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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 2017

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 2017, together with the comparative figures for 2016. 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 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	**HK$'000**	HK$'000
Revenue	4	**4,972,181**	4,301,748
Cost of goods sold		**(4,407,561)**	(3,635,444)
Gross profit		**564,620**	666,304
Other gains – net	5	**80,770**	77,147
Selling and marketing expenses		**(88,031)**	(92,824)
Administrative expenses		**(118,174)**	(168,649)
Operating profit		**439,185**	481,978
Finance expenses		**(22,815)**	(1,887)
Finance income		**2,948**	5,841
Finance (expenses)/income – net	7	**(19,867)**	3,954
Share of profit of associates accounted for using the equity method		**–**	19,171

	Note	Unaudited Six months ended 30 June **2017** **HK$'000**	2016 HK$'000
Profit before income tax		**419,318**	505,103
Income tax expense	8	**(76,480)**	(96,170)
Profit for the period		**342,838**	408,933
Profit attributable to:			
Owners of the Company		**342,502**	408,967
Non-controlling interests		**336**	(34)
		342,838	408,933
Earnings per share attributable to the owners of the Company, expressed in HK cents per share			
Basic	9	**11.96**	14.28
Diluted	9	**11.96**	14.28

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Profit for the period	**342,838**	408,933
Other comprehensive income/(loss):		
Item that may be reclassified to profit or loss		
Currency translation differences	**136,984**	(90,495)
Change in value of available-for-sale financial assets	**(10,144)**	(452)
Other comprehensive income/(loss) for the period, net of tax	**126,840**	(90,947)
Total comprehensive income for the period	**469,678**	317,986
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	**468,130**	319,194
Non-controlling interests	**1,548**	(1,208)
	469,678	317,986

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	**Unaudited 30 June 2017 HK$'000**	Audited 31 December 2016 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**183,430**	180,329
Property, plant and equipment		**1,034,531**	1,042,310
Investment properties		**40,941**	41,028
Intangible assets		**81,341**	78,971
Deferred income tax assets		**21,677**	30,032
Available-for-sale financial assets	10	**119,698**	122,936
Prepayments for property, plant and equipment	11	**16,122**	11,863
		1,497,740	1,507,469
Current assets			
Inventories		**677,334**	891,010
Trade and other receivables	11	**2,704,622**	2,205,314
Derivative financial instruments		**2,361**	5,479
Available-for-sale financial assets	10	**1,440,878**	1,123,535
Pledged bank deposits		**78,089**	36,790
Cash and cash equivalents		**1,603,380**	1,661,429
		6,506,664	5,923,557
Total assets		**8,004,404**	7,431,026
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**4,967,225**	4,967,225
Other reserves		**(2,797,917)**	(2,938,147)
Retained earnings		**2,612,191**	2,486,662
		4,781,499	4,515,740
Non-controlling interests		**40,933**	39,385
Total equity		**4,822,432**	4,555,125

	Note	Unaudited 30 June 2017 HK$'000	Audited 31 December 2016 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**170,274**	150,379
Deferred government grants		**25,953**	61,028
		196,227	211,407
Current liabilities			
Trade and other payables	12	**2,966,412**	2,611,834
Derivative financial instruments		**5,762**	–
Current income tax liabilities		**13,571**	52,660
		2,985,745	2,664,494
Total liabilities		**3,181,972**	2,875,901
Total equity and liabilities		**8,004,404**	7,431,026

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 has been changed to Suites 3906-10, 39/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong with effect from 21 July 2017.

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 2017 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 23 August 2017.

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2017 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 2016 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 2017 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 2016, 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 2016, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKAS 7	Statement of Cash Flows
Amendments to HKAS 12	Income Taxes
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

The adoption of the above amendments to existing standards did not have significant effect on the interim financial information or result in any significant changes in the Group's principal accounting policies.

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

The HKICPA has issued the following new standards and amendments to existing standards which are not effective for accounting period beginning on 1 January 2017 and have not been early adopted:

HKFRS 15 (1)	Revenue of Contracts from Customers
HKFRS 9 (1)	Financial Instruments
HK (IFRIC) – Int 22 (1)	Foreign Currency Transaction and Advance Consideration
Annual Improvements Project (1)	Annual Improvements 2014-2016 Cycle
HKFRS 16 (2)	Leases
HK (IFRIC) – Int 23 (2)	Uncertainty over Income Tax Treatments
Amendments to HKFRS 10 and HKAS 28 (3)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(1) Effective for annual periods beginning 1 January 2018
(2) Effective for annual periods beginning 1 January 2019
(3) Effective date to be determined

The Group has already commenced an assessment of the related impact of these new and amended standards on the Group. However, the Group is not yet in a position to state whether any substantial changes to the Group's principal accounting policies and presentation of the interim financial information will be resulted.

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	
	2017	2016
	HK$'000	HK$'000
Revenue from customers in the PRC	**3,698,093**	3,010,995
Revenue from customers outside the PRC	**1,274,088**	1,290,753
	4,972,181	4,301,748

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	
	2017	2016
	HK$'000	HK$'000
Government grants received (a)	**40,490**	9,341
Derivative financial instruments:		
– fair value (loss)/gain on commodity future contracts not qualified for hedge accounting	**(378)**	9,173
– fair value loss on foreign exchange forward contracts not qualified for hedge accounting	**(5,990)**	(1,140)
Dividend income from available-for-sale financial assets		
– equity investment	**18,650**	16,512
Claim from suppliers	**–**	1,482
Exchange (loss)/gain	**(7,276)**	28,356
Gain/(loss) on disposal of property, plant and equipment	**1,472**	(2,770)
Rental income	**4,083**	4,331
Investment income from available-for-sale financial assets		
– wealth management products	**29,529**	14,742
Others	**190**	(2,880)
	80,770	77,147

(a) For the period ended 30 June 2017, majority of the amount was granted as subsidies for the Group's contribution to technology research and development.

6. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Cost of inventories recognised as expense	**3,836,330**	3,023,610
Depreciation of property, plant and equipment	**89,497**	87,901
Depreciation of investment properties	**1,322**	1,386
Amortisation of intangible assets	**7,892**	2,555
Amortisation of leasehold land and land use rights	**2,384**	2,839
Employee benefit expenses	**378,790**	412,599
Operating leases rental for land and buildings	**9,184**	4,831

7. FINANCE (EXPENSES)/INCOME – NET

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Interest expense	**(6,284)**	(2,032)
Exchange (loss)/gain – net	**(16,531)**	145
Finance expenses	**(22,815)**	(1,887)
Finance income – interest income on bank deposit	**2,948**	5,841
Finance (expenses)/income – net	**(19,867)**	3,954

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
Current income tax		
– PRC corporate income tax	**47,999**	72,343
– Hong Kong profits tax	**2,520**	2,580
	50,519	74,923
Deferred income tax	**25,961**	21,247
	76,480	96,170

(i) British Virgin Islands profits tax

The Group has not been subject to any taxation in this jurisdiction 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	
	2017	2016
Profit for the period attributable to the owners of the Company (HK$'000)	**342,502**	408,967
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000 shares)	**2,864,113**	2,863,617
Basic earnings per share (HK cents)	**11.96**	14.28

(b) Diluted

For the six months ended 30 June 2017 and 2016, the outstanding share options granted by the Company has no potential dilutive effect.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at	
	30 June 2017 HK$'000	31 December 2016 HK$'000
Non-current		
Equity investment, at fair value (Note (a))	**119,698**	122,936
Current		
Investment in wealth management products (Note (b))	**1,440,878**	1,123,535
	1,560,576	1,246,471

(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$5,859,000 was recognised in other comprehensive income for the period ended 30 June 2017 (2016: HK$3,175,000). The directors assessed the fair value of the equity investment and are in the opinion that the fair value of the Finance Company approximates its net assets as at 30 June 2017 and 2016.

(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 4.1% to 5.0% per annum in the PRC. The principals of approximately HK$1,117,615,000 are all protected. The remaining of approximately HK$323,263,000 which principals and returns are not guaranteed. Fair value loss, net of tax amounting to HK$4,285,000 was recognised in other comprehensive income for the period ended 30 June 2017 (2016: fair value gain HK$2,723,000). 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 2017	31 December 2016
	HK$'000	HK$'000
Trade receivables (Note (a))	**1,142,582**	1,132,651
Less: allowance for impairment	**(57,221)**	(56,926)
Trade receivables – net	**1,085,361**	1,075,725
Notes receivable (Note (a))	**395,924**	206,494
Amounts due from related parties (Note (a))	**1,101,222**	676,299
	2,582,507	1,958,518
Prepayments	**100,663**	143,958
Other receivables	**20,894**	85,124
Recoverable value-added tax – net	**16,680**	29,577
	2,720,744	2,217,177
Less: non-current portion		
Prepayments for property, plant and equipment	**(16,122)**	(11,863)
	2,704,622	2,205,314

(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 2017	31 December 2016
	HK$'000	HK$'000
Gross trade receivables:		
Within 3 months	**874,699**	780,522
3 to 6 months	**204,055**	272,607
Over 6 months	**63,828**	79,522
	1,142,582	1,132,651

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Notes receivable:		
Within 3 months	**298,917**	122,971
3 to 6 months	**97,007**	83,523
	395,924	206,494

	As at	
	30 June 2017	31 December 2016
	HK$'000	HK$'000
Amounts due from related parties:		
Within 3 months	**995,269**	634,351
3 to 6 months	**105,953**	40,408
Over 6 months	**–**	1,540
	1,101,222	676,299

12. TRADE AND OTHER PAYABLES

	As at 30 June 2017 HK$'000	As at 31 December 2016 HK$'000
Trade payables (Note (a))	**1,344,436**	1,408,335
Notes payable (Notes (a) & (b))	**979,513**	684,590
Amounts due to related parties (Note (a))	**53,790**	37,333
	2,377,739	2,130,258
Dividend payable	**214,857**	55
Provision for staff welfare and bonus	**85,852**	170,879
Accruals	**69,570**	121,735
Advances from customers	**44,883**	25,556
Other payables	**173,511**	163,351
	2,966,412	2,611,834

(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 2017 HK$'000	As at 31 December 2016 HK$'000
Within 3 months	**1,708,948**	1,686,102
3 to 6 months	**654,672**	437,593
Over 6 months	**14,119**	6,563
	2,377,739	2,130,258

(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 2017, certain notes payable was pledged by bank deposits of approximately HK$78,089,000 (31 December 2016: HK$36,790,000).

13. COMMITMENTS

(a) Capital commitments

	As at 30 June 2017 HK$'000	As at 31 December 2016 HK$'000
Capital expenditure contracted for but not provided	**138,232**	141,095

(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 2017 HK$'000	As at 31 December 2016 HK$'000
Not later than one year	**5,870**	4,740
Later than one year and not later than five years	**8,071**	9,922
	13,941	14,662

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 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2017, the Group's profit attributable to the owners of the Company and earnings per share amounted to approximately HK$342,502,000 (2016: approximately HK$408,967,000) and HK11.96 cents (2016: HK14.28 cents) respectively, representing a decrease in profit of 16.3% year-on-year. Such a decrease was mainly attributable to the increase in cost due to commodity price surge in raw materials and other materials. Although the selling price was being adjusted up for certain customers and products, the magnitude in price increment was unable to catch up with the increase in raw material price due to fierce market competition, resulting in a decrease in profit. On the other hand, there was no share of profit from associates this year subsequent to the disposal of associates last year.

The Group's turnover for the six months ended 30 June 2017 amounted to approximately HK$4,972,181,000 (2016: approximately HK$4,301,748,000), representing a year-on-year increase of 15.6%. The Group's gross profit margin was 11.4% (2016: 15.5%), representing a year-on-year decrease of 4.1%, which was mainly caused by the continuously rising prices of raw materials and thus squeezing the gross profit.

Analysis of Major Business Operations

After the international financial crisis, the global economy has endeavoured to recover and accelerated its pace since the fourth quarter of last year and this momentum continued in the first half of this year. Through the actual situation reflected in the first half of the year, global recovery eventually becomes widespread and stable. Recently, the economic growth has accelerated significantly both in developed economies and emerging market economies. Developed economies such as the United States, Europe and Japan moved forward simultaneously with positive economic development. The United States economy recorded robust recovery with stable employment growth and steady increase in household income and wealth, while its consumer confidence remained strong. The European economy recovered gradually and apart from Greece, the member states of the European Union have maintained positive economic growth for the three consecutive quarters. The Japanese economy continued to look positive with well performed economic indicators and has turned to moderate expansion. In the first half of the year, the performance of emerging economies was in line with expectations. In the first quarter of this year, the economic growth in China and India were 6.9% and 6.1% respectively, leading position in major economies in terms of growth rate. The Purchasing Managers Index (PMI) of the manufacturing industry in Russia, India and Brazil are at the expansion range of over 50.

Affected by the positive macroeconomic environment and driven by the demand for real estate, the domestic consumption demand for electrical household appliances continued to increase. The robust sentiment of household appliance industry continued from the second half of 2016 which showed a characteristic of structural shortage in supply, while accelerating the digestion of the industrial inventories. Due to partial shortage in supply coupled with rising raw material cost, the overall product selling price in the industry went up. Affected by various favorable factors, the sales volume of air conditioners increased significantly as compared to the same period last year, and the sales volume of the Group's motors for air conditioners recorded a remarkable year-on-year increase in the first half of the year. As driven by the real estate market, the washing machine market demonstrated a diversified development characteristic, and the overall market demand in the first half of the year achieved a slight increase. However, in general, the washing machine market had shifted from production to stocking up, the replacement demand and high-end products gradually became dominant and the brand structure was relatively stable, the sales of the Group's motors for washing machines were thus stable in the first half of the year.

Motor Business

From January to June 2017, the total production of household air conditioners in China increased by 35.2% year-on-year and the total sales volume increased by 37.0% year-on-year. The total production of washing machines increased by 9.9% year-on-year and the total sales volume increased by 9.2% year-on-year. (Source: www.chinaIOL.com).

For the six months ended 30 June 2017, the Group's motor business recorded a domestic sales volume of approximately 69,940,000 units and an export sales volume of approximately 17,313,000 units, with the aggregate sales volume of approximately 87,253,000 units (of which, the domestic and export sales volumes of motors for air conditioners were approximately 52,146,000 units and 9,529,000 units respectively), with the aggregate sales volume increased by 17% as compared to the same period last year. The domestic and export sales volumes of motors for washing machines were approximately 7,958,000 units and 6,310,000 units respectively, with the aggregate sales volume decreased by 3% as compared to the same period last year). The Group recorded a turnover of approximately HK$4,972,181,000 (of which HK$3,118,542,000 from motors for air conditioners and HK$1,261,387,000 from motors for washing machines) in the first half of 2017, representing an increase of 15.6% as compared to the same period last year, and the total sales volume increased by 11% year-on-year. The profit of the Group in the first half of 2017 amounted to approximately HK$342,502,000, representing a decrease of approximately 16.3% as compared to approximately HK$408,967,000 of the same period in 2016. Such a decrease was mainly attributable to the increase in cost due to commodity price surge in raw materials and other materials. Although the selling price was being adjusted up for certain customers and products, the magnitude in price increment was unable to catch up with the increase in raw material price due to fierce market competition, resulting in a decrease in profit. On the other hand, there was no share of profit from associates this year subsequent to the disposal of associates last year.

1. Motors of Air Conditioners

According to the strategic requirements of "global leading" and with the surging demand for air conditioners, the Group grasped the opportunities to expand the motor market actively by further optimising the structures of product and customer, streamlining motor models and bringing into force the standardisation of motors. Driven by the robust increase in market demand for air conditioners, the total sales volume of motors for air conditioners increased by 17% as compared to the same period last year. Total sales revenue of motors for air conditioner increased by 29% as compared to the same period last year. The sales volume of alternating current motors for household air conditioners increased by 15%, brushless direct current motors for household air conditioners increased by 18%, alternating current commercial motors increased by 16% and brushless direct current commercial motor increased by 42% as compared to the same period last year. In the first half of 2017, the Group carried out product upgrade. For single phase asynchronous induction motors, new platform products with resin packages that applied roidal core with isolation of tooth and yoke technology have become the current mainstream products. For brushless direct current motors, technology such as M0 sensorless vector control and rubber damping rotor are widely used in mainstream products.

2. Motors for Washing Machines

The washing machines in domestic market maintained a stable growing trend instead of an explosive growth. The demand characteristics for "high-end", "youthful-oriented" and "customisation" became increasingly apparent, which had further accelerated industrial competition and reflect a higher requirement for product upgrade. Due to fierce industry competition, the Group rolled out measures to optimise product mix according to the operation policy of "value marketing", such as implementation of limited supply for low-end and low-margin products and strengthening market expansion for high-end and high-margin products, which led to a slight decrease in sales volume but an increase in sales revenue. The total sales volume of motors for washing machines of the Group decreased by 3% as compared to the same period last year while total sales revenue increased by 3% as compared to the same period last year, of which, the sales volume of wave-wheel motors decreased by 4%, series motors fell by 2% and inverter washing machine motors dropped by 2% respectively as compared to the same period last year, while the sales volume of brushless direct current motors (drum and wave-wheel) went up by 52% as compared to the same period last year.

In the first half of 2017, the Group enlarged its investment in research and development (the "R&D") and implemented a large volume of work in new product upgrade and replacement for its motors for washing machines. For single phase asynchronous induction motors, products such as fully automatic wave-wheel oil bearing motors and wave-wheel motors of resin packages had become the mainstream products. For brushless direct current motors, new products such as wave-wheel direct driven external rotor brushless direct current motors (DDM) and drum brushless direct current motors, became the mainstream products in driving sales growth in the direct current inverter washing machines era. For driving control, full dynamic OOB smart sensing control technology was being applied in products and sold in a higher volume, for which has gained high recognition from major customers.

3. Other Products

Affected by product varieties and product mix adjustment, the business development of the other products basically remained the same as last year and the sales volume went up by 2% as compared to the same period last year. In order to further elevate the Group's comprehensive competitiveness in the industry, continuing efforts had been investing in the R&D of motor sectors apart from the motors for air conditioners and washing machines, were made in the first half of 2017. For instance, the products of pumps for dish-washing machines, pumps for dish-washing machines with resin packages structure were sold in a higher volume and became the main trend, and increased by 15% year-on-year. Currently, the integrated heating pumps have been entered into the prototype testing and verification stage. The high-speed vacuum cleaner motors with speeds up to 80,000 RPM are under development and expected to roll out to market in early 2018. The technical solutions for high-speed vacuum cleaner motors with speeds up to 120,000 RPM have been defined and entered into the system simulation verification stage recently, and are expected to launch to market in 2019. Benefiting from the increasing demands of range hoods from the market and the customers of related parties of the Group, the motors for range hoods recorded a satisfactory result, with a year-on-year increase of 31% in the first half of the year.

In the first half of the year, the Group was committed to developing an "elite management team" by adhering to the "global leading" strategy, which is based on the operation guidelines of being "innovative, refined, flexible and slim" together with the working attitudes of "seriousness, responsibility, carefulness and diligence". In respect of marketing, the Group focused on "value" marketing and by utilising on the over-demand situation in the first half of the year, the Group optimised customer and product mix structures to prepare for improving the profitability of the year. In respect of R&D, the Group devoted to "innovation" with a view to promote the independence of preliminary research and product development, enlarge R&D investments, promote product standardisation, streamline the models of products and components significantly and achieved the goal of reducing the models of components by 30%. In respect of production, the Group focused on "refined" management and intelligent manufacturing to facilitate the implementation and development of lean manufacturing work and keep on improving corporate operation and management quality, to ensure its long-term sound development.

Business Prospects

Although the global economic growth remained stable in the first half of the year, this momentum is not easy to maintain in the second half of the year. The impacts of trade protectionism and upward pressure on interest rate by Federal Reserve will escalate. It is expected that the global economic growth in the second half of the year will experience a slight decline, among which, the growth rate of China economy may slow down as a result of the restricted purchase and loan policy in real estate market. Two major products of the Group, one is the motors for air conditioners, that were being stimulated by various factors, including the macroeconomy, real estate market, weather conditions and demands for upgrading and replacement, etc. had significantly boosted the sales in the first half of the year. It is predicted that such growth momentum will maintain in the second half of the year resulted from the requirement of inventory replenishment from customers and positive market expectation next year. Another major product of the Group is the motors for washing machines, due to the intense industry competition and in consideration of the structural adjustment and operation improvement, the Group will optimise its product mix by maintaining the growth in high-end products and phasing out low-end products gradually.

To tackle the market situation in the second half of the year, the Group will enhance both of its operation and operation quality in a more open and active attitude, strive to become an innovative leading motor enterprise and develop an elite management team with unity, harmony, dedication and diligence by adhering to the guidelines of "customer-oriented and market-centered". To encompass the operation target in the second half of the year, the Group is having the following operation strategies on R&D, marketing, production, quality, and human resources construction and system. For R&D, we will enlarge investments in R&D, perceive future trend, conduct research and develop leading-edge products in advance, keep abreast of customer needs, response to customers quickly, reinforce complementary advantages and integrate to develop the full synergy effect of the R&D resources. For marketing, we will intensify our efforts in market analysis and planning, continue to conduct "value marketing" and emphasise the "leading" role of marketing. For production, we will build an excellent operation across the value chain, promote the building of teamwork and foundation management, carry out research on innovative craftsmanship and create an atmosphere of comprehensive and continuous improvement. In respect of quality, we will make dynamic adjustment and improve quality system and standard, implement stringent control with the rule of "one veto right on quality", lead the continuous improvement of internal system with "quality" instead of conducting post-supervision and eradicating repeated mistakes completely. For human resources construction and system, we advocate the spirit of continuous learning, develop training program for management to constantly enhance human resource management quality, improve and perfect different systems, standards and regimes. Through the implementation of the above operation strategies to achieve its annual operation objectives.

Motor Business

1. Motors for Air conditioners

For product development in the second half of 2017, the Group will cope with the replacement trend of commercial brushless direct current motors for air conditioners in the domestic market and take a proactive approach to increase the proportion of commercial brushless direct current fan motors. In addition, the replacement trend of aluminium wire of single phase asynchronous induction motors for commercial fans in the North America market also create an opportunity to penetrate into other mainstream customers in North America. For technology research, the Group will continue to strengthen the cost performance and the efficiency of brushless direct current products, and to seek for breakthrough in high performance aluminium wire products.

2. Motors for Washing Machines

In the second half of 2017, the Group will focus on optimising the noise reduction of single or double-frequency drum washing machines and assist customers in reducing the overall noise level of the machine. In addition, for technology research, the Group will facilitate the research on wave-wheel direct driven external rotor motors and integrated clutch assembly, so as to solve the demand for wave-wheel washing machines of small tank with large capacity completely.

3. Other Products

The joint development projects will be conducted and implemented in the second half of 2017 for high-speed blender motors and electrical cooler pumps for automotive.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a healthy financial and liquidity position with a current ratio of 218% as at 30 June 2017 (31 December 2016: 222%).

As at 30 June 2017, the Group was in a net cash position of HK$1,681,469,000 (31 December 2016: HK$1,698,219,000), 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$1,440,878,000 as at 30 June 2017 (31 December 2016: HK$1,123,535,000), 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 2017	31 December 2016
Inventories turnover (Note 1)	**32 days**	39 days
Trade receivables turnover (Note 2)	**59 days**	69 days
Trade payables turnover (Note 3)	**58 days**	69 days
Current ratio (Note 4)	**2.18 times**	2.22 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 (excluding notes receivable) 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 (excluding notes payable) 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 had been pledged as security for the Group's banking facilities as at 30 June 2017 (31 December 2016: Nil).

Contingent Liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: Nil).

Financial Guarantees

As at 30 June 2017, the Group did not provide any guarantees to banks (31 December 2016: Nil).

Capital Expenditure

For the six months ended 30 June 2017, the capital expenditure of the Group was approximately HK$71,981,000 (31 December 2016: approximately HK$101,824,000) related to the purchase of property, plant and equipment.

Derivative Financial Instruments

As at 30 June 2017, the Group's outstanding derivative financial instrument assets under various foreign exchange forward contracts amounted to approximately HK$2,361,000 (31 December 2016: approximately HK$5,390,000) and the Group did not have any copper and aluminum future contracts (31 December 2016: derivative financial instrument assets of approximately HK$89,000).

Exposure to Exchange Rate Fluctuations

During the six months ended 30 June 2017, approximately 26% 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 2017, the Group has contracted capital commitments in respect of the purchase of property, plant and equipment amounting to approximately HK$138,232,000 (31 December 2016: approximately HK$141,095,000).

HUMAN RESOURCES

As at 30 June 2017, the Group employed approximately 9,786 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 2017.

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 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2017.

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 2017. 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 2017 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
Fu Yongjun
Chairman

Hong Kong, 23 August 2017

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

Executive Directors:	Mr. Fu Yongjun (Chairman), Mr. Zhang Lifeng (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