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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 LOGISTIC SERVICE AGREEMENT**

##### **BACKGROUND**

Reference is made to the announcement of the Company dated 23 June 2014 in respect of the Existing Logistic Service Agreement entered into between the Company and Annto for the provision of the Logistic Services by Annto and/or its subsidiaries to the Group.

Given that the Existing Logistic Service Agreement will expire on 31 December 2016, the Company had on 2 December 2016 entered into the 2016 Logistic Service Agreement with Annto for the revision, setting of new annual caps and extension of the term of the Existing Logistic Service Agreement for a term of three years commencing from 1 January 2017 to 31 December 2019 (both days inclusive).

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

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 2016 Logistic Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (defined under the Listing Rules) exceed 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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## **2016 LOGISTIC SERVICE AGREEMENT**

Date: 2 December 2016

Parties: The Company (as the services recipient); and  
Annto (as the services provider)

Nature of transactions: Provision of the Logistic Services by Annto and/or its subsidiaries to the Group.

Term: The 2016 Logistic Service Agreement has a fixed term commencing on 1 January 2017 and ending on 31 December 2019 (both days inclusive).

Payment terms: The payment terms for the Logistic Services will be stipulated in the individual contracts governing each particular transaction entered into pursuant to the 2016 Logistic Service Agreement. In general, Annto will calculate the logistic service fees on a monthly basis prior to the 15th day of following month. Upon receiving the counterparty's confirmation on the amount, Annto will issue the invoices and the counterparty will settle the payments in the form of cash within 15 days after issuance of invoices or on an agreed period basis.

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:

- (i) 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 (ii) below; and
- (ii) 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 confirms 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 will submit the application for final internal approval.

Existing annual caps and historical transaction amounts: The table below sets out the existing annual caps in respect of the Logistic Services as contemplated under the Existing Logistic Service Agreement and the historical transaction amounts for the three years ending 31 December 2016:

	<b>For the year ended 31 December 2014 RMB'000</b>	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ending 31 December 2016 RMB'000</b>
Existing annual caps	65,000	80,000	100,000
Historical transaction amounts	42,446	54,587	38,288 <sup>(Note)</sup>

Note: This is the historical transaction amount for the nine months ended 30 September 2016.

Proposed annual caps: The table below sets out the proposed annual caps in respect of the Logistic Services as contemplated under the 2016 Logistic Service 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>
Proposed annual caps	110,000	120,000	130,000

In arriving at the aforesaid annual caps, the Directors have determined mainly by reference to (i) the historical logistic service fees payable to Annto and its subsidiaries; and (ii) the estimated demand for Logistic Services according to the business plan of the Group for the three years ending 31 December 2019.

## **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 Logistic Service Agreement for the following 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.

Midea has centralised the logistic services through Annto in order to take advantage of its relatively competitive terms of logistic services to all members within Midea Group. Given that the Group can benefit from the economies of scale of Midea Group, 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.

In addition, the entering into of the 2016 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 proposed annual caps) contemplated under the 2016 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 and are in the interests of the Company and the Shareholders as a whole.

Mr. Xiao Mingguang is director of the Company and Annto. Mr. Li Feide is director of the Company, Annto and Midea. They were regarded as having a material interest in the transactions contemplated under the 2016 Logistic Service Agreement and had abstained from voting in respect of the relevant Board resolutions for considering and approving the 2016 Logistic Service Agreement. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the 2016 Logistic Service 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 Logistic Service 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 Logistic Service 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 Logistic Service 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

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 2016 Logistic Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (defined under the Listing Rules) exceed 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## GENERAL INFORMATION

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.

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:

“2016 Logistic Service Agreement”	the agreement dated 2 December 2016 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 from 1 January 2017 to 31 December 2019 (both days inclusive)
“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 2016 Logistic Service Agreement
“Director(s)”	the director(s) of the Company
“Existing Logistic Service Agreement”	the agreement dated 23 June 2014 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 2016
“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 Service Agreement and to be provided under the 2016 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 68.63% of the issued share capital of the Company as at the date of this announcement
“Midea Group”	Midea and its subsidiaries
“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
“%”	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, 2 December 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