Welling

WELLING HOLDING LIMITED
威靈控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 382)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINAL RESULTS

The board of directors (the "Board") of Welling Holding Limited (the "Company" or "Welling") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Year"), which had been reviewed by the audit committee of the Company (the "Audit Committee") with the comparative figures for the corresponding period in the year 2015 (the "Previous Year").

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	**HK$'000**	HK$'000
Revenue	3	**7,954,460**	8,040,366
Cost of goods sold		**(6,776,454)**	(6,930,634)
Gross profit		**1,178,006**	1,109,732
Other gains – net	4	**149,838**	90,279
Selling and marketing expenses		**(216,228)**	(212,013)
Administrative expenses		**(384,310)**	(428,348)
Operating profit		**727,306**	559,650
Finance incomes		**27,775**	35,947
Finance expenses		**(3,971)**	(15,972)
Finance incomes – net	6	**23,804**	19,975
Share of profit of associates accounted for using the equity method		**18,825**	51,396

	Note	Year ended 31 December **2016** **HK$'000**	 2015 HK$'000
Profit before income tax		**769,935**	631,021
Income tax expense	7	**(178,306)**	(108,322)
Profit for the year		**591,629**	522,699
Profit attributable to:			
Owners of the Company		**596,574**	525,030
Non-controlling interests		**(4,945)**	(2,331)
		591,629	522,699
Earnings per share attributable to the owners of the Company, expressed in HK cents per share			
Basic	8	**20.83**	18.34
Diluted	8	**20.83**	18.33

Details of final dividend payable to equity shareholders of the Company are set out in note 9.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December 2016 HK$'000	2015 HK$'000
Profit for the year	**591,629**	522,699
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(283,125)**	(265,564)
Change in value of available-for-sale financial assets	**10,186**	11,704
Other comprehensive loss for the year, net of tax	**(272,939)**	(253,860)
Total comprehensive income for the year	**318,690**	268,839
Total comprehensive income for the year attributable to:		
Owners of the Company	**327,197**	274,900
Non-controlling interests	**(8,507)**	(6,061)
	318,690	268,839

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**180,329**	197,646
Property, plant and equipment		**1,042,310**	1,194,052
Investment properties		**41,028**	46,591
Intangible assets		**78,971**	80,455
Investments accounted for using the equity method		**–**	345,897
Deferred income tax assets		**30,032**	19,499
Available-for-sale financial assets	10	**122,936**	120,306
Prepayments for property, plant and equipment	11	**11,863**	5,103
		1,507,469	2,009,549
Current assets			
Inventories		**891,010**	554,938
Trade and other receivables	11	**2,205,314**	2,986,724
Derivative financial instruments		**5,479**	9,249
Available-for-sale financial assets	10	**1,123,535**	720,857
Pledged bank deposits		**36,790**	76,960
Cash and cash equivalents		**1,661,429**	1,236,209
		5,923,557	5,584,937
Total assets		**7,431,026**	7,594,486
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,967,225**	4,966,858
Other reserves		**(2,938,147)**	(2,757,335)
Retained earnings		**2,486,662**	2,132,848
		4,515,740	4,342,371
Non-controlling interests		**39,385**	59,430
Total equity		**4,555,125**	4,401,801

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**150,379**	136,224
Deferred government grants		**61,028**	32,137
		211,407	168,361
Current liabilities			
Trade and other payables	12	**2,611,834**	2,989,166
Derivative financial instruments		**–**	7,751
Current income tax liabilities		**52,660**	6,757
Borrowings		**–**	20,650
		2,664,494	3,024,324
Total liabilities		**2,875,901**	3,192,685
Total equity and liabilities		**7,431,026**	7,594,486

NOTES

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 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.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company on 17 March 2017.

The financial information relating to the year ended 31 December 2016 and 2015 included in this preliminary announcement of annual results for the year ended 31 December 2016 does not constitute the Company's statutory annual consolidated financial statements for those years 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) and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. 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

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") and requirements of the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

HKAS 1 (Amendments)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 27 (Amendments)	Equity method in separate financial statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
Annual improvements project	Annual improvements 2012 – 2014 cycle

The adoption of these amendments did not have any significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies and the presentation of the consolidated financial statements.

(b) New and amended standards not yet adopted

New and amended standards have been issued and are relevant to the Group but are not effective for the financial year beginning 1 January 2016 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2019

The Group has already commenced an assessment of the impact of these new and amended standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Company as a lessee.

3. 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 the 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 perspectives. 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:

	2016	2015
	HK$'000	HK$'000
Revenue from customers in the PRC	**5,592,416**	5,606,554
Revenue from customers outside the PRC	**2,362,044**	2,433,812
	7,954,460	8,040,366

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.

4. OTHER GAINS – NET

	2016	2015
	HK$'000	HK$'000
Government grants received (a)	**12,506**	18,079
Amortisation of deferred government grants	**665**	479
Derivative financial instruments:		
– fair value gain on commodity futures contracts not qualified for hedge accounting	**6,879**	10,792
– fair value gain on foreign exchange forward contracts not qualified for hedge accounting	**4,274**	24,420
Dividend income from available-for-sale financial assets – equity investment	**16,214**	13,032
Exchange gain	**51,869**	33,827
Loss on disposals of property, plant and equipment	**(3,460)**	(44,871)
Claim from suppliers	**1,489**	2,348
Rental income	**8,064**	6,903
Investment income from available-for-sale financial assets – wealth management products	**41,510**	20,852
Gain on disposal of the equity interests of associates	**8,525**	–
Others	**1,303**	4,418
	149,838	90,279

(a) For the year ended 31 December 2016 and 2015, majority of the amount was granted as subsidies for the Group's contribution to taxation and technology innovation.

5. EXPENSES BY NATURE

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

	2016	2015
	HK$'000	HK$'000
Cost of inventories recognised as expense	**5,670,778**	5,918,722
Employee benefit expenses	**886,054**	894,413
Depreciation of property, plant and equipment	**177,128**	188,712
Depreciation of investment properties	**2,722**	2,898
Amortisation of leasehold land and land use rights	**4,991**	5,213
Amortisation of intangible assets	**12,285**	4,415
Provision for impairment of trade receivables – net	**14,794**	9,277
Provision of impairment for inventories – net	**2,963**	874
Operating leases rental for land and buildings	**16,274**	12,533
Auditors' remuneration		
– Audit services	**2,277**	2,463
– Non-audit services	**711**	183

6. FINANCE INCOMES – NET

	2016	2015
	HK$'000	HK$'000
Finance incomes – interest income on bank deposits	**9,784**	24,137
Exchange gain	**17,991**	11,810
	27,775	35,947
Finance expenses	**(3,971)**	(15,972)
Finance incomes – net	**23,804**	19,975

7. INCOME TAX EXPENSE

(a) Macao and British Virgin Islands profits tax

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2016 (2015: Nil).

(b) Hong Kong profits tax

Hong Kong profits tax is provided at annual income tax rate of 16.5% for the year ended 31 December 2016 (2015: 16.5%).

(c) PRC Corporate Income Tax

Group companies registered in the PRC are subject to PRC Corporate Income Tax ("CIT"). According to the new CIT effective from 1 January 2008, all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises under specific preferential policies and provisions.

	2016	2015
	HK$'000	HK$'000
Current tax		
– PRC corporate income tax	**151,608**	53,269
– Hong Kong profits tax	**5,382**	3,359
	156,990	56,628
Deferred income tax	**21,316**	51,694
Income tax expense	**178,306**	108,322

8. 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 year.

	2016	2015
Profit for the year attributable to the owners of the Company (HK$'000)	**596,574**	525,030
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000 shares)	**2,863,797**	2,863,478
Basic earnings per share (HK cents)	**20.83**	18.34

(b) Diluted

For the year ended 31 December 2016, the outstanding share options granted by the Company has no potential dilutive effect. For the year ended 31 December 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.

	2016	2015
Profit for the year attributable to the owners of the Company (HK$'000)	**596,574**	525,030
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000 shares)	**2,863,797**	2,863,478
Adjustments for share options ('000 shares)	**–**	243
	2,863,797	2,863,721
Diluted earnings per share (HK cents)	**20.83**	18.33

9. DIVIDEND

	2016 HK$'000	2015 HK$'000
Proposed final dividend of HK7.5 cents per ordinary share (2015: HK6.5 cents)	**214,808**	186,135

At a meeting held on 17 March 2017, the directors proposed a final dividend of HK7.5 cents per ordinary share (2015: HK6.5 cents). This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK$'000	2015 HK$'000
Non-current		
Equity investment, at fair value (Note (a))	**122,936**	120,306
Current		
Investment in wealth management products, at fair value (Note (b))	**1,123,535**	720,857
	1,246,471	841,163

(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 gain, net of tax amounting to HK$9,101,000 was recognised in other comprehensive income for the year ended 31 December 2016 (2015: HK$7,565,000). 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 31 December 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 2.6% to 5.4% per annum in the PRC. The principals and returns are not guaranteed. Fair value gain, net of tax amounting to HK$1,085,000 was recognised in other comprehensive income for the year ended 31 December 2016 (2015: HK$4,139,000). The fair values of the wealth management products approximate to their costs plus expected investment return.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	HK$'000
Trade receivables (Note (a))	**1,132,651**	1,017,813
Less: allowance for impairment	**(56,926)**	(54,218)
Trade receivables – net	**1,075,725**	963,595
Amounts due from related parties (Note (a))	**676,299**	1,301,080
Notes receivable (Note (a))	**206,494**	550,651
	1,958,518	2,815,326
Prepayments	**143,958**	83,899
Other receivables	**85,124**	76,073
Recoverable value-added tax – net	**29,577**	16,529
	2,217,177	2,991,827
Less: non-current portion		
– Prepayments for property, plant and equipment	**(11,863)**	(5,103)
	2,205,314	2,986,724

As at 31 December 2016 and 2015, the fair values of trade and other receivables of the Group approximate their carrying amounts.

(a) The majority of the Group's trade receivables are with credit period from 30 to 150 days. As at 31 December 2016 and 2015, the ageing analysis of the gross trade receivables, amounts due from related parties and notes receivable, respectively are as follows:

Gross trade receivables:

	2016	2015
	HK$'000	HK$'000
Within 3 months	**780,522**	791,208
3 to 6 months	**272,607**	186,193
Over 6 months	**79,522**	40,412
	1,132,651	1,017,813

Amounts due from related parties:

	2016 HK$'000	2015 HK$'000
Within 3 months	**634,351**	743,520
3 to 6 months	**40,408**	547,326
Over 6 months	**1,540**	10,234
	676,299	1,301,080

Notes receivable:

	2016 HK$'000	2015 HK$'000
Within 3 months	**122,971**	196,269
3 to 6 months	**83,523**	354,382
	206,494	550,651

12. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables (Note (a))	**1,408,335**	1,077,052
Notes payable (Notes (a), (b))	**684,590**	1,400,265
Amounts due to related parties (Note (a))	**37,333**	145,638
	2,130,258	2,622,955
Provision for staff welfare and bonus	**170,879**	126,975
Accruals	**121,735**	24,090
Advances from customers	**25,556**	8,212
Other payables (Note (c))	**163,406**	206,934
	2,611,834	2,989,166

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

	2016	2015
	HK$'000	HK$'000
Within 3 months	**1,686,102**	1,661,358
3 to 6 months	**437,593**	951,928
Over 6 months	**6,563**	9,669
	2,130,258	2,622,955

(b) The balance represents non-interest bearing bank acceptance notes issued by the Group with maturity periods of less than six months. As at 31 December 2016, certain notes payable were pledged by bank deposits of approximately HK$36,790,000 (2015: HK$76,960,000).

(c) For the year ended 31 December 2016, HK$7,000 (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

Capital expenditure contracted for at the end of the year is as follows:

	2016	2015
	HK$'000	HK$'000
Capital expenditure contracted for but not provided	**141,095**	67,906

(b) Operating lease commitments

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

	2016	2015
	HK$'000	HK$'000
Not later than one year	**4,740**	6,468
Later than one year and not later than five years	**9,922**	13,780
	14,662	20,248

BUSINESS REVIEW

Analysis of Major Business Operations

In 2016, with global economy became tough and complicated, the pace of growth in different economies showed distinct differentiation. The economy recovery in United States was sluggish, the European economy declined, Japan remained its economic downturn, and the economic growth of developed countries was on a downward slope. Despite the overall economy had been improving in major emerging markets, given the economic foundations of these markets were relatively weak and impacted by the international capital outflows, the markets demonstrated a slowdown in economic growth with high risk of default. The global economy was also affected by the fluctuation of financial markets, especially the accumulative debt issues of various countries. Under the "new normal" economy, China accelerated its economic restructuring. Although the economic growth of China in the first half of 2016 encountered greater downward pressure, the domestic economies in the third and fourth quarters showed more stable and maintained a steady growth for the whole year driven by the implementation of a series of economic reform measures and the investments in infrastructure construction. Nevertheless, China's gross domestic product in 2016 recorded a year-on-year increase of 6.7% only, representing the lowest growth since 1990. It is likely that China's gross domestic product will continue to maintain its low growth momentum in the future.

In the first half of 2016, the electrical household appliance industry achieved certain progress as a result of active promotion for inventory clearance sales. In addition, the rapid growth in the real estate industry had significantly boosted the rigid demand for electrical household appliances and the impact for which reflected in the second half of the year. In the second half of the year, the consumption of electrical household appliances increased rapidly, given this, most of the electrical household appliance manufacturers recorded a certain growth on performance for the year, while the demands of air-conditioners, refrigerators, washing machines and small electrical household appliances showed an overall upward trend. In the past few years, the electrical household appliance industry was suffering from a period of depressed development, following the recovery of macroeconomy and the emergence of the "short cycle", the electrical household appliance industry may gradually move in a slow upward period.

In 2016, the trend of welcoming internet and embracing intellectualisation was obvious for the traditional electrical household appliances. Investments in the research and development ("R&D") of intellectualisation become more and more for the major electrical household appliance enterprises, while a series of intelligent electrical household appliance products had emerged, for which strengthened the intelligent household appliance industry and further optimised the ecosphere of intelligent household appliances and household appliance industry. Moreover, some of the internet enterprises urged to enter into this sector by making good use of big data analysis, developing internet intelligent household appliance products precisely and meeting the personality needs of the consumer group of the 90s and 00s. It is expected that the competition of intelligent household appliance industry will be more competitive and intense in the future.

Motor Business

In 2016, China's air-conditioner industry recorded a year-on-year increase of 8%, in which production volume recorded a year-on-year decrease of 10% in the first half of the year and an increase of 38% in the second half of the year, which presented a situation of stagnancy in peak season but booming in slack season for the whole year. Due to the global hot weather, the demand for air conditioners increased significantly in slack season during the second half of the year. Manufacturers almost completed the channel inventory clearance of air conditioners and even increased production to replenish the inventories. Washing machine market maintained a stable growth of 4% and refrigerator compressor industry increased by 12%. Such demands were mainly driven by replacing old appliances. (Source: www.chinaIOL.com).

For the year ended 31 December 2016, the Group's motor business recorded a domestic sales volume of approximately 110,712,000 units and an export sales volume of approximately 34,810,000 units, with the aggregate sales volume increased by 9% as compared to the same period last year. Of which, domestic and export sales volumes of motors for air-conditioners were 73,796,000 units and 18,768,000 units respectively, with the aggregate sales volume increased by 10% as compared to the same period last year; while the domestic and export sales volumes of motors for washing machines were 17,165,000 units and 13,587,000 units respectively, with the aggregate sales volume increased by 6% as compared to the same period last year. The Group's turnover for 2016 amounted to approximately HK$7,954,460,000 (including HK$4,212,872,000 from motors for air-conditioners and HK$2,568,251,000 from motors for washing machines), representing a decrease of 1% as compared to a turnover of approximately HK$8,040,366,000 (including HK$4,361,568,000 from motors for air-conditioners and HK$2,551,770,000 from motors for washing machines) for 2015.

To confront with the sales fluctuation and narrowed profit margins brought by the intensifying industrial competition and the continuous downward pricing trend, the Group actively expanded its market and strived for more orders in accordance with the operation policy of "value marketing". Meanwhile, the Group carried out lean management to enhance the operational management quality, continuously optimised the costs and expenses and improved the R&D capability of its products so as to enhance its competitive advantages.

1. Motors of Air-Conditioners

Due to the increased market demand of air-conditioners in the second half of the year, sales volume of motors for air-conditioners increased by 10% as compared to the same period last year. However, the keen competition in the industry, continuous decline in the selling prices and the depreciation of Renminbi caused sales revenue recorded a year-on-year decline of 3%. In particular, the sales volume of alternating current motors for household air-conditioners rose by 10% as compared to the same period last year; the sales volume of brushless direct current motors for household air-conditioners increased by 37% year-on-year, leading the trend of variable frequency motors for air-conditioners and further improving the structure of its customer profile. The sales volume of commercial motors increased by 6% as compared to the same period last year; the sales volume of brushless direct current commercial motors increased by 95% year-on-year, breakthrough was achieved by major customers from Europe and United States. Commercial motors will become major profitable products of the Group in the future.

2. Motors of Washing Machines

With the growing popularity of drum and inverter washing machines in the domestic market, the proportion of high-end washing machines and integrated washer-dryer machines had experienced an upward trend. Benefiting from the increased demand in the entire washing machine market, the sales volume of washing machine motors delivered a year-on-year growth of 6%. Because of the depreciation of Renminbi, the sales revenue increased merely by 1% year-on-year, such increase was lower than that in sales volume. In particular, the sales volume of series motors declined by 2% year-on-year, which was mainly due to the falling demand of series motors; whereas, the sales volume of wave-wheel motors decreased by 1% year-on-year as a result of the restructuring of the products portfolio made by customers. The sales volume of inverter motors for washing machines rose by 56% year-on-year, benefited from the rising demand from inverter market and the significant increase in orders. The sales volume of direct current motors grew by 318% year-on-year due to the enhanced cooperation with existing strategic customers.

3. Other Products

In 2016, with overall consideration of internal production capacity, manufacturing economic outcome and product standardisation, the Group adopted a prudent strategy in respect of receiving orders, manufacturing and selling of other products, the sales volume of other products increased by 12% year-on-year. In particular, benefiting from the increasing demands of range hoods and water heaters from customers of related parties of the Group, the sales volumes of range hood motors and water heater motors recorded a year-on-year increase of 32% and 21%, respectively.

In 2016, the Group continued to enhance its product capability, bring in high-tech talents and develop high quality products to meet the needs of customers by adhering to strategic thinking of "global leading" with the transforming requirements of "product leadership, efficiency driven and global operation". At the same time, the Group reinforced internal lean management, increased investments in technology R&D and manufacturing process, improved supply chain management and quality control standard and enhanced product delivery ability. With all of these efforts, the Group was highly recognised by our customers and the industry, in particular, our brushless direct current motors for washing machines were honored with the "Accessory Award" in the professional category of the 2016 China Appliance Award in March. We were honored with the "Award for Innovation Advance" at 2016-2017 China Air Conditioning Industry Symposium by virtue of its excellent market performance and innovation capability in August and the "Variable-frequency Power Award" at 2016 Washing Machine and Clothes Dryer Industry Summit by virtue of its innovative technology and the outstanding achievements made in the inverter territory in September, which impressed the industry. Furthermore, we were honored with the "Award for Scientific and Technological Advancement of China Electrical Household Appliances" by virtue of its brushless direct current motors for washing machines in November. Our subsidiary, Guangdong Welling Motor Manufacturing Co., Ltd. successfully passed the assessment as the "Made In China 2025" pilot demonstration enterprise of Foshan City in 2016.

Looking back on 2016, the demand was hindered in the first half of the year but climbed up substantially in the second half of the year, with annual sales fluctuated drastically, which imposed great challenges and pressure on production and operation. The Group adhered to its mission in "placing customers at our core and making quality products" and focused on the essential elements of its operations. The Group conducted "value marketing" by focusing on the development strategy of "global leading", optimised the customer and product structures through putting more effort in technology, product design, manufacturing process, quality control, improvement in upgrade, explored internal potential and promoted lean cost management, so as to offer better products and services to customers. Meanwhile, the Group has been actively expanding domestic and overseas quality customer resources to pursue innovation and development and managed to sustain normal and sound operations of our Group in an effective manner.

Business Prospects

Heading into 2017, the global economy will maintain a “slow” growth and the pace of economic growth will further slowdown. In particular, the growth of the developed economies will slow down and the growth of emerging markets will remain stable, leading to intensified differentiation in growth. Due to the receding effect of stimulating policies while the structural reform has yet to mature, the global economic recovery trend is therefore difficult to improve and the global monetary easing and asset shortage will continue, the potential risks are still widely present in the market. In 2017, although each of the major economies will still engage in easing policy in the short term, the red line for debts and central banks is approaching. “Accelerating structural reform, improving production efficiency and enhancing total factor productivity” will become a new path for growth, and the macroeconomic policies of different countries will also shift rapidly from responding to crisis to economic governance in the middle and long run. In 2017, the middle and long term outlook of the global economy will rely on the progress of “tri-polar” structural reforms among United States, China and Europe. The focal point of United States is the time when the Federal Reserve will take action to boost the economic growth of United States through the normalisation of monetary policies. The focal point of China is the implementation process of supply-side structural reform and state-owned enterprises reform. Eurozone is committed to preventing the retreat of regional integration and optimising labour structure for increasing the total factor productivity.

2017 is the “critical year of reform” of China. The reform is moving gradually towards the maturity stage, while strengthening the supply-side structural reform should be the primary task of economic reform. The economy in China remained stable in 2016 and such trend is expected to continue in 2017. Along with the improvement in demand, the deflationary pressure will mitigate while reflation will continue. The improvement in prices will contribute to the increase in profits for enterprises, reduce debt burden, and enable private investments to stabilise or even recover moderately. Although the growth in real estate market may slow down in the next few months, we expect its overall impact on economic growth should be under control. In the coming year, China is likely to continue its implementation of fiscal expansion with infrastructure investments remained as driving force for the key growth. Due to the continuous mitigation of deflationary pressure, it is expected that increase in interest rates or reduction in reserve rates will not happen in next year. However, there is no comprehensive inflationary pressure recently, we expect the easing monetary environment will maintain in general. In compare to the stable domestic situation, China's external economic environment will be more challenging. We expect China and United States will not be headed for trade war but a series of difficult negotiations on issues such as market entry, protection of intellectual property rights and state-owned enterprises reform are inevitable. In 2017, China will accelerate the de-leveraging of state-owned enterprises by closing down more zombie enterprises, continuing the de-capacity of heavy industries and speeding up the settlement of bad debts. Stable economic growth and mitigation of deflationary pressure will underpin the reform.

Benefiting from the stabilisation and recovery of China’s economy, it is expected that the market demand for the electrical household appliance industry will demonstrate a moderate growth in 2017. However, due to increasingly high requirements from consumers on products, coupled with the increasing popularity of personalised and customised products, the electrical household appliance manufacturers will focus more on product innovation and upgrade as well as business model transformation. As driven by the overall demand for air-conditioners and washing machines, the motor industry is expected to grow in 2017. The continuous increase in raw material prices urges the possible increase in product prices, which will be beneficial to profitability improvement. The Group will continue to work on operational transformation, integrate our resources and enhance our management standard to offer high-quality motors so as to consolidate our leading position in the industry. We will continue to focus on our customers’ demand, promote product innovation, constantly streamline the models of products and components to improve product structure, integrate the advantageous resources of our R&D, production and marketing, speed up the response to customer needs to achieve efficient sales services, strengthen competitive advantage, and consolidate and expand market share.

Motor Business

1. **Motors for Air-conditioners**

Although there is still room for the air-conditioning industry to grow in the long run, the downward trend in growth remains unchanged. The surge situation in 2016, especially in the second half of the year, is unlikely to happen in 2017. The first half of 2017 may have a certain growth year-on-year, which on one hand is attributable to the relatively low base for the same period last year, and on the other hand is the need to sustain a higher production level by air-conditioner manufacturers for market competition and channel inventory replenishment. In the second half of 2017, the market is likely to be uncertain, and the excessive demand in 2016 coupled with the channel inventory replenishment will lead to a possible decline in the production volume of air conditioners in the second half of the year as compared to the first half of the year. The Group has to strive the peak season in the first half of the year, and take precaution to prevent the possible market decline in the second half of the year by making a balance between production and sales, proactively promoting product mix optimisation, pushing forward the standardisation of motors, especially setting up customer segments in Asia Pacific, Europe and United States for export sales, expanding customers in Japan and South Korea as well as high value customers in Europe and United States so as to ensure the profitability increment. In respect of product technology, the industrial development trend in inverter-driven, coal-to-electricity in Northern China, multi-connected household appliances are obvious. The Group will continue to increase its investments in R&D and strengthen product upgrade and development, especially the indoor and outdoor fan motors for household air-conditioners, the indoor and outdoor fans for household commercial air-conditioners, and the fans for commercial air-conditioners in North America. At the same time, we will focus on the replacement of brushless direct current fans for commercial air conditioners in China and high performance aluminium wire of fans for commercial air conditioners in North America and keep on expanding new customers in North America.

2. **Motors for Washing Machines**

It is expected that the washing machine industry will continue to maintain its trend as medium-to-low growth. With the improvement of global efficiency and the growing popularity of drum and inverter, the Group will proactively layout its motors for washing machine products, with focus on the sales of direct current motors and direct drive motors by optimising product mix among the existing customers, increasing the proportion of high-end products and enhancing the product gross profit level. In respect of product technology, the Group will accelerate the development on the product upgrade of inverter washing machine motors and strengthen the technology research on inverter washing machine motors and driving control products at the same time. In respect of customers, the Group will strive to obtain orders from domestic customers, and meanwhile, to explore customers for direct current motors in Japan, Korea, Europe and United States, and accelerate the development on brushless direct current motors for drying machines and the expansion of new customers in Europe and United States.

3. Other Products

The Group will apply "value" approach for other products, with emphasis on developing valuable products and potential customers, and investing in lead generation products, such as high speed motors and fans for vacuum cleaners and range hoods and electrical cooler pumps for automotive.

Corporate Business Strategies

To build a solid business foundation and maintain sustainable development would be the greatest challenges and pressure faced by the Group in this complex macroeconomic environment in 2017. With all these consideration, the Group is committed to develop an "elite management team" by adhering to the "global leading" strategy, which is based on the operation guidelines of "innovative, refined, flexible and slim" together with the working attitudes of "seriousness, responsibility, carefulness and diligence". In respect of marketing, the Group believes in "value" marketing, the continuous rise in raw material prices will drive the rigid increase in product prices. By making use of the peak season in the first half of the year, the Group should optimise customer and product mix structures in order to improve the profitability, expand high value overseas customers, facilitate systemic and regulated marketing management, and integrate manufacturing and sales as a whole, so as to ensure supply capability in the peak season and to offer better services to customers. In respect of R&D, the Group will devote to "innovation" with a view to promote the independence of preliminary research and product development, implement the strong mission of "no cap on R&D investment, no limit on the number of R&D staff, and to attract domestic and overseas high-tech talents", promote product standardisation work, streamline the models of products and components significantly, deepen the joint development with customers, and upgrade products continuously, which help to gain product differential advantages. In respect of production, the Group will focus on "refined" management and intelligent manufacturing, facilitate the implementation and development of lean manufacturing works, carry out the establishment and trial operation of motor intelligent plant, and continuously increase the investments in the research on craftsmanship as well as optimise the manufacturing layout so as to take advantages of integration of manufacturing resources. Besides, we strive to enhance product quality and manufacturing efficiency as well as to reduce the production cost through automated production and testing. In respect of supply chain, the Group will adhere to the supply chain construction principle, work with reliable suppliers while eliminate the weaker ones, reduce the total number of suppliers, increase the average purchasing amount from suppliers, increase the number of suppliers with different varieties, increase the number of suppliers with multi-base supply, strengthen the synergy effect in respect of resources allocation and establish the long term strategic cooperation and achieve the win-win relationship with suppliers. In respect of quality, the Group will further strengthen its quality consciousness and implement stringent control with the rule of "one veto right on quality". For internal, the Group will link quality with remuneration, performance, promotion and dismissal of personnel. For external, the Group will punish the suppliers with quality problems of raw materials in a greater extent, so as to achieve better market performance and enhance customer satisfaction. In respect of operation management, the Group will further streamline its organisation, strengthen refined cost calculation and improve the assessment and management of inventory and receivables, in order to enhance the quality of the corporate's operation management and ensure a long term healthy development.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded a turnover of approximately HK$7,954,460,000 for the year ended 31 December 2016 (2015: approximately HK$8,040,366,000), representing a year-on-year decrease of 1%, and recorded a sales volume of approximately 145,522,000 units (2015: approximately 133,089,000 units), representing a year-on-year increase of 9%. The audited profit attributable to the owners of the Company and earnings per share amounted to approximately HK$596,574,000 (2015: approximately HK$525,030,000) and HK20.83 cents (2015: HK18.34 cents) respectively, representing an increase of 14% in profit as compared to the same period last year. The gross profit margin was approximately 14.8% (2015: approximately 13.8%). During the Year, the Group retained stringent control over various expenses and expanded its scale of sales to enhance operational management quality. On the other hand, the Group continued to make further investments in R&D as well as improvement of manufacturing process. The R&D costs for the Year amounted to HK$142,011,000 (2015: approximately HK$108,823,000). The Board proposed a final dividend of HK7.5 cents per ordinary share for the year ended 31 December 2016 (2015: HK6.5 cents).

Financial Review

Liquidity and Financial Resources

The Group has maintained a healthy financial and liquidity position with a current ratio of 222% as at 31 December 2016 (2015: 185%).

As at 31 December 2016, the Group was in a net cash position of HK$1,698,219,000 (2015: HK$1,292,519,000), including cash and cash equivalents and pledged bank deposits, and did not have any bank borrowings.

The Group has subscribed for wealth management products of approximately HK$1,123,535,000 as at 31 December 2016 (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:

	2016	2015
Inventories turnover (Note 1)	**39 days**	41 days
Trade receivables turnover (Note 2)	**69 days**	70 days
Trade payables turnover (Note 3)	**69 days**	72 days
Current ratio (Note 4)	**2.22 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 year, and multiplied by the total number of days of the year.

2. Trade receivables turnover is calculated based on the average of the opening and closing of trade receivables (excluding notes receivable) of third parties and related parties, divided by the revenue of the year, and multiplied by the total number of days of the year.

3. Trade payables turnover is calculated based on the average of the opening and closing of trade payables (excluding notes payable) of third parties and related parties, divided by the cost of goods sold of the year, and multiplied by the total number of days of the year.

4. Current ratio is calculated based on the year-end current assets divided by the year-end current liabilities.

Pledge of Assets

No leasehold land and land use rights and property, plant and equipment had been pledged as security for the Group's banking facilities as at 31 December 2016 and 2015.

Contingent Liabilities

Save as the financial guarantees as disclosed below, as at 31 December 2016 and 2015, the Group did not have any material contingent liabilities.

Financial Guarantees

As at 31 December 2016, the Group did not provide any guarantees to banks. As at 31 December 2015, the Group had given guarantees to banks in respect of the banking facilities granted to an associate of the Group of approximately HK$656,497,000, of which approximately HK$179,045,000 had been drawn down.

Capital Expenditure

For the year ended 31 December 2016, the capital expenditure of the Group was approximately HK$101,824,000 (2015: approximately HK$266,140,000) related to the purchase of property, plant and equipment.

Derivative Financial Instruments

As at 31 December 2016, the Group's outstanding derivative financial instrument assets under various copper and aluminium future contracts and foreign exchange forward contracts amounted to approximately HK$5,479,000 (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 Year, 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 31 December 2016, the Group has contracted capital commitments in respect of the purchase of property, plant and equipment amounting to approximately HK$141,095,000 (2015: approximately HK$67,906,000).

Disposal of Associates

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 Group Co., Ltd. ("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 and HK$98. The proceeds would be used as general working capital of the Group and for its future business development.

The gain from the Disposals was approximately HK$8,525,000 (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 31 December 2016, the Group employed approximately 9,558 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 Year.

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 Year.

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 Year.

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 FINAL 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 Group's consolidated financial statements for the year ended 31 December 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.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held at Lotus Room, 6/F, Macro Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on 16 June 2017 at 11:30 a.m.. The notice of the AGM will be 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, and despatched to the shareholders of the Company in due course.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK7.5 cents per ordinary share for the year ended 31 December 2016 (2015: HK6.5 cents). Subject to the approval of the shareholders of the Company at the AGM, the proposed final dividend will be paid on or about 4 July 2017 to the shareholders whose names appear on the register of members of the Company on 26 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the shareholders' rights of attending and voting at the AGM, the register of members of the Company will be closed from 13 June 2017 to 16 June 2017, both days inclusive, during which period no transfer of shares shall be effected. In order to be entitled to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 12 June 2017.

For the purpose of determining the identity of shareholders who are entitled to the proposed final dividend, the register of members of the Company will be closed from 23 June 2017 to 26 June 2017, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 22 June 2017.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This 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 annual 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, 17 March 2017

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