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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS

The directors (the “Directors”) of Welling Holding Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2016, together with the comparative figures for 2015. These condensed consolidated interim financial information have not been audited, but have been reviewed by the Company’s audit committee (the “Audit Committee”).

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2016

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	HK\$'000	HK\$'000
Revenue	4	4,301,748	4,818,195
Cost of goods sold		<u>(3,635,444)</u>	<u>(4,139,867)</u>
Gross profit		666,304	678,328
Other gains – net	5	77,147	68,015
Selling and marketing costs		(92,824)	(110,439)
Administrative expenses		<u>(168,649)</u>	<u>(194,801)</u>
Operating profit		481,978	441,103
Finance expenses		(1,887)	(17,147)
Finance income		<u>5,841</u>	<u>7,952</u>
Finance income/(expenses) – net	7	3,954	(9,195)
Share of profit of associates accounted for using the equity method		<u>19,171</u>	<u>30,261</u>

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	HK\$'000	HK\$'000
Profit before income tax		505,103	462,169
Income tax expense	8	<u>(96,170)</u>	<u>(78,824)</u>
Profit for the period		<u>408,933</u>	<u>383,345</u>
Profit attributable to:			
Owners of the Company		408,967	383,288
Non-controlling interests		<u>(34)</u>	<u>57</u>
		<u>408,933</u>	<u>383,345</u>
Earnings per share attributable to the owners of the Company, expressed in HK cents per share			
Basic	9	<u>14.28</u>	<u>13.39</u>
Diluted	9	<u>14.28</u>	<u>13.38</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period	408,933	383,345
Other comprehensive loss:		
Item that may be reclassified to profit or loss		
Currency translation differences	(90,495)	2,012
Change in value of available-for-sale financial assets	(452)	(2,322)
Other comprehensive loss for the period, net of tax	(90,947)	(310)
Total comprehensive income for the period	317,986	383,035
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	319,194	382,954
Non-controlling interests	(1,208)	81
	317,986	383,035

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		Unaudited	Audited
		30 June	31 December
		2016	2015
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		190,945	197,646
Property, plant and equipment		1,120,258	1,194,052
Investment properties		44,305	46,591
Intangible assets		84,828	80,455
Investments accounted for using the equity method		357,941	345,897
Deferred income tax assets		15,629	19,499
Available-for-sale financial assets	10	114,249	120,306
Prepayments for property, plant and equipment	11	3,765	5,103
		<u>1,931,920</u>	<u>2,009,549</u>
Current assets			
Inventories		400,193	554,938
Trade and other receivables	11	3,416,852	2,986,724
Derivative financial instruments		2,405	9,249
Available-for-sale financial assets	10	885,273	720,857
Pledged bank deposits		69,478	76,960
Cash and cash equivalents		918,925	1,236,209
		<u>5,693,126</u>	<u>5,584,937</u>
Total assets		<u>7,625,046</u>	<u>7,594,486</u>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		4,966,930	4,966,858
Other reserves		(2,838,705)	(2,757,335)
Retained earnings		2,355,687	2,132,848
		<u>4,483,912</u>	<u>4,342,371</u>
Non-controlling interests		<u>58,222</u>	<u>59,430</u>
Total equity		<u>4,542,134</u>	<u>4,401,801</u>

		Unaudited	Audited
		30 June	31 December
		2016	2015
	Note	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		150,893	136,224
Deferred government grants		31,120	32,137
		<u>182,013</u>	<u>168,361</u>
Current liabilities			
Trade and other payables	12	2,871,284	2,989,166
Derivative financial instruments		2,739	7,751
Current income tax liabilities		26,876	6,757
Borrowings		–	20,650
		<u>2,900,899</u>	<u>3,024,324</u>
Total liabilities		<u>3,082,912</u>	<u>3,192,685</u>
Total equity and liabilities		<u>7,625,046</u>	<u>7,594,486</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Welling Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) manufacture, distribute and sell motors and electronic and electric components for electrical household appliances in the People’s Republic of China (the “PRC”) and overseas.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is at Suite 3904, 39/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information for the six months ended 30 June 2016 are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors on 22 August 2016.

The financial information relating to the year ended 31 December 2015 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2016 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

Amendments to HKFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4. SEGMENT INFORMATION

The principal activities of the Group are the manufacturing, distribution and selling of motors and electronic and electric components for electrical household appliances in the PRC and overseas.

In accordance with the Group's internal financial reporting provided to chief operating decision-maker, the board of directors, who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions, the management considers the business from both business and geographical perspective. From business perspective, the Group has only one business segment.

The Group is domiciled in the PRC. The Group's revenue from customers located in the PRC and outside the PRC are presented as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Revenue from customers in the PRC	3,010,995	3,445,430
Revenue from customers outside the PRC	1,290,753	1,372,765
	<u>4,301,748</u>	<u>4,818,195</u>

Revenue is allocated based on the country in which customers are located. No revenue derived from a single external customer has exceeded 10% of the total revenue.

No geographical segment analysis on non-current assets is prepared as substantially all of the Group's assets were located in the PRC.

5. OTHER GAINS – NET

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Government grants received	9,341	6,597
Derivative financial instruments:		
– fair value gain on commodity future contracts not qualified for hedge accounting	9,173	13,414
– fair value (loss)/gain on foreign exchange forward contracts not qualified for hedge accounting	(1,140)	31,269
Dividend income from available-for-sale financial assets		
– equity investment	16,512	13,270
Claim from suppliers	1,482	1,842
Exchange gain/(loss)	28,356	(41)
Loss on disposal of property, plant and equipment	(2,770)	(1,772)
Rental income	4,331	2,214
Investment income from available-for-sale financial assets		
– wealth management products	14,742	–
Others	(2,880)	1,222
	<u>77,147</u>	<u>68,015</u>

6. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Cost of inventories recognised as expense	3,023,610	3,464,865
Depreciation of property, plant and equipment	87,901	81,708
Depreciation of investment properties	1,386	1,476
Amortisation of intangible assets	2,555	1,587
Amortisation of leasehold land and land use rights	2,839	2,654
Employee benefit expenses	412,599	471,014
Operating leases rental for land and buildings	4,831	3,726

7. FINANCE INCOME/(EXPENSES) – NET

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest expense	(2,032)	(12,858)
Exchange gain/(loss) – net	<u>145</u>	<u>(4,289)</u>
Finance expenses	(1,887)	(17,147)
Finance income – interest income on bank deposit	<u>5,841</u>	<u>7,952</u>
Net finance income/(expenses)	<u><u>3,954</u></u>	<u><u>(9,195)</u></u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current income tax		
– PRC corporate income tax	72,343	48,622
– Hong Kong profits tax	<u>2,580</u>	<u>2,839</u>
	74,923	51,461
Deferred income tax	<u>21,247</u>	<u>27,363</u>
	<u><u>96,170</u></u>	<u><u>78,824</u></u>

(i) Macao and British Virgin Islands profits tax

The Group has not been subject to any taxation in these jurisdictions for both periods.

(ii) Hong Kong profits tax

Hong Kong profits tax is provided at annual income tax rate of 16.5% for the periods under review.

(iii) PRC corporate income tax

PRC corporate income tax is provided for on 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC corporate income tax purpose, except for certain subsidiaries which were entitled to different preferential tax rate of 15% during both periods.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2016	2015
Profit for the period attributable to the owners of the Company (HK\$'000)	<u>408,967</u>	<u>383,288</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000 shares)	<u>2,863,617</u>	<u>2,863,342</u>
Basic earnings per share (HK cents)	<u>14.28</u>	<u>13.39</u>

(b) Diluted

For the six months ended 30 June 2016 and 2015, diluted earnings per share were calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are performance-based share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2016	2015
Profit for the period attributable to the owners of the Company (HK\$'000)	<u>408,967</u>	<u>383,288</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000 shares)	<u>2,863,617</u>	<u>2,863,342</u>
Adjustments for share options ('000 shares)	<u>181</u>	<u>266</u>
	<u>2,863,798</u>	<u>2,863,608</u>
Diluted earnings per share (HK cents)	<u>14.28</u>	<u>13.38</u>

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Non-current		
Equity investment, at fair value (Note (a))	114,249	120,306
Current		
Investment in wealth management products, at fair value (Note (b))	<u>885,273</u>	<u>720,857</u>
	<u>999,522</u>	<u>841,163</u>

- (a) Non-current available-for-sale financial assets represent the equity interests in an unlisted company, Midea Group Finance Co., Ltd (the “Finance Company”), which shall provide a range of financial services as approved by the China Banking Regulatory Commission. The registered capital of the Finance Company was RMB1,500 million while Guangdong Welling Motor Manufacturing Co., Ltd. (a wholly-owned subsidiary of the Company) held 5% equity interest in it. The Group has no significant influence on the Finance Company.

The fair value of available-for-sale financial assets was determined by the directors. Fair value loss, net of tax amounting to HK\$3,175,000 was recognised in other comprehensive income for the period ended 30 June 2016 (2015: HK\$3,525,000). The directors assessed the fair value of the equity investment and are in the opinion that the fair value of the Finance Company approximately its net assets as at 30 June 2016 and 2015.

- (b) Current available-for-sale financial assets represent the wealth management products issued by banks and financial institutions with expected investment return rates ranging from 4.4% to 5.8% per annum in the PRC. The principals and returns are not guaranteed. Fair value gain, net of tax amounting to HK\$2,723,000 was recognised in other comprehensive income for the period ended 30 June 2016 (2015: HK\$1,203,000). The fair values of the wealth management products approximate to their costs plus expected investment return.

11. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables (Note (a))	1,287,132	1,017,813
Less: allowance for impairment	<u>(64,894)</u>	<u>(54,218)</u>
Trade receivables – net	1,222,238	963,595
Notes receivable (Note (a))	708,813	550,651
Amounts due from related parties (Note (a))	<u>1,335,119</u>	<u>1,301,080</u>
	3,266,170	2,815,326
Prepayments	56,156	83,899
Other receivables	85,890	76,073
Recoverable value-added tax – net	<u>12,401</u>	<u>16,529</u>
	3,420,617	2,991,827
Less: non-current portion		
Prepayments for property, plant and equipment	<u>(3,765)</u>	<u>(5,103)</u>
	<u>3,416,852</u>	<u>2,986,724</u>

- (a) The majority of the Group's trade receivables are with credit period from 30 days to 150 days. The ageing analysis of the gross trade receivables, notes receivable and amounts due from related parties respectively was as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Gross trade receivables:		
Within 3 months	1,007,582	791,208
3 to 6 months	195,287	186,193
Over 6 months	<u>84,263</u>	<u>40,412</u>
	<u>1,287,132</u>	<u>1,017,813</u>

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Notes receivable:		
Within 3 months	459,876	196,269
3 to 6 months	248,937	354,382
	<u>708,813</u>	<u>550,651</u>

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Amounts due from related parties:		
Within 3 months	825,666	743,520
3 to 6 months	509,453	547,326
Over 6 months	–	10,234
	<u>1,335,119</u>	<u>1,301,080</u>

12. TRADE AND OTHER PAYABLES

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade payables (Note (a))	1,165,449	1,077,052
Notes payable (Notes (a) & (b))	1,298,060	1,400,265
Amounts due to related parties (Note (a))	93,429	145,638
	<u>2,556,938</u>	<u>2,622,955</u>
Provision for staff welfare and bonus	100,110	126,975
Accruals	55,709	24,090
Advances from customers	40,368	8,212
Other payables (Note (c))	118,159	206,934
	<u>2,871,284</u>	<u>2,989,166</u>

- (a) The ageing analysis of the trade payables, notes payable and amounts due to related parties of the Group was as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within 3 months	1,729,374	1,661,358
3 to 6 months	824,989	951,928
Over 6 months	2,575	9,669
	<u>2,556,938</u>	<u>2,622,955</u>

- (b) The balance represents non-interest bearing bank acceptance notes issued by the Group with maturity periods of less than six months. As at 30 June 2016, certain notes payable was pledged by bank deposits of approximately HK\$69,478,000 (31 December 2015: HK\$76,960,000).
- (c) During the six months ended 30 June 2016, HK\$7,000 (31 December 2015: Nil) of dividends declared by the Company, which were unclaimed after a period of six years from the date of declaration, were forfeited and transferred to retained earnings in accordance with the Company's Articles of Association.

13. COMMITMENTS

(a) Capital commitments

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Capital expenditure contracted for but not provided	<u>113,146</u>	<u>67,906</u>

(b) Operating lease commitments

The future aggregate minimum lease payments of the Group under non-cancellable operating leases are as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Not later than one year	8,500	6,468
Later than one year and not later than five years	<u>12,143</u>	<u>13,780</u>
	<u>20,643</u>	<u>20,248</u>

14. EVENT AFTER THE BALANCE SHEET DATE

On 15 August 2016, the Company announced to dispose the equity interests in its associates, Shanxi Huaxiang Group Co., Ltd., and Linkgo-HK Limited. The aggregate consideration was approximately RMB313,228,000 and the Group would record a gain on disposals of approximately RMB7,300,000. The actual gain arising from the disposals is subject to audit.

INTERIM DIVIDEND

The board of Directors of the Company (the “Board”) has resolved not to declare an interim dividend in respect of the six months ended 30 June 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2016, the Group’s profit attributable to the owners of the Company and earnings per share amounted to approximately HK\$408,967,000 (2015: approximately HK\$383,288,000) and HK14.28 cents (2015: HK13.39 cents) respectively, representing a profit increase of 6.7% year-on-year. Such profit increase was attributable to the optimisation of internal process, stringent control of various expenses, so that various operating expenses for the period recorded a year-on-year decrease.

The Group’s turnover for the six months ended 30 June 2016 amounted to approximately HK\$4,301,748,000 (2015: approximately HK\$4,818,195,000), representing a year-on-year drop of 10.7%, mainly due to increasingly keen market competition. The Group’s gross profit margin was 15.5% (2015: 14.1%), representing a year-on-year increase of 1.4%, which was mainly attributable to the optimisation of product mix and the effect of exchange rate fluctuation from US and Euro dollars.

Analysis of Major Business Operations

In the first half of 2016, the global economic conditions were volatile and the situation of low growth and high risk remained unchanged fundamentally. No encouraging sign was seen in major economies’ economic growth. The risk events occurred frequently and the expected rise in the Federal Reserve Board interest rate had affected market sentiment and such trend would stimulate the nerve of different markets. The Brexit added more uncertainties to the European Union and even the global economy. Despite more positive signs were emerged in the economy of the United States, however, they were below expectation. The burden of public debts in Europe and Japan were still huge and the outlook was not optimistic. The recovery of emerging economies was rebounded weakly in general, the industrial output in countries like Brazil and Russia were shrunk. The overall China economy continued its downward trend since 2010 and its macroeconomic policies continued to maintain the balance of “Maintaining Growth, Optimising Economic Structure and Accelerating Reform” so as to stabilise the momentum and trend, but downward pressure on the growth rate was still obvious. The enterprises confronted a serious of difficulties in business transformation and upgrading, these difficulties include labor supply shortage, increasing labor costs, financing bottlenecks, and decreasing economic benefit, etc.

In the first half of the year, affected by the macroeconomic environment, the overall domestic consumption demand lost its momentum and the electrical household appliance industry continued its fundamental trend of downstream demand since 2015, however, the propulsion of supply-side reform policies of the Chinese government had accelerated the destocking process in electrical household appliance industry. Consumer demand was no longer satisfied with the simple electrical traditional functions. Industry transformation and upgrading led by large home appliance manufacturers were further intensified. Affected by the above factors, with the rapid increase in raw material costs and rising manufacturing costs of air-conditioners, the price war effect on market volume and brand market share became very limited. The impact on the price cut became weakened significantly. Therefore, the sales volume of air-conditioning products dropped obviously as compared to the same period last year. The washing machines market demonstrated a diversified development layout, market inventory in general was getting saturated and the market had shifted from production to stocking up. The replacement demand became dominant and the brand structure was relatively stable.

1. Motor Business

From January to June 2016, the total domestic and overseas sales volume of household air-conditioners in China decreased by 14.5% year-on-year and total production declined by 9.9% year-on-year. The total domestic and overseas sales volume of washing machines increased by 3.8% year-on-year and total production increased by 1.7% year-on-year. The total domestic and overseas sales volume of refrigerators decreased by 1.4% year-on-year and total production decreased by 3.7% year-on-year. (Source: www.chinaIOL.com).

For the six months ended 30 June 2016, the Group's motor business recorded a domestic sales volume of approximately 59,326,000 units and an export sales volume of approximately 19,196,000 units, with the aggregate sales volume of approximately 78,522,000 units (of which, the domestic and export sales volumes of motors for air-conditioners were approximately 41,330,000 units and 11,376,000 units respectively, with the aggregate sales volume decreased by 7% as compared to the same period last year. The domestic and export sales volumes of motors for washing machines were approximately 8,107,000 units and 6,585,000 units respectively, with the aggregate sales volume increased by 7% compared to the same period last year). With the influence of keen market competition, the Group recorded a turnover of approximately HK\$4,301,748,000 (of which HK\$2,421,179,000 from motors for air-conditioners and HK\$1,226,186,000 from motors for washing machines) for the first half of 2016, representing a drop of 10.7% compared to the same period last year, and total sales volume decreased by 3% year-on-year. The profit of the Group for the first half of 2016 amounted to approximately HK\$408,967,000, representing an increase of approximately 6.7% as compared to approximately HK\$383,288,000 of the same period in 2015. Such profit increase was attributable to the optimisation of internal process, stringent control of various expenses, so that various operating expenses for the period recorded a year-on-year decrease.

1.1 Motors for Air-Conditioners

The Group adhered to the goals of product upgrading and promotion of upgraded products. Despite the decline in the air-conditioning market and certain drop in product sales, the product mix had further optimised. The total sales volume of motors for air-conditioners decreased by 7% as compared to the same period last year. In addition, affected by the keen market competition and new market development, total sales revenue of air-conditioner motors fell by 18% as compared to the same period last year. The sales volume of alternating current motors for household air-conditioners decreased by 8%, brushless direct current motors for household air-conditioners increased by 25% and commercial motors decreased by 2%, as compared to the same period last year. Through making more efforts in new market development, the alternating current motors and brushless direct current motors for household air-conditioners achieved a major breakthrough in the Indian market and had commenced supply for new customers. As for research and development ("R&D") on the product upgrade and technical innovations, formal marketing promotion was conducted for the commercial direct current motors and high-power brushless direct current motors, etc. used in North America. Major breakthrough was achieved in the pioneer technology research projects such as Hall induction motors embedded with new structure of BMC, induction motors to roidal core with isolation of tooth and yoke, M0 vector control without position and rubber damping rotor.

1.2 Motors for Washing Machines

The demand characteristics for “high-end”, “youthful-oriented” and “customisation” washing machines in domestic markets become increasingly apparent, which had further accelerated industry product upgrade. By benefiting from the accelerating trend of inverter washing machines and the gradual maturity of the Group’s inverter products, sales were increased for major customers and product expansion. The total sales volume of motors for washing machines of the Group was increased by 7% as compared to the same period last year while total sales revenue slightly decreased by 1% as compared to the same period last year. Of which, the sales volume of wave-wheel motors slightly decreased by 2%, series motors fell by 7% and inverter washing machine motors climbed by 124%, as compared to the same period last year. The wave-wheel motors and wave-wheel brushless direct current motors had commenced supply for new customers in Southeast Asian market, domestic market and Japanese market respectively. As for the R&D on product upgrade and technical innovations, formal marketing promotion was conducted for the upgraded products such as fully automatic wave-wheel oil bearing motors, wave-wheel motors of resin packages, wave-wheel electromagnetic clutch direct current motors and drum brushless direct current motors and controllers, while the supply of certain models were also commenced for customers. The technology research on electromagnetic clutch remote position control technology was completed, and begins transforming to products. Major breakthrough was achieved in the pioneer technology research projects such as full dynamic OOB smart sensing control and drum washing noise improvement, and realised the industry leading position in which focusing on precision and speed. Moreover, at the Appliance & Electronics World Expo held in the early of the year, “drive motors (ZXGN) series for drum washing machines” was honoured with the “Best Component Award” of the 2016 China Appliance Award by the jury of experts. In the middle of the year, the project “key technology research on drum motors for washing machines and driving systems” was granted the international advanced technology achievement authentication by Guangdong Provincial Department of Science and Technology, which further demonstrated that the Group’s key technologies for its motors and driving systems such as the reliability of product structure, fast and reliable start-up, as well as the high-speed dehydration noise management, are at the world’s leading position.

1.3 Other Products

As for other products, by benefiting from the in-depth cooperation with large customers, the sales volume of refrigerator compressor motors increased by 19% as compared to the same period of last year. The technology research on pumps for dish-washing machines with resin packages structure was completed, and begins transforming to products. Significant technology breakthrough was achieved in integrated heat system of brushless direct current motors for dish-washing machines, and broke up exclusive professional monopoly in the industry. Currently, products were completed and will be launched to the market officially in the second half of this year.

In the first half of the year, the Group devoted to the craftsmanship spirit of striving for excellence while promoting the good working style of seriousness, responsibility, carefulness and diligence, aiming at providing good products, strengthening management, integrating R&D and marketing resources and setting up a customer service team to better respond to the market and serving customers. The Group energetically reformed the process of matching with manufacturing and sales, to further link up manufacturing and sales information and improve manufacturing and sales value chain efficiency. At the same time, the Group upgraded the information system of the core business process, continuously enhanced fundamental management ability and strengthened enterprise operation standard, so as to roll out better products and services and strengthen its industry leading position.

2. Business of Associate

Shanxi Huaxiang Group Co., Ltd. (“Shanxi Huaxiang”, an associate owned as to 49% by the Group) continued to work on its organisational reform and product transformation and upgrade. However, the overall economic environment was in a downturn in the first half of the year, the excess capacity for compressors led to weak orders. Although the growth of market orders of emerging strategic products such as vehicle parts, electric parts, pipe valve parts, structural parts, ductile iron castings had mitigated the order slowdown impact of home appliance compressor parts, the supply over demand market competition led to declining price and a drop in the overall operating results as compared to last year.

For the six months ended 30 June 2016, Shanxi Huaxiang recorded a turnover of approximately HK\$764,296,000 (2015: approximately HK\$805,034,000), representing a year-on-year decrease of 5%. The Group’s share of profit in Shanxi Huaxiang was approximately HK\$19,171,000 (2015: approximately HK\$30,261,000), representing a year-on-year decrease of 37%.

BUSINESS PROSPECTS

Currently, the global economy is still at its post-crisis restoration, recovering from bottoming out of the stabilisation stage with lack of endogenous dynamics, weak growth foundation, lack of effective demand in developed countries and the structural adjustment difficulty in developing countries. Looking forward into the second half of this year, the global economy will remain fragile and uncertain factors such as monetary policies and political risks will lead to more uncertainties to the world economy and difficulties in recovery. It will be difficult for the United States economy to achieve a robust recovery as expected. The economies in Europe and Japan were stuck deeply in recession. Despite certain stabilisation signs are seen in emerging economies as a whole, however, their performance varies. For the China economy, the supply-side structural reforms will remain the main theme, with the five major missions of “eliminating excess industrial capacity, reducing inventory levels, deleveraging, cutting business costs and making up for deficiencies” continue to progress. The tasks in economic transformation and structural adjustment remained arduous, and the increasing pressure in stabilising growth and economic downturn will still be a highly possible outcome.

Intelligence, integration and technical innovation are the inevitable trends of household appliance industry development, and high-end guidance and customised new thought will accelerate product mix upgrade in the household appliance industry. The inverter-driven, multi-connected and smart household air-conditioners remain the major trend; the high-end, large-capacity, inverter-driven and intelligent washing machine is the direction of product upgrading. Competitiveness in home appliance market has gradually shifted from price war to value war.

Amid the complex economic environment and market changes, the Group will foster its innovation with the more open attitude and measures, adhere to the value of “placing customers at our core and making quality products”, advocate “active attitude, sense of responsibility, good execution” and enhance the closed-loop project management system of “aiming, planning, progressing, tracing, implementing”. While the Group keeps on launching the upgraded products with good performance and high technology, it also needs to guarantee stable product quality and performance, and further integrates and concentrates quality resources, in order to provide better products and services to major customers and improve market competitiveness abilities in leading the industry.

1. Motor Business

1.1 Motors for Air-conditioners

Air-conditioner industry will still be in the “freezing winter”. On the basis of deepening the cooperation with major customers, the Group will respond to and lead the industry development trend, as well as intensify its efforts in the development and marketing of upgraded products. For product promotion, we will keep on increasing the marketing promotion of new-generation alternating current motors for outdoor unit of split-type air-conditioners, new-generation alternating current motors for indoor unit of split-type air-conditioners, the commercial direct current motors used in North America and the high-power brushless direct current motors. For market expansion, the alternating current motors for household air-conditioners will continue to focus on expanding the market in India, for which is expected to commence supply for a number of customers by the end of the year. The direct current motors for household air-conditioners will commence supply in the local market of Japanese customer. The commercial direct current motors used in North America will commence supply in the North American market; commercial motors for air-conditioners will further develop in the domestic market. For the research of the pioneer technology, we will make a breakthrough in the technology of new-generation single-phase induction motors and new-generation direct current brushless motors.

1.2 Motors for Washing Machines

We will continue to leverage on our leading technology advantages in the industry and strengthen our industry position. For product promotion, we will continue to enlarge the marketing promotion of new products of drum inverter motors and wave-wheel electromagnetic clutch direct current motors system, etc. For the market expansion of the series motors, besides maintaining the existing advantages in the Asian and European markets, we will further strengthen the cooperation with European customers, expand the Latin American market, and expect to commence supply for a number of customers by the end of the year. The wave-wheel motors will gain benefits in the Latin American, African, Southeast Asian markets, etc. and commence supply. The direct current motors will further expand in the domestic and European markets, which can commence supply for the several industry leading enterprises in the second half of the year. For the research of pioneer technology, we will make a breakthrough in the technology of second-generation drum brushless direct current motors and controllers.

1.3 Other Products

For other products, the supply of all-in-one heat pumps of dish-washing machines to industry leading enterprises will be completed by the end of the year. The reactors for washing machines will achieve a major breakthrough and commence supply for Japanese customers. In addition, the Group will accelerate the research of high-speed motor technology, and high-speed integrated heat dish-washing machines pumps and high-speed vacuum cleaners brushless direct current motors, and are expected to achieve a technology breakthrough.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a healthy financial and liquidity position with a current ratio of 196% as at 30 June 2016 (31 December 2015: 185%).

As at 30 June 2016, the Group was in a net cash position of HK\$988,403,000 (31 December 2015: HK\$1,292,519,000), representing cash and cash equivalents and pledged bank deposits. As at 30 June 2016, the Group did not have any bank borrowing.

The Group has subscribed for wealth management products of approximately HK\$885,273,000 as at 30 June 2016 (31 December 2015: HK\$720,857,000), which offered better returns compared to the fixed-term deposit interest rates provided by commercial banks in the PRC.

Financial Ratios

The following are certain financial ratios of the Group as at the date of the consolidated statement of financial position:

	30 June 2016	31 December 2015
Inventories turnover (Note 1)	24 days	41 days
Trade receivables turnover (Note 2)	66 days	70 days
Trade payables turnover (Note 3)	59 days	72 days
Current ratio (Note 4)	1.96 times	1.85 times

Notes:

1. Inventories turnover is calculated based on the average of the opening inventories and closing inventories divided by the cost of goods sold of the period/year, and multiplied by the total number of days of the period/year.
2. Trade receivables turnover is calculated based on the average of the opening and closing of trade receivables of third parties and related parties, divided by the revenue of the period/year, and multiplied by the total number of days of the period/year.
3. Trade payables turnover is calculated based on the average of the opening and closing of trade payables of third parties and related parties, divided by the cost of goods sold of the period/year, and multiplied by the total number of days of the period/year.
4. Current ratio is calculated based on the period-end/year-end current assets divided by the period-end/year-end current liabilities.

Pledge of Assets

No leasehold land and land use rights and property, plant and equipment have been pledged as security for the Group's banking facilities as at 30 June 2016 and 2015.

Contingent Liabilities

Save as the financial guarantees as disclosed below, as at 30 June 2016, the Group did not have any material contingent liabilities.

Financial Guarantees

As at 30 June 2016, the Group has given guarantee to banks in respect of the banking facilities granted to an associate of the Group of approximately HK\$682,135,000 (31 December 2015: approximately HK\$656,497,000), of which approximately HK\$214,118,000 (31 December 2015: approximately HK\$179,045,000) have been drawn down.

Capital Expenditure

For the six months ended 30 June 2016, the capital expenditure of the Group was approximately HK\$41,972,000 (31 December 2015: approximately HK\$266,140,000) related to the purchase of property, plant and equipment.

Derivative Financial Instruments

As at 30 June 2016, the Group's outstanding derivative financial instrument assets and liabilities under various copper and aluminium future contracts and foreign exchange forward contracts amounted to approximately HK\$2,405,000 and HK\$2,739,000 respectively (31 December 2015: derivative financial instrument assets and liabilities of approximately HK\$9,249,000 and HK\$7,751,000 respectively).

Exposure to Exchange Rate Fluctuations

During the six months ended 30 June 2016, approximately 30% of the Group's turnover was derived from export trading settled in Euro and US dollars. In the meantime, the Group has also imported raw materials and equipment from the suppliers which were paid in Euro and US dollars for settlement. As a result, foreign exchange risks associated with these currencies were partially offset. On the other hand, the Group has made arrangements to purchase foreign exchange forward contracts to hedge against foreign exchange exposure arising from export trading. The Group has stringent control over the risk of exchange rate fluctuation, and will review from time to time the sufficiency and appropriateness of the financial instruments which were currently used to hedge significant foreign currency risks.

Capital Commitments

As at 30 June 2016, the Group has contracted capital commitments in respect of the purchase of property, plant and equipment amounting to approximately HK\$113,146,000 (31 December 2015: approximately HK\$67,906,000).

EVENT AFTER THE BALANCE SHEET DATE

On 15 August 2016, the Company announced that Guangdong Welling Motor Manufacturing Co., Ltd. and Welling International Hong Kong Limited (the indirect wholly-owned subsidiaries of the Company) entered into an equity interest transfer agreement and a share transfer agreement with Shanxi Linfen Huaxiang Shiye Co., Ltd. in relation to the disposal of 49% of the equity interest in Shanxi Huaxiang and the disposal of 98 shares of Linkgo-HK Limited (“Linkgo-HK”) (representing 49% of the issued shares of Linkgo-HK) respectively (collectively, the “Disposals”).

Through the Disposals, the Company had agreed to sell its equity interests in Shanxi Huaxiang and Linkgo-HK at the aggregate consideration of RMB313,227,943.40 and HK\$98. The proceeds will be used as general working capital of the Group and for its future business development.

The gain from the Disposals was approximately RMB7,300,000 (before tax and any consideration adjustments), being the difference between the aggregate consideration and the carrying value of the disposed assets as at 30 June 2016 under the equity interest transfer agreement and the share transfer agreement.

HUMAN RESOURCES

As at 30 June 2016, the Group employed approximately 8,417 full time employees in Hong Kong and the PRC. The Group aims to attract, retain and develop high calibre individuals committed to attaining our corporate objectives. Through the implementation of comprehensive human resources management strategies, the Group strives to maintain a fair and open working environment and conducts continuous evaluation of performance with employees to ensure that their talents and potential can be fully realised.

The Group currently provides employees with competitive remuneration packages (comprising salary, bonus and benefits in kind), adequate insurance cover (including pension, medical insurance, unemployment compensation insurance, work injury compensation insurance and maternity insurance) and housing provident fund. In addition, the Group also provides its employees with other benefits including on-the-job training and development opportunities, meal subsidy, housing subsidy, cooperative medical scheme services, support fund and recreational activities, etc. to boost the Group’s competitiveness and productivity.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2016.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the code of conduct of the Company for Directors’ securities transactions. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Save as disclosed below, the Company had complied with all the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2016.

The Company had deviated from code provision A.6.7 of the CG Code in that one executive Director was unable to attend the annual general meeting and the extraordinary general meeting of the Company held on 31 May 2016 due to other important business engagement.

REVIEW OF THE INTERIM RESULTS BY AUDIT COMMITTEE

The Company established its Audit Committee on 5 August 1999 with the responsibility to assist the Board in providing an independent review of the financial statements, risk management and internal control systems. The Audit Committee comprises all independent non-executive Directors, Mr. Tan Jinsong (chairman of the Audit Committee), Mr. Lam Ming Yung and Ms. Cao Zhoutao.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2016. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group, the risk management and internal control systems, and the financial reporting matters.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company’s website at <http://www.welling.com.cn> and the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk>. The 2016 interim report will be despatched to the shareholders of the Company and available on the aforesaid websites in due course.

On behalf of the Board
Welling Holding Limited
Xiang Weimin
Chairman

Hong Kong, 22 August 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, Mr. Xiao Mingguang and Mr. Li Feide
Independent non-executive Directors:	Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao