note 1)</sup> of approximately 10%; (ii) the average ratio of purchase from Midea Group over the total purchase of the Group for the period from 2009 to 2015<sup>(Note 2)</sup> of approximately 0.73%; and (iii) a 15% buffer catering for the potential price fluctuations arising from inflation or price surge of raw materials.

Notes:

1. The over-accumulation of inventory of Midea Group for the year ended 31 December 2011 and termination of the home appliances replacement subsidy policy promulgated by the PRC government in late 2011 had imposed a negative impact on the sales of the Group to Midea Group for the year ended 31 December 2012 and distorted the 2012’s Midea Sales Ratio. Accordingly, the Company had not taken into account the relevant ratios attributed to the year ended 31 December 2012 when determining the proposed annual caps for Midea Sales CCTs and Midea Purchase CCTs.
2. The aggregate purchase amount from Midea Group had excluded the amount of raw materials/varnished wires indirectly purchased from Wellkey (a subsidiary of Zhejiang Shangfeng) through Midea Group for the period from 2009 to 2012. The Company had directly entered into a purchase framework agreement with Zhejiang Shangfeng from 1 January 2013 onwards.

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

The Continuing Connected Transactions are conducted because of the business and operation needs of the Group. The Directors are of the view that the Group would benefit from entering into the 2016 Midea Framework Agreement for the following reasons:

### Midea Sales CCTs

Midea Group has been the largest customer of the Group, and sales to Midea Group accounted for approximately 45% of the Group's annual revenue in 2015. It is expected the Midea Sales CCTs will continue to contribute stable revenue streams for the Group in the future. In addition, Midea Group, being one of the dominant players in the electrical household appliances industry, has a significant market share in the PRC. In 2015, Midea took second place in the air-conditioner and washing machine market share ranking (Source: China Market Monitor Co., Ltd. 北京中怡康時代市場研究有限公司). The continuation of the sale of Products to Midea Group is beneficial to and in the interests of the Group.

### Midea Purchase CCTs

The Group has been purchasing Raw Materials for manufacturing motors and electronic and electric components of electrical household appliances through Midea Group's material procurement platform due to the business and operation needs of the Group. Midea Group has been a reliable supplier of Raw Materials and has a thorough understanding of the Group's requirements, and the Group is of the view that it is more efficient for the Group to leverage on the benefits of their expertise in procurement of materials, which in turn helps the Group to enhance overall operational efficiency.

The Directors (excluding the independent non-executive Directors, being members of the independent board committee of the Company, who will give their opinion after taking into account the advice of Optima Capital) are of the view that the 2016 Midea Framework Agreement is on normal commercial terms and the terms of the 2016 Midea Framework Agreement, including the proposed annual caps contemplated thereunder, are fair and reasonable and 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 2016 Midea Framework Agreement and had abstained from voting in respect of the relevant Board resolutions passed at a Directors' meeting held for considering and approving the terms of the 2016 Midea Framework Agreement. Save as disclosed above, none of the Directors has a material interest in the 2016 Midea Framework Agreement.

## **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 2016 Midea Framework Agreement will not be prejudicial to the interests of the Company and the Shareholders as a whole:

- (1) The Group has established a series of measures and policies to ensure that the Continuing Connected Transactions will be conducted in accordance with the terms of the 2016 Midea Framework Agreement. The internal audit department of the Group will conduct random internal checks to ensure that the internal control measures in respect of the Continuing Connected Transactions remain complete and effective, and report the same to the independent non-executive Directors during the audit committee meetings.

- (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, at least annually, 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 2016 Midea 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**

Midea is the controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. As the applicable percentage ratios exceed 5% on an annual basis, the transactions contemplated under the 2016 Midea Framework Agreement constitute continuing connected transactions of the Company which are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

## **INFORMATION OF THE COMPANY AND MIDEA**

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.

Midea is the controlling shareholder of the Company. It is an investment holding company which is principally engaged in the production of home appliances, motors and their parts, import and export of home appliances, home appliances raw materials and parts, installation, maintenance and after-sales service of home appliances.

## **VOTING AT EGM**

The Company will convene the EGM for the purpose of seeking the approval of the Independent Shareholders on the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder. The relevant resolution to be proposed at the EGM will be voted by poll in compliance with the Listing Rules.

As Midea is the controlling shareholder of the Company and is a party interested in the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder, Midea and its associates will abstain from voting on the relevant resolution to be proposed at the EGM.

An independent board committee of the Company comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder. Optima Capital has been appointed and approved as the independent financial adviser by the Board to advise the independent board committee of the Company and the Independent Shareholders in this regard.

## DESPATCH OF CIRCULAR

A circular containing, among other things, (i) details of the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder; (ii) a letter of advice from the independent board committee of the Company; (iii) a letter of advice from Optima Capital to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 10 May 2016.

## DEFINITIONS

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

“2016 Midea Framework Agreement”	the agreement entered into between the Company and Midea on 18 April 2016 in relation to the sale of Products and purchase of Raw Materials for a fixed term from 1 January 2017 to 31 December 2019 (both days inclusive)
“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”	(i) the sale of Products by the Group to Midea Group; and (ii) the purchase of Raw Materials by the Group from Midea Group as contemplated under the 2016 Midea Framework Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among other things, the 2016 Midea Framework Agreement and the proposed annual caps contemplated thereunder
“Existing Midea Framework Agreement”	the agreement entered into between the Company and Midea on 29 April 2013 in relation to the sale of Products and purchase of Raw Materials for a fixed term from 1 January 2014 to 31 December 2016 (both days inclusive)
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Midea and any of its associates
“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
“Midea Group”	Midea, its subsidiaries and associates, excluding the Company and its subsidiaries
“Midea Purchase CCTs”	the purchase of Raw Materials by the Group from Midea Group
“Midea Sales CCTs”	the sales of Products by the Group to Midea Group
“Optima Capital”	Optima Capital Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser in respect of the 2016 Midea Framework Agreement
“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
“Products”	the motors and electronic and electric components for electrical household appliances and raw materials
“Raw Materials”	the raw materials, processed raw materials and motor samples
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wellkey”	廣東威奇電工材料有限公司(Guangdong Wellkey Electrical Material Co., Ltd.*), a limited company incorporated in the PRC and a subsidiary of Zhejiang Shangfeng

“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 (the son of Mr. He Xiangjian who is the controlling shareholder of Midea, and Midea is the controlling shareholder of the Company) 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

“%” per cent

In addition, the terms “associate”, “connected person”, “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, 18 April 2016

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