THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Proposal, this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional advisers.

If you have sold or otherwise transferred all your shares in Welling Holding Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Offeror or the Company nor is it a solicitation of any vote or approval in any jurisdiction.

Midea

MIDEA INTERNATIONAL CORPORATION COMPANY LIMITED
美的國際控股有限公司
(Incorporated in Hong Kong with limited liability)

Welling

WELLING HOLDING LIMITED
威靈控股有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 382)

(1) PROPOSAL FOR THE PRIVATISATION OF WELLING HOLDING LIMITED BY MIDEA INTERNATIONAL CORPORATION COMPANY LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND (2) PROPOSED WITHDRAWAL OF LISTING OF WELLING HOLDING LIMITED

Financial adviser to the Offeror

招銀国际
CMB INTERNATIONAL

Independent Financial Adviser to the Independent Board Committee

OPTIMA CAPITAL
Optima Capital Limited

Unless the context otherwise requires, capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this Scheme Document.

A letter from the Board is set out on pages 12 to 20 of this Scheme Document. A letter from the Independent Board Committee containing its recommendation to the Scheme Shareholders in relation to the Proposal and the Scheme is set out on pages 21 to 22 of this Scheme Document. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee in relation to the Proposal and the Scheme is set out on pages 23 to 46 of this Scheme Document. The Explanatory Statement is set out on pages E-1 to E-19 of this Scheme Document. The actions to be taken by the Shareholders are set out on pages 1 to 3 of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 5 February 2018 at 10:00 a.m. and 10:30 a.m. respectively (or in the case of the EGM as soon thereafter as the Court Meeting shall have concluded or been adjourned) are set out on pages CM-1 to CM-3 and EGM-1 to EGM-3 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon and lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the respective times stated under the section headed "Actions to be taken" set out on pages 1 to 3 of this Scheme Document. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged not later than 10:00 a.m. on Friday, 2 February 2018 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged not later than 10:30 a.m. on Friday, 2 February 2018. The completion and return of a form of proxy for each of the Court Meeting or the EGM will not preclude you from attending and voting in person at the Court Meeting or the EGM or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

This Scheme Document is issued jointly by the Offeror and the Company. In case of inconsistency, the English language text of this document shall prevail over the Chinese language text.

11 January 2018

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ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 29 January 2018 to Monday, 5 February 2018 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 26 January 2018.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged by 10:00 a.m. on Friday, 2 February 2018 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged by 10:30 a.m. on Friday, 2 February 2018.

The completion and return of a form of proxy for the Court Meeting or the EGM (as the case may be) will not preclude you from attending and voting in person at the Court Meeting or the EGM (as the case may be) or any adjournment thereof. In such event, the relevant form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Stock Exchange and if the Scheme is withdrawn or lapses.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS

The Company is not permitted under its articles of association to recognise any person as holding any Shares through any trust except as provided therein or as required by law or ordered by a court of competent jurisdiction. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS).

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote in person at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay a withdrawal fee to CCASS per board lot withdrawn, a registration fee, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the

Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, YOU ARE URGED TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE ENCOURAGED TO PROVIDE HKSCC NOMINEES LIMITED WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES LIMITED IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE EGM WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION "ACTIONS TO BE TAKEN — ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS" ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO ANY ASPECT OF THE PROPOSAL, THIS DOCUMENT OR AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT A LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT, OR OTHER PROFESSIONAL ADVISERS.

In this Scheme Document, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	the meaning ascribed to it in the Takeovers Code, and "persons acting in concert" and "concert parties" shall be construed accordingly
"associate(s)"	the meaning ascribed to it in the Takeovers Code
"Authorisation"	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for any member of the Group to carry on its business
"Beneficial Owner"	any beneficial owner of the Shares
"Board"	the board of Directors
"Cancellation Price" or "Cancellation Consideration"	the cancellation price of HK$2.06 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Participant"	a person admitted to participate in CCASS as a participant, including an Investor Participant
"CMB"	China Merchants Bank Co., Limited, a joint stock limited company incorporated under the laws of the PRC with limited liability, the A shares of which are listed on the Shanghai Stock Exchange and the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 3968)
"CMB International"	CMB International Capital Limited, a corporation licensed by the SFC to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Offeror in relation to the Proposal
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Company"	Welling Holding Limited, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange (Stock Code: 382)

"Conditions"	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed "Conditions of the Proposal and the Scheme" of this Scheme Document
"Court Meeting"	a meeting of the Scheme Shareholders to be convened at the direction of the High Court, notice of which is set out on pages CM-1 to CM-3 of this Scheme Document, for the purpose of approving the Scheme, and any adjournment thereof
"Directors"	the directors of the Company
"Disinterested Shares"	Shares in issue other than those held by: (i) the Offeror (or by a nominee on its behalf) or the Offeror Concert Parties, save for the Shares in issue held by any member of the CMB group acting in its capacity as a registered owner of Shares held on behalf of a Beneficial Owner where the Beneficial Owner (a) controls the voting rights attaching to those Shares; (b) if Shares are voted, gives instructions as to how those Shares are to be voted; and (c) is not the Offeror or an Offeror Concert Party; (ii) an associate (as defined in section 667(1)(b) of the Companies Ordinance) of the Offeror, except a person who falls within section 667(1)(b)(iii) of the Companies Ordinance or a person specified in section 674(4) of the Companies Ordinance; or (iii) a person who is a party to an acquisition agreement within the meaning of section 667(5) of the Companies Ordinance with the Offeror (except a person specified in section 674(4) of the Companies Ordinance), or by a nominee on behalf of the person under the acquisition agreement, as described in section 674(3)(a) of the Companies Ordinance
"Effective Date"	the date on which the Scheme becomes effective in accordance with the Companies Ordinance
"EGM"	an extraordinary general meeting of the Company, notice of which is set out on pages EGM-1 to EGM-3 of this Scheme Document, to be held after the Court Meeting for the purpose of approving, among other matters, the reduction of the share capital of the Company and the implementation of the Scheme, and any adjournment thereof
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any of his delegates
"Explanatory Statement"	the explanatory statement in relation to the Scheme set out on pages E-1 to E-19 of this Scheme Document issued in compliance with Section 671 of the Companies Ordinance

"Group"	the Company and its subsidiaries
"High Court"	the High Court of Hong Kong
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees Limited"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Independent Board Committee"	the independent board committee of the Company established by the Board to make a recommendation to the Scheme Shareholders in respect of, among others, the Proposal and the Scheme, and comprising Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao
"Independent Financial Adviser"	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Investor Participant"	a person admitted to participate in CCASS as an investor participant
"Irrevocable Undertaking"	the irrevocable undertaking given by Gaoling Fund, L.P. and YHG Investment, L.P. as described in the section headed "Irrevocable Undertaking" in the Explanatory Statement of this Scheme Document
"Joint Announcement"	the joint announcement dated 10 November 2017 issued by the Offeror and the Company in relation to, among other things, the Proposal and the Scheme
"Last Trading Date"	3 November 2017, being the last trading day prior to the issue of the Joint Announcement
"Latest Practicable Date"	8 January 2018, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date"	31 May 2018 or such other date as agreed between the Company and the Offeror or, to the extent applicable, as the Executive may consent and the High Court may direct
"Offeror"	Midea International Corporation Company Limited, a company incorporated in Hong Kong with limited liability
"Offeror Concert Parties"	parties acting in concert or presumed to be acting in concert with the Offeror under the definition of "acting in concert" under the Takeovers Code, including Midea Holding (Cayman Islands) Limited
"PRC"	the People's Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Proposal"	the proposal for the privatisation of the Company by the Offeror by way of the Scheme on the terms and subject to the conditions set out herein
"Record Date"	15 February 2018
"Registered Owner(s)"	any person(s) (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name(s) is/are entered in the register of members of the Company
"Registrar of Companies"	the Registrar of Companies appointed under the Companies Ordinance
"Relevant Authorities"	governments and/or governmental bodies, regulatory bodies, courts or institutions having jurisdiction over members of the Group in matters relevant to the Proposal
"RMB"	Renminbi, the lawful currency of the PRC
"Scheme"	the scheme of arrangement to be proposed under section 673 of the Companies Ordinance for the implementation of the Proposal
"Scheme Document"	this scheme document, including each of the letters, statements, appendices and notices herein, as may be amended or supplemented from time to time

"Scheme Shares"	Share(s) other than those held by the Offeror and the Offeror Concert Parties. For the avoidance of doubt, Scheme Shares include Shares held by any member of the CMB group acting in its capacity as a registered owner of Shares held on behalf of a Beneficial Owner where the Beneficial Owner: (i) controls the voting rights attaching to those Shares; (ii) if Shares are voted, gives instructions as to how those Shares are to be voted; and (iii) is not the Offeror or an Offeror Concert Party
"Scheme Shareholders"	registered holders of the Scheme Shares as at the Record Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	registered holder(s) of the Share(s)
"Share Registrar"	Computershare Hong Kong Investor Services Limited, the Company's share registrar
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"trading day"	a day on which the Stock Exchange is open for the business of dealings in securities

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company. Unless otherwise specified, all times and dates refer to Hong Kong local time and dates.

	Hong Kong time
Latest time for lodging transfers of the Shares in order to be entitled to attend and vote at the Court Meeting and the EGM	4:30 p.m. on Friday, 26 January 2018
Closure of register of members for determination of entitlement to attend and vote at the Court Meeting and the EGM *(Note 1)*	Monday, 29 January 2018 to Monday, 5 February 2018 (both days inclusive)
Latest time and date for lodging forms of proxy in respect of:	
the Court Meeting *(Note 2)*	10:00 a.m. on Friday, 2 February 2018
the EGM *(Note 2)*	10:30 a.m. on Friday, 2 February 2018
Court Meeting *(Note 2, 3)*	10:00 a.m. on Monday, 5 February 2018
EGM *(Note 2, 3)*	10:30 a.m. on Monday, 5 February 2018 (or as soon thereafter as the Court Meeting has been concluded or adjourned)
Announcement of the results of the Court Meeting and the EGM posted on the website of the Stock Exchange	By 7:00 p.m. on Monday, 5 February 2018
Latest time for trading of the Shares on the Stock Exchange	Close of trading hours on Tuesday, 6 February 2018

Latest time for lodging transfers of the Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Friday, 9 February 2018
Register of members of the Company closed for determining entitlements to qualify under the Scheme *(Note 4)*	From Saturday, 10 February 2018 onwards
High Court hearing of the petition for the sanction of the Scheme *(Note 5)*	Wednesday, 14 February 2018
Announcement of the result of the High Court hearing, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange	Wednesday, 14 February 2018
Record Date	Thursday, 15 February 2018
Effective Date *(Note 5)*	Thursday, 15 February 2018
Announcement of, among other things, the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange	Thursday, 15 February 2018
Withdrawal of the listing of the Shares on the Stock Exchange	9:00 a.m. on Tuesday, 20 February 2018
Cheques for the cash payment under the Proposal to be despatched on or before *(Note 6)*	Wednesday, 28 February 2018

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM. For the avoidance of doubt, this period of closure is not for determining entitlements of Scheme Shareholders under the Scheme.

2. The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The white form of proxy for use at the EGM must be lodged no later than the time and date stated above in order for it to be valid. The completion and return of the forms of proxy will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In such event, the relevant form of proxy shall be deemed to have been revoked.

3. If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the Court Meeting and the EGM, the Court Meeting and the EGM will be postponed. The Company will post an announcement on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company to notify the members of the date, time and venue of the rescheduled meetings.

4. The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.

5. The Scheme shall become effective when it is sanctioned (with or without modification) by the High Court and an office copy of the order of the High Court, together with the minute and the return containing the particulars required by Section 230 of the Companies Ordinance, are delivered to and registered by the Registrar of Companies in compliance with the procedural requirements of Section 230 and Section 673 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company and the Scheme, respectively.

6. Cheques for cash entitlements of Scheme Shareholders will be despatched by ordinary post in envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members at the Record Date or, in the case of joint holders, at the address appearing in the register of members at the Record Date of the joint holder whose name then stands first in the register of members in respect of the relevant joint holdings as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Effective Date. Cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, CMB International, the Independent Financial Adviser and the Share Registrar shall be responsible for any loss or delay in receipt.

Welling

WELLING HOLDING LIMITED
威靈控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 382)

Executive Directors:
Mr. Fu Yongjun *(Chairman)*
Mr. Zhang Lifeng *(Chief Executive Officer)*
Ms. Pan Xinling
Mr. Li Li
Mr. Xiao Mingguang
Mr. Li Feide

Independent non-executive Directors:
Mr. Tan Jinsong
Mr. Lam Ming Yung
Ms. Cao Zhoutao

Registered Office:
Suites 3906–10
39/F Tower 6
The Gateway, Harbour City
No. 9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

11 January 2018

To the Shareholders,

Dear Sir or Madam,

(1) PROPOSAL FOR THE PRIVATISATION OF WELLING HOLDING LIMITED BY MIDEA INTERNATIONAL CORPORATION COMPANY LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND (2) PROPOSED WITHDRAWAL OF LISTING OF WELLING HOLDING LIMITED

INTRODUCTION

On 10 November 2017, the Offeror and the Company jointly announced that on 5 November 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders, which, if implemented, will result in the Company becoming wholly-owned by the Offeror and the Offeror Concert Parties, and the withdrawal of listing of the Shares from the Stock Exchange. As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties beneficially owned or controlled 1,965,702,779 Shares, representing approximately 68.63% of the issued share capital of the Company. The Proposal, if proceeded with, will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

If the Proposal is approved and implemented:

(1) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share by the Offeror;

(2) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of the new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror; and

(3) the expected withdrawal of the listing of the Shares on the Stock Exchange is expected to take place forthwith following the Effective Date.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and, in particular, the Scheme, and to give you notice of the Court Meeting and of the EGM (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this Scheme Document; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 23 to 46 of this Scheme Document; (iii) the Explanatory Statement set out on pages E-1 to E-19 of this Scheme Document; and (iv) the terms of the Scheme set out on pages S-1 to S-6 of this Scheme Document.

THE PROPOSAL

Subject to the Conditions described in the section headed "Conditions of the Proposal and the Scheme" in the Explanatory Statement on pages E-3 to E-6 of this Scheme Document being fulfilled or waived (as applicable), the proposed privatisation of the Company will be implemented by way of the Scheme.

THE SCHEME

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration:

HK$2.06 in cash . . . . for every Scheme Share cancelled

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The Cancellation Price represents:

(i) a premium of approximately 30.4% over the closing price of HK$1.58 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a premium of approximately 33.8% over the average closing price of approximately HK$1.54 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(iii) a premium of approximately 35.5% over the average closing price of approximately HK$1.52 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;

(iv) a premium of approximately 28.8% over the average closing price of approximately HK$1.60 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(v) a premium of approximately 22.6% over the average closing price of approximately HK$1.68 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;

(vi) a premium of approximately 29.6% to the audited consolidated net asset value per Share of approximately HK$1.59 as at 31 December 2016;

(vii) a premium of approximately 22.6% to the unaudited consolidated net asset value per Share of approximately HK$1.68 as at 30 June 2017; and

(viii) a premium of approximately 2.5% over the closing price of HK$2.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined on an arm's length commercial basis after taking into account (i) the prices of the Shares traded on the Stock Exchange since November of 2015; (ii) the trading multiples (such as price to earnings ratio and price to book ratio) of comparable companies listed on the Stock Exchange that engaged in the manufacture and sales of motors of electrical household appliances business; (iii) with reference to the premium as represented by the cancellation prices over the historical share prices of other successful privatisation of companies listed in Hong Kong by way of scheme of arrangement in the past three years; and (iv) the audited consolidated net asset value per Share as at 31 December 2016 and the unaudited consolidated net asset value per Share as at 30 June 2017.

Assuming that the Scheme becomes effective on Thursday, 15 February 2018, cheques for cash entitlements under the Scheme will be despatched as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Wednesday, 28 February 2018. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, CMB International, the Independent Financial Adviser and the Share Registrar will be responsible for any loss or delay in receipt.

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK$2.06 per Scheme Share and 898,410,043 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash required for the Proposal is approximately HK$1,850,724,688.58. The Company had no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through its internal financial resources or from an irrevocable standby letter of credit for an amount of up to HK$1,900,000,000 provided by the Hong Kong Branch of Credit Agricole Corporate & Investment Bank. CMB International, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal is subject to the satisfaction or waiver, as applicable, of the Conditions as set out in the section headed "Conditions of the Proposal and the Scheme" in the Explanatory Statement on pages E-3 to E-6 of this Scheme Document.

In accordance with Rule 31.1 of the Takeovers Code, except with the consent of the Executive, neither the Offeror nor any person who acted in concert with it in the course of the Proposal, nor any person who is subsequently acting in concert with any of them, may within 12 months from the date on which the Proposal is withdrawn or lapses, either announce an offer or possible offer for the Company or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting.

Warning:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

Persons who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional advisers.

IRREVOCABLE UNDERTAKING

On 29 December 2017, Gaoling Fund, L.P. and YHG Investment, L.P. entered into an irrevocable undertaking in favour of the Offeror pursuant to which each of Gaoling Fund, L.P. and YHG Investment, L.P. has irrevocably undertaken, among other things, that:

(i) it will exercise or procure the exercise of the voting rights attached to all of the Shares owned by it (the "**Relevant Shares**") to vote in favour of the Scheme at the Court Meeting;

(ii) if the Scheme is approved at the Court Meeting, it will exercise or procure the exercise of the voting rights attached to all of the Relevant Shares to vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company and any resolutions proposed at the EGM to assist with the implementation of the Scheme or are necessary for the Scheme to become effective; and

(iii) it shall not, and shall procure that the relevant registered holder of the Relevant Shares shall not: (x) sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Shares owned by it or any interest therein; (y) accept, or give any undertaking (whether conditional or unconditional) to accept, exercise voting rights attached to the Shares owned by it to approve or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of such Shares by any person other than the Offeror; or (z) purchase, acquire or otherwise deal or undertake any dealing or make an offer to acquire or deal in any Shares or other securities of the Company (or any interest therein) other than with the prior written consent of the Offeror.

As at the Latest Practicable Date, Gaoling Fund, L.P. and YHG Investment, L.P. hold, in aggregate, 134,068,000 Shares, representing approximately 4.68% of the total issued share capital of the Company.

The Irrevocable Undertaking shall terminate immediately: (a) if the Proposal and the Scheme are otherwise not implemented by the Long Stop Date; (b) if the Scheme is not approved at the Court Meeting; (c) if the reduction of the share capital of the Company is not approved at the EGM; (d) if the High Court does not sanction the Scheme or confirm the reduction of the share capital of the Company; (e) by mutual agreement of Gaoling Fund, L.P., YHG Investment, L.P. and the Offeror; or (f) 90 days from the date of the Irrevocable Undertaking, whichever is the earlier.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the issued share capital of the Company was 2,864,112,822 Shares.

A table setting out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective and assuming no other new Shares will be issued prior thereto is to be found in the section headed "Shareholding Structure of the Company and effect of the Proposal and the Scheme" in the Explanatory Statement on pages E-8 to E-10 of this Scheme Document.

As at the Latest Practicable Date, the Directors did not hold any Shares.

Assuming that no new Shares will be issued after the Latest Practicable Date up to the Record Date, upon the Scheme having become unconditional and effective, the Offeror will hold approximately 33.62% of the issued share capital of the Company, and the Offeror Concert Parties will hold approximately 66.38% of the issued share capital of the Company, and accordingly the entire issued share capital of the Company will be held by the Offeror and the Offeror Concert Parties.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue.

As at the Latest Practicable Date, the Scheme Shares, comprising 898,410,043 Shares, represent approximately 31.37% of the issued Shares.

As at the Latest Practicable Date, the Offeror and Offeror Concert Parties beneficially own or control 1,965,702,779 Shares, representing approximately 68.63% of the issued Shares. The Shares beneficially owned by the Offeror and the Offeror Concert Parties in respect of the Company will not form part of the Scheme Shares, will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective. All Shareholders will be entitled to vote on the special resolution to be proposed at the EGM to approve and give effect to the reduction of capital and the implementation of the Scheme. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled. The Offeror Concert Parties will also be entitled to vote on the special resolution to be proposed at the EGM to approve and give effect to the Scheme.

REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE OFFEROR'S INTENTION IN RELATION TO THE GROUP

You are urged to read carefully the section headed "Reasons for and benefits of the Proposal and the Offeror's intention in relation to the Group" in the Explanatory Statement on pages E-10 to E-11 of this Scheme Document.

FINANCIAL ADVISER TO THE OFFEROR AND INDEPENDENT BOARD COMMITTEE

The Offeror has appointed CMB International as its financial adviser in connection with the Proposal.

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao, has been established by the Board to make a recommendation to the Scheme Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting.

The full text of the letter from the Independent Board Committee is set out on pages 21 to 22 of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

The Company has, with the approval of the Independent Board Committee, appointed Optima Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Scheme and the Proposal.

The full text of the letter from the Independent Financial Adviser is set out on pages 23 to 46 of this Scheme Document.

INFORMATION ABOUT THE OFFEROR AND THE COMPANY

Your attention is drawn to Appendix I headed "Financial information of the Group" on pages I-1 to I-99 of this Scheme Document, and the sections headed "Information on the Company" and "Information on the Offeror" in the Explanatory Statement on pages E-11 to E-12 of this Scheme Document.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed "Overseas Shareholders" in the Explanatory Statement on pages E-14 to E-15 of this Scheme Document.

COURT MEETING AND THE EGM

For the purpose of exercising your votes at the Court Meeting and the EGM, you are requested to read carefully the section headed "Court Meeting and the EGM" in the Explanatory Statement on pages E-16 to E-17 of this Scheme Document, the section headed "Actions to be taken" on pages 1 to 3 of this Scheme Document, and the notices of the Court Meeting and the EGM on pages CM-1 to CM-3 and EGM-1 to EGM-3 respectively of this Scheme Document.

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under the section headed "Actions to be taken" on pages 1 to 3 of this Scheme Document.

RECOMMENDATION

The Independent Financial Adviser has advised the Independent Board Committee that it considers the terms of the Proposal and the Scheme are fair and reasonable, and accordingly, advises the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, considers that the terms of the Proposal and the Scheme are fair and reasonable and recommends the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal and the Scheme as set out in the letter from the Independent Financial Adviser on pages 23 to 46 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in the letter from the Independent Board Committee on pages 21 to 22 of this Scheme Document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of new Shares being issued as fully paid to the Offeror) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company does not intend to retain its listing on the Stock Exchange. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the date on which the Scheme becomes effective.

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the conditions described in the section headed "Conditions of the Proposal and the Scheme" has not been fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and/or the High Court may direct).

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme is withdrawn or not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Your attention is drawn to the sections entitled "Withdrawal of the listing of the Shares" and "Entitlements to and payment of Cancellation Consideration" in the Explanatory Statement set out on pages E-12 to E-13 and pages E-13 to E-14, respectively, of this Scheme Document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Offeror, the Company, CMB International, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents, associates or affiliates or any other persons involved in the Proposal and the Scheme accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal and the Scheme. Accordingly, you are urged to read the section entitled "Taxation and Independent Advice" in the Explanatory Statement set out on page E-15 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out on pages 21 to 22, and pages 23 to 46 respectively of this Scheme Document, the Explanatory Statement as set out on pages E-1 to E-19 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages S-1 to S-6 of this Scheme Document, the notice of Court Meeting on pages CM-1 to CM-3 of this Scheme Document and the notice of the EGM as set out on pages EGM-1 to EGM-3 of this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Yours faithfully,
By order of the Board
Welling Holding Limited
Fu Yongjun
Chairman

WELLING HOLDING LIMITED
威靈控股有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 382)

11 January 2018

To the Scheme Shareholders,

Dear Sir or Madam,

(1) PROPOSAL FOR THE PRIVATISATION OF WELLING HOLDING LIMITED BY MIDEA INTERNATIONAL CORPORATION COMPANY LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND (2) PROPOSED WITHDRAWAL OF LISTING OF WELLING HOLDING LIMITED

We refer to the document dated 11 January 2018 jointly issued by the Offeror and the Company in relation to the Proposal (the "**Scheme Document**"), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Scheme Shareholders in respect of the Proposal and the Scheme respectively, details of which are set out in the "Letter from the Board" and the "Explanatory Statement" of this Scheme Document.

Optima Capital Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal and the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the "Letter from Optima Capital" of this Scheme Document.

In the "Letter from Optima Capital" of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Scheme are fair and reasonable, and advises the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal and the Scheme are fair and reasonable. Accordingly, the Independent Board Committee recommends the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Independent Board Committee draws the attention of the Scheme Shareholders to (i) the "Letter from the Board" set out in this Scheme Document; (ii) the "Letter from Optima Capital", which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in this Scheme Document; and (iii) the Explanatory Statement set out in this Scheme Document.

Yours faithfully,
the Independent Board Committee

Mr. Tan Jinsong	**Mr. Lam Ming Yung**	**Ms. Cao Zhoutao**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the letter of advice from Optima Capital to the Independent Board Committee which has been prepared for the purpose of inclusion in the Scheme Document.

OPTIMA CAPITAL

Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

11 January 2018

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSAL FOR THE PRIVATISATION OF WELLING HOLDING LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal and the Scheme, details of which are contained in the document to the Shareholders dated 11 January 2018 (the "**Scheme Document**"), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 10 November 2017, the Offeror and the Company jointly announced that, on 5 November 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme under Section 673 of the Companies Ordinance (i.e. the Proposal). The Scheme will involve the cancellation of the Scheme Shares where each Scheme Shareholder will be entitled to receive HK$2.06 in cash for each Scheme Share. Upon the Scheme having become effective and the withdrawal of the listing of the Shares on the Stock Exchange has taken place, the Offeror and the Offeror Concert Parties will hold the entire issued share capital of the Company.

On 29 December 2017, each of Gaoling Fund, L.P. and YHG Investment, L.P. has irrevocably undertaken that, if the Scheme is approved at the Court Meeting, it will exercise or procure the exercise of the voting rights attached to all of the Shares owned by it to vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company and any resolutions proposed at the EGM to assist with the implementation of the Scheme or are necessary for the Scheme to become effective.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung, Ms. Cao Zhoutao, has been formed to advise the Independent Shareholders on whether the terms of the Proposal and the Scheme are fair and reasonable and as to voting. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard.

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal. In the last two years, we acted as the independent financial adviser of the Company in respect of certain connected/continuing connected transactions providing our independent view to the Company's independent board committee and independent shareholders under the Listing Rules. Apart from normal professional fees payable to us in connection with this appointment or other similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete. We have reviewed, among other things, the announcement jointly published by the Offeror and the Company dated 10 November 2017 in relation to, among others, the Proposal and the Scheme, the annual reports of the Company for the two years ended 31 December 2015 (the "**2015 Annual Report**") and 2016 (the "**2016 Annual Report**"), the interim report for the six months ended 30 June 2017 (the "**2017 Interim Report**"), the trading performance of the Shares on the Stock Exchange and Bloomberg, and information set out in the Scheme Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us.

We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document and continue to be true up to the Latest Practicable Date, and the Independent Shareholders will be informed of any material change as soon as possible up to the Effective Date.

We have not considered the tax and regulatory implications of the Proposal on the Independent Shareholders, since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME OF ARRANGEMENT

The principal terms of the Proposal and the Scheme of Arrangement are summarised below:

The Scheme of Arrangement will provide that the Scheme Shares will be cancelled and in consideration thereof, each Scheme Shareholder will be entitled to receive HK$2.06 in cash for each Scheme Share. Under the Proposal, the total consideration payable for cancellation of the Scheme Shares will be payable by the Offeror.

As at the Latest Practicable Date, (i) the issued share capital of the Company is 2,864,112,822 Shares; (ii) the Offeror and the Offeror Concert Parties beneficially own or control 1,965,702,779 Shares, representing approximately 68.63% of the issued share capital of the Company; and (iii) the Scheme Shares, comprising 898,410,043 Shares, representing approximately 31.37% of the issued Shares. The Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue as at the Latest Practicable Date. The Shares beneficially owned by the Offeror and the Offeror Concert Parties will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting.

The Proposal, if implemented, would result in the Company becoming wholly-owned by the Offeror and the Offeror Concert Parties and the withdrawal of the listing of the Shares from the Stock Exchange. If the Scheme is not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

The implementation of the Proposal and the Scheme will be conditional upon the fulfilment or waiver, as applicable, of all the Conditions as described in the section headed "Conditions of the Proposal and the Scheme" in the Scheme Document. All of the Conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the High Court may direct), failing which the Proposal and the Scheme will lapse.

Independent Shareholders are recommended to read carefully the Explanatory Statement, which contains further details of the terms of the Proposal.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Reasons for and benefits of the Proposal and the Scheme

As set out in the Explanatory Statement of the Scheme Document, the reasons for and benefits of the Proposal are as follows:

The liquidity of Shares has been at a low level over a long period of time, and the average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.3 million Shares per day, representing only approximately 0.05% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs. In addition, the Offeror Board believes that the low liquidity of the Shares will also limit the Company's ability to raise funds from the public equity markets and it is unlikely to have any significant improvement in the liquidity of the Shares in the foreseeable future.

The Proposal therefore is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at an attractive premium over the prevailing market price (particularly in light of the relative underperformance of the share price since the Company's listing in 1993) without having to suffer any illiquidity discount. The Scheme also provides the Scheme Shareholders the opportunity, if they so wish, to invest the monies received from realising their investments in the Company in alternative investments with higher liquidity.

Following the implementation of the Proposal, the Offeror and the Company can make strategic decisions for the long-term benefits of the Group whilst free from the pressure of market expectations for short-term profit visibility and share price fluctuation as being a publicly listed company. The administrative expenses, compliance and other listing-related costs and expenses can also be saved for the business operations of the Group.

Further, the Company's share price performance has not been satisfactory in the last two years. This limits the ability of the Group to attract investors and enhance its market image. The Offeror also considers that the underperformance of share price has had an adverse impact on the Company's reputation with customers, and therefore on its business and employee morale. The implementation of the Proposal could eliminate this adverse impact.

2. Background and information of the Company

The Company is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange in 1993. Prior to 2008, the Group was principally engaged in manufacture and distribution of electrical household appliances including air-conditioners, refrigerators and mini-refrigerators under the "Hualing" brand (the "**Electrical Appliances Business**"). Due to the consecutive loss making years, the Group had shifted its principal business to the current one, being manufacturing, distribution and selling of motors and electronic and electric components for electrical household appliances in the PRC and overseas (the "**Motor Business**") through an acquisition of the target company principally engaged in the Motor Business in 2008 (the "**Motor Acquisition**") and had disposed of the Electrical Appliances Business to a wholly-owned subsidiary of Midea Group Co., Ltd.

After change of principal business, the Group was capable of leveraging opportunities presented by the favourable government policies including the "Home Appliances Subsidy for Rural Areas", the "Home Appliances Replacement Subsidy" and the "Subsidy for Energy Efficient Appliances" and achieved rapid sales growth of over 50% in FY2010. The Group's profit growth significantly slowed down in 2012 due to difficult global economic conditions, high inflationary pressure in the PRC, and the favourable stimulus policies such as the "Home Appliances Subsidy for Rural Area" having come to an end in the same year. In 2013, thanks to the recovery of global economic growth and unusually hot weather, the Group's profit grew approximately 23%. However, the Group has experienced a downward trend in its profit and gross profit margin since 2014 due to the prolonged sluggish property market in the PRC and the increase in research and development ("**R&D**") costs. Detailed financial information of the Company is set out in the section headed "Analysis of the financial information of the Group" below.

The Group now mainly manufactures and distributes three types of motors including motors for air-conditioners, motors for washing machines, and motors for other electrical appliances such as range hoods, vacuum cleaners, etc (collectively, the "**Motors**"). Over 80% of the Motors are alternating current ("**AC**") motors while the remaining is direct current ("**DC**") motors. AC motors offer relatively lower gross profit margin as compared to the DC motors due to the degree of technicalities involved.

The Group's customers are mainly manufacturers of electrical household appliances in the PRC, which contributed around 70% of the Group's total revenue in FY2015 and FY2016. The top one customer of the Group is Midea Group Co., Ltd. and its subsidiaries (the "**Midea Group**"), contributing approximately about half of the total revenue of the Group for the latest three financial years of the Group given it is one of the major domestic brands of air-conditioners and washing machines in the PRC. The remaining 30% of the total revenue of the Group was generated from export sales, which were denominated in US dollars and Euro dollars.

3. Analysis of the financial information of the Group

(i) Financial performance

Set out below is a summary of the audited consolidated financial information of the Group for FY2014, FY2015 and FY2016 and the unaudited consolidated financial information of the Group for 1H2016 and 1H2017 as extracted from the annual reports of the Company for respective financial years.

HK$' million	**FY2014**	**FY2015**	**FY2016**	**1H2016**	**1H2017**
Revenue	9,273.4	8,040.4	7,954.5	4,301.7	4,972.2
Gross profit	1,424.4	1,109.7	1,178.0	666.3	564.6
Other gains/(losses) — net	(10.3)	90.3	149.8	77.1	80.8
Selling and marketing expenses	(214.4)	(212.0)	(216.2)	(92.8)	(88.0)
Administrative expenses	(350.4)	(428.3)	(384.3)	(168.6)	(118.2)
Finance income/ (expenses) — net	(38.2)	20.0	23.8	4.0	(19.9)
Share of profit of associates accounted for using the equity method	41.3	51.4	18.8	19.2	—
Profit attributable to owners of the Company	678.4	525.0	596.6	409.0	342.5

Revenue

Revenue of the Group was mainly generated from the Motors Business for FY2014, FY2015 and FY2016. In FY2015, the Group's revenue dropped by approximately 13.3% due to depressed market condition, intensifying industrial competition and continuous fall in commodity prices of raw materials. In FY2016, the Group recorded a slight decrease of approximately 1% in revenue despite an increase of approximately 9% in sales volume of the Motors. The top one customer of the Group is Midea Group, which contributed approximately 44.4%, 45.5% and 45.7% of the total revenue of the Group for FY2014, FY2015 and FY2016.

In FY2015 and FY2016, approximately 70% of the revenue was generated from customers in the PRC and denominated in RMB, while the remaining 30% generated outside the PRC was denominated in US dollars and Euro dollars.

Gross profit margin

Set out below is the summary of the gross profit margin for FY2014, FY2015, FY2016 and 1H2016 and 1H2017 (the "**Track Record Period**"):

	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
Gross profit margin *(%)*	15.4	13.8	14.8	15.5	11.4

As disclosed in the annual report of the Company for FY2015, in FY2015, affected by depressed market condition and intensifying competition, the Group's gross profit margin dropped from 15.4% to 13.8%. As disclosed in the annual report of the Company for FY2016, in FY2016, the Group retained stringent control over various expenses and expanded its scale of sales to enhance operational management quality and benefit from economies of scale, the gross profit margin bounced back to 14.8%. However, in 1H2017, due to the commodity price surge in raw materials and other materials and the magnitude of price increment of the Motors failing to catch up with the increase in raw material price, the Group's gross profit margin dropped further to 11.4%.

Other gains/(losses) — net

In FY2015, the Group recorded other gains rather than losses in FY2014, which was mainly attributable to the government grants received, fair value gain on foreign exchange forward contracts, exchange gains and investment income from wealth management products. In FY2016, other gains surged by approximately 65.9%, which was mainly attributable to the exchange gains and investment income from wealth management products.

Selling and marketing expenses

The selling and marketing expenses are relatively stable along the years during the Track Record Period.

Administrative expenses

Save for salaries and staff benefits, the most significant component of administrative expenses of the Group are R&D expenses. It has long been the Group's strategy to promote product innovation and streamline the models of motors by improving its R&D capability. As disclosed in the 2017 Interim Report, the Group will further 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. This explains why the R&D expenses significantly increased during the Track Record Period as follows:

HK$' million	**FY2014**	**FY2015**	**FY2016**	**1H2016**	**1H2017**
R&D expenses	82.9	108.8	142.0	54.5	62.5

Despite the upward trend of the R&D expenses, the highest point of the administrative expenses of the Group during the Track Record Period was in FY2015, which was mainly attributable to the redundancy payments of approximately HK$38.4 million in respect of the streamlining of the organisational structure of the Group in FY2015. The drop of administrative expenses in 1H2017 was mainly attributable to stringent control over various expenses, decrease in provision of impairment for trade receivables and reversal of the provision for the staff bonus in FY2016.

Finance income/(expenses) — net

The finance income mainly represented interest income on bank deposits and exchange gains. The finance expense of the Group recorded in 1H2017 was mainly attributable to the exchange losses.

Share of profit of associates

The Group has a 49% equity investment in Shanxi Huaxiang Group Co. Ltd (the "**Shanxi Associate**"), which was principally engaged in manufacturing and selling precise casting used for the compressor of air-conditioners and refrigerators. In FY2015, Shanxi Associate contributed a share of its profits of approximately HK$51.4 million, representing a 24.5% year-on-year increase as compared to FY2014, driven by higher production yield rate from process and technology improvement and higher gross margin brought by product mix adjustment and economy of scale. In FY2016, the share of profit from Shanxi Associate significantly dropped by approximately 63.4% since the Group has disposed its 49% equity interest in Shanxi Associate in August 2016.

Profit attributable to the owners of the Company

The Group has maintained a general decreasing trend of profit during the Track Record Period, in particular in FY2015 where redundancy payments was made as a result of streamlining of organisational structures of the Group. The decreasing trend was mainly attributable to the slim gross profit margin amidst the highly competitive market.

(ii) Financial position

Set out below is a summary of the audited consolidated statement of financial position of the Group as at 31 December 2014, 2015 and 2016, and the unaudited consolidated statement of financial position as at 30 June 2017.

HK$' million	**As at 31 December 2014**	**As at 31 December 2015**	**As at 31 December 2016**	**As at 30 June 2017**
Non-current assets	***2,130.8***	***2,009.5***	***1,507.5***	***1,497.7***
Property, plant and equipment ("**PPE**")	1,246.7	1,194.1	1,042.3	1,034.5
Leasehold land and land use rights	215.2	197.6	180.3	183.4
Available-for-sale financial assets	118.7	120.3	122.9	119.7
Intangible assets	68.5	80.5	79.0	81.3
Investment properties	52.4	46.6	41.0	40.9
Other non-current assets	429.3	370.4	42.0	37.9
Current assets	***5,915.9***	***5,584.9***	***5,923.6***	***6,506.7***
Inventories	991.9	554.9	891.0	677.3
Trade and other receivables	2,878.5	2,986.7	2,205.3	2,704.6
Available-for-sale financial assets	—	720.9	1,123.5	1,440.9
Pledged bank deposits	79.9	77.0	36.8	78.1
Cash and cash equivalents	1,939.6	1,236.2	1,661.4	1,603.4
Other current assets	26.0	9.2	5.6	2.4
Current liabilities	***3,562.2***	***3,024.3***	***2,664.5***	***2,985.7***
Non-current liabilities	***154.7***	***168.3***	***211.5***	***196.3***
Net asset value ("NAV") attributable to the owners of the Company	**4,264.3**	**4,342.4**	**4,515.7**	**4,781.5**
Non-controlling interest	65.5	59.4	39.4	40.9

Major assets of the Group

The major components of the total assets of the Group as at 31 December 2016 and 30 June 2017 are the PPE, trade and other receivables, available-for-sale financial assets and cash and cash equivalents and pledged bank deposits.

PPE, leasehold land and land use rights and investment properties

The PPE mainly constituted building and the plant and machinery in respect of production lines of the Group for manufacturing of the Motors. The Group also held leasehold land in the PRC and investment properties in

Hefei, the PRC, which have been leased to tenants under operating leases as production factory with rental of approximately HK$4.1 million in FY2016. The carrying value of the leasehold land and land use rights, investment properties together with the building under PPE represented merely 6.6% of the total assets of the Group as at 30 June 2017.

Trade and other receivables

The trade and other receivables mainly consisted of (i) trade receivables and note receivables generated from the sales of the Motors; and (ii) amount due from related parties. Set out below is aging analysis of the trade receivables, note receivables and amount due from related parties (which is also in trade nature) of the Group as at 30 June 2017 and 31 December 2016:

HK$' million	**As at 31 December 2016**	**As at 30 June 2017**
Within 3 months	1,537.8	2,168.9
3 to 6 months	396.5	407.0
Over 6 months	81.1	63.8

Cash and cash equivalents

The Group maintained a considerable amount of cash and cash equivalents during the Track Record Period. As at 31 December 2016 and 30 June 2017, the cash and cash equivalents of the Group amounted to HK$1.7 billion and HK$1.6 billion. As advised by the Company, the cash and cash equivalents of the Group as at 31 December 2016 and 30 June 2017 was set aside (i) for settling the dividend payable of approximately HK$214.8 million; (ii) as working capital to cater for the Motor Business and the timing difference in settlement for the receivables and payables taking into account there being trade and other payables of approximately HK$1.7 billion which are required to be settled within three months as at 30 June 2017; and (iii) as time deposits of US dollars generated from the export sales of the Group for potential exchange gains from appreciation of US dollars.

For idle cash management, the Group had used the idle cash to subscribe for wealth management products. As at 31 December 2016 and 30 June 2017, the Group had current available-for-sale financial assets of approximately HK$1,123.5 million and HK$1,440.9 million respectively, which are 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 non-current available-for-sale financial assets held by the Group as at 30 June 2017 was equity interests in an unlisted company, Midea Group Finance Co., Ltd., which is principally engaged in a range of financial services as approved by the China Banking Regulatory Commission.

Major liabilities of the Group

The major liabilities of the Group are trade and other payables generated from the procurement of raw materials for the production of the Motors and dividend payable. Set out below is the aging analysis of the trade and other payables as at 30 June 2017 and 31 December 2016:

HK$' million	**As at 31 December 2016**	**As at 30 June 2017**
Within 3 months	1,686.1	1,708.9
3 to 6 months	437.6	654.7
Over 6 months	6.6	14.1

Capital commitments and contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2016 and 30 June 2017. The capital commitments of the Group are mainly capital expenditure contracted for of approximately HK$138.2 million as at 30 June 2017.

Net asset value

The NAV attributable to the equity owners of the Company was approximately HK$4,781.5 million as at 30 June 2017. Based on the 2,864,112,822 issued Shares outstanding, as at the Latest Practicable Date, the NAV per Share was approximately HK$1.67. If excluding the idle cash currently used for subscription of wealth management products of approximately HK$1,440.9 million, the NAV attributable to the owners of the Company would be adjusted to HK$1.17.

4. Future prospects of the Group

As mentioned in the 2017 Interim Report, it is expected that the global economic growth in the future 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. One of the two major products of the Group, being motors for air conditioners, were stimulated by various factors, including the macroeconomy, real estate market, weather conditions and demands for upgrading and replacement, etc., which sales were significantly boosted in the first half of the year. The Directors had predicted in the 2017 Interim Report 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.

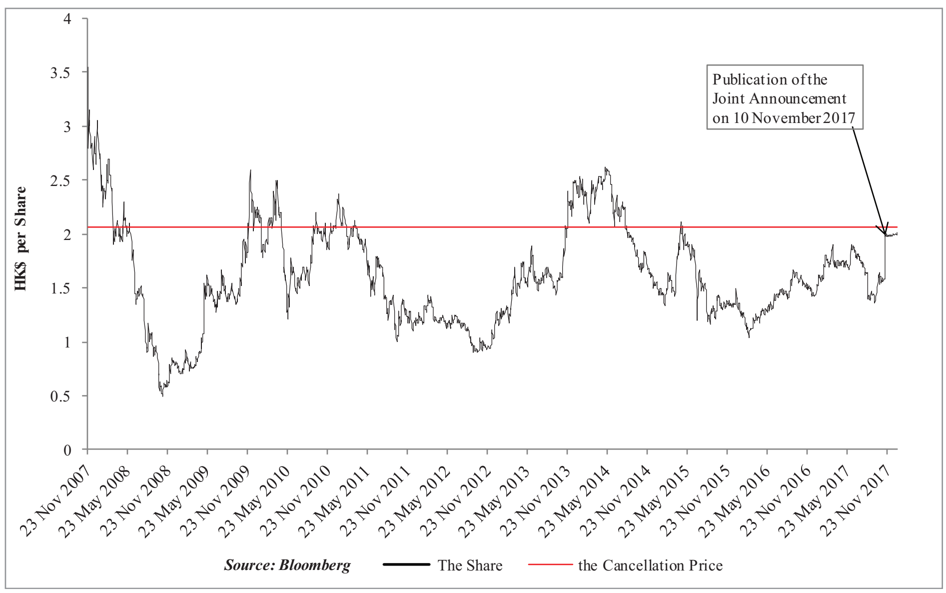
Despite the prospects of the overall air-conditioner market in the PRC, the Directors consider that the Group's gross profit margin has been under a downward pressure due to the fluctuations of the raw material prices, increase in the staff costs in the PRC, and the intense market condition which hindered the shift of the price increments of raw materials to the manufacturers of the electrical household appliances in both the PRC and overseas countries. Further, the existing product mix of the Group with over 80% of AC motors and the remaining portion being DC motors also limits the growth of gross profit margin of the Group given the AC motors involves relatively lower technicality. In view of this, the Group has been focusing on the R&D of the Motors during the Track Record Period and intends to optimize its product mix to focus on the motors which offer higher gross profit margin, such as DC motors, high-speed motors, high performance motors and eco-motors.

The Directors expect that the optimization process of the product mix will incur significant costs (in particular the R&D costs), which may impact the financial performance as well as the share price performance of the Group. In view of the prospects and strategic move of the Company, the Directors consider that the Proposal will allow the Company to make strategic decisions for long-term benefits whilst free from the pressure of market expectations of short-term profit visibility and share price fluctuation as being a publicly listed company.

5. Analysis of the price performance and trading liquidity of the Shares

(i) Historical Share price performance

Set out below are the movement of the closing prices of the Shares (adjusted with the five-to-one share consolidation of the Company completed on 26 May 2011 (the "**5:1 Share Consolidation**")) during the period from 23 November 2007 (i.e. the date on which the Company announced the Motor Acquisition) to the Latest Practicable Date (the "**Review Period**") (which provides a comprehensive review on the Share price performance from the day the Company changed its principal business to the existing one (i.e. the Motor Business), and highlights of announcements by the Company of certain corporate events that took place during the Review Period:



Source: the respective website of Bloomberg and the Stock Exchange

Note: For illustration and comparison purposes only, we have adjusted the share price of the Shares before Share Consolidation by 5 times so as to reflect the possible effect of the Share Consolidation.

For illustration and comparison purposes, the Share prices shown above were adjusted with the 5:1 Share Consolidation. As illustrated in the above, during the period between 23 November 2007 (the date on which the Company announced the Motor Acquisition) to 10 November 2017, being the date of the Joint Announcement (the "**Pre-Announcement Period**"), the Shares closed in the range between HK$0.5 and HK$3.55 per Share, with an average and a median of approximately HK$1.61 and approximately HK$1.56 per Share respectively.

Taking into account of the Share Consolidation, the closing prices of the Shares were in the range of HK$0.50 (on 29 October 2008) and HK$3.55 (on 23 November 2007) to the Last Trading Date. As shown in above price chart, the trend of the share price was in line to the trend of the Hang Seng Index. The share price of the Group dropped to its lowest position of HK$0.50 following the financial crisis in 2008. The share price of the Company recovered from the financial crisis as boosted by the increase in demand after the Home Appliances Subsidy Program for Rural Areas (家電下鄉) promulgated by the PRC government in late 2007. The recovery of the stock market also gave support to the share price of the Company at the same period. As the Home Appliances Subsidy Program for Rural Areas started to end in phrases in 2011 and the home appliances replacement subsidy policy (家電以舊換新) previously promulgated by the PRC government came to an end in late 2011, the share price dropped gradually to HK$0.90 as at 9 September 2012 to reflect the expected impacts imposed to the Group. As the decrease in share price of the Company outweighed the decrease in Hang Seng Index, the share price of the Company then re-bounced to reflect the undervalued share price and reached HK$2.62 on 14 May 2014 following the publication of the annual results for the year ended 31 December 2013 in March 2014. Afterwards, the share price had commenced its declining trend following announcement of the drop of profit for six months ended 30 June 2014 and further drop for FY2014 until it reached HK$1.33 on 9 February 2015. Subsequent to this drop, the Share price mainly followed the trend of the market as reflected by the Hang Seng Index shown in the table below in the section headed "Comparison with the stock market", bouncing back again to HK$2.11 on 22 April 2015 and then dropped to HK$1.04 on 1 March 2016, after which it fluctuated between the range of HK$1.08 to HK$1.91 until before the publication of the Joint Announcement. The closing price of the Shares surged to HK$1.99 on 10 November 2017, the first trading date after publication of the Joint Announcement. We believe the recent rise in the Share price has been supported by the Scheme and is unlikely to be sustained if the Scheme lapses.

It is noted that the Cancellation Price is higher than the closing prices of the Shares (having adjusted the share prices to reflect the effect of the Share Consolidation) in approximately 83.7% of all the trading days in the Pre-Announcement Period. From the Independent Shareholders' perspective, the Cancellation Price represents an immediate uplift in shareholder's value as compared to the recent Share price.

In summary, the Cancellation Price of HK$2.06 per Scheme Share:

(i) represents a premium of approximately 2.5% to the closing price of HK$2.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) represents a premium of approximately 30.4% over the closing price of HK$1.58 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) represents a premium of approximately 30.4% over the average closing price of approximately HK$1.58 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(iv) represents a premium of approximately 33.8% over the average closing price of approximately HK$1.54 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(v) represents a premium of approximately 35.5% over the average closing price of approximately HK$1.52 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(vi) represents a premium of approximately 28.8% over the average closing price of approximately HK$1.60 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(vii) represents a premium of approximately 24.8% over the average closing price of approximately HK$1.65 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(viii) represents a premium of approximately 22.6% over the average closing price of approximately HK$1.68 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

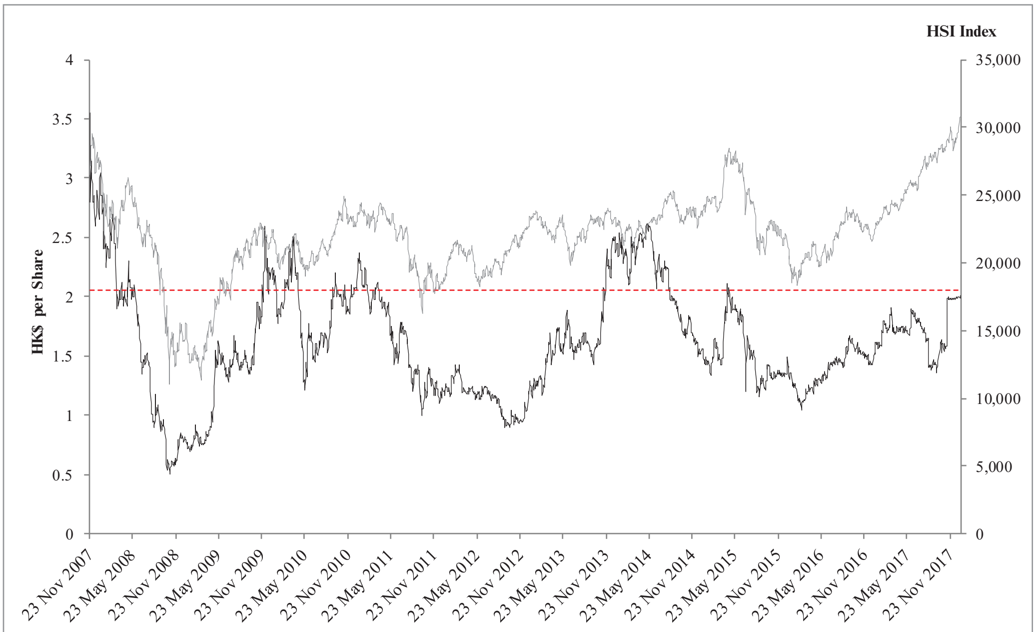
(ix) represents a premium of approximately 25.6% over the average closing price of approximately HK$1.64 per Share based on the daily closing prices as quoted on the Stock Exchange for the 250 trading days up to and including the Last Trading Day;

(x) represents a premium of approximately 29.6% over the audited consolidated net asset value attributable to the Shareholders per Share in the Company of approximately HK$1.59 as at 31 December 2016; and

(xi) represents a premium of approximately 22.6% over the unaudited consolidated net asset value attributable to the Shareholders per Share in the Company of approximately HK$1.68 as at 30 June 2017.

(ii) Share price performance compared with the stock market

Set out below is the comparison between the movement of the closing price of the Shares and the Hang Seng Index from 23 November 2007 (i.e. the date on which the Company announced the Motor Acquisition) to and including the Latest Practicable Date.



Source: Bloomberg

As shown in the chart above, the Share price has been in a declining trend and generally underperformed compared to the Hang Seng Index. The closing price of the Shares was HK$3.55 on 23 November 2007, the date the Company announced the Motor Acquisition (adjusted with the effect of the share consolidation of the Company effective on 26 May 2011) and the closing price of the Share as at the Last Trading Day was HK$1.58, representing a considerable decrease of 55.5%; whereas the closing price of the Hang Seng Index increased by approximately 7.8% from 26,541.1 points recorded on 23 November 2007 to 28,603.6 points recorded on the Last Trading Day. The past performance of the Shares shows that there has been a lack of significant retail and/or institutional investors' interest in the Company. Since the change of principal business to the Motor Business, the Group has not raised any capital from the capital market save for the placing of shares completed in 2010. Taking into account the abundant cash reserves of the Company generated from the Motor Business, it is considered that the Company will unlikely be able to take advantage of its listing status on the Stock Exchange to raise funds from the capital markets on terms acceptable to the Group in the foreseeable future or enjoy other benefits that outweigh the costs associated with maintaining the listing.

(iii) Trading liquidity

Set out in the table below are the average daily trading volumes, the comparison of such trading volumes to the total issued share capital of the Company and the comparison of such trading volumes to the public float of the Company during the 24 whole months immediately prior to the Last Trading Day:

	Average daily trading volume of the Shares	**Percentage of the average daily trading volume of the Shares to the total issued Shares** *(Note 1)*	**Percentage of the average daily trading volume of the Shares to the public float of the Company** *(Note 2)*
2016			
January	938,080	0.0328%	0.1045%
February	645,487	0.0225%	0.0719%
March	1,470,147	0.0513%	0.1637%
April	1,064,390	0.0372%	0.1185%
May	592,794	0.0207%	0.0660%
June	1,039,901	0.0363%	0.1158%
July	1,117,926	0.0390%	0.1245%
August	1,367,326	0.0477%	0.1523%
September	2,732,623	0.0954%	0.3042%
October	903,132	0.0315%	0.1005%
November	589,818	0.0206%	0.0657%
December	1,057,318	0.0369%	0.1177%
2017			
January	935,755	0.0327%	0.1042%
February	1,201,921	0.0420%	0.1338%
March	2,208,176	0.0771%	0.2458%
April	1,476,680	0.0516%	0.1644%
May	1,192,720	0.0416%	0.1328%
June	1,908,384	0.0666%	0.2124%
July	941,490	0.0329%	0.1048%
August	2,004,386	0.0700%	0.2231%
September	2,660,753	0.0929%	0.2962%
October	2,226,236	0.0777%	0.2478%
November	5,968,797	0.2084%	0.6644%
December	2,425,311	0.0847%	0.2700%
1 January up to the Latest Practicable Date	3,342,080	0.1167%	0.3720%

Source: the website of the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.

2. The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by the Offeror and the Offeror Concert Parties, at the end of each month or as at the Latest Practicable Date, as applicable.

3. Trading of the Shares was suspended from 6 November 2017 to 9 November 2017.

As illustrated in the above table, the average daily trading volume of the Shares during the Review Period represented approximately 0.0094% to 0.7334% of the total issued Shares, equivalent to approximately 0.0311% to 2.9307% of the public float of the Shares. We note from the above table that the trading in the Shares was generally not very active during the Review Period. Throughout the Review Period, the average daily trading volume has been consistently maintained below 1.0% of the total issued Shares, and maintained at below 3.0% of the public float of the Shares. There has been a slight surge in trading volume since the release of the Joint Announcement, which we considered to be mainly attributable to the Independent Shareholders'/investors' reaction to the Scheme.

Given the relatively thin historical trading volume of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. The relatively higher level of trading volume subsequent to the Joint Announcement is unlikely to remain sustainable if the Proposal and the Scheme lapse.

We consider the Proposal provides the Independent Shareholders, especially those holding a large block of the Shares, a cash exit to realise their holdings at the Cancellation Price if they so wish, without creating a significant downside pressure on the trading price of the Shares.

ADDITIONAL INFORMATION FOR INDEPENDENT SHAREHOLDERS' REFERENCE ONLY

1. Comparison with the Reference Companies (as defined below)

We have followed the norm and sought to identify comparable companies (the "**Direct Comparable Companies**") exhaustively on Bloomberg based on the criteria that (i) the offeree company is listed on the Stock Exchange; (ii) it is engaged in manufacturing and distribution business of motors for electrical household appliances ("**Similar Business**"), which is similar with the Group's principal business; and (iii) over 50% of the total revenue of the offeree company was generated from the Similar Business in their most recent financial year. However, no Direct Comparable Companies could be identified.

In this circumstance, we have instead sought to identify companies exhaustively on Bloomberg based on less stringent criteria (the "**Reference Companies**") that (i) the offeree company is listed on the Stock Exchange, the Shanghai Stock Exchange ("**SSE**"), or the Shenzhen Stock Exchange ("**SZSE**"); (ii) it is engaged in the Similar Business; and (iii) its revenue generated from the Similar Business for the most recent financial year was more than 30%. Independent Shareholders should be reminded that the Reference Companies identified based on the less stringent criteria are not direct and perfect comparable companies and therefore the comparison below based on the price-to-earnings ratio (the "**PE Ratio**") and price-to-net-asset-value (the "**PB Ratio**") of the Reference Companies are for illustration purpose only. It should not be considered as one of the principal factors for determining the merits of the Proposal.

Set out below are the details of the Reference Companies:

Reference Companies	**Stock code**	**Stock Exchange**	**Principal activities**	**% of revenue generated from Similar Business in the most recent financial year**	**Market capitalisation as at the Latest Practicable Date** *HK$ (million)* *(Note)*
Kin Yat Holdings Limited ("**Kin Yat**")	638	Stock Exchange	Designs, manufactures and sells toys and electrical household appliances and motors	31%	1,236.7
Zhongshan Broad-Ocean Motor Ltd ("**Broad-Ocean**")	002249	SZSE	Manufactures AC and DC electric motors	48%	20,482.4

We note that the PRC stock markets is relatively different from the Hong Kong stock market, in particular its premium of valuations of the stocks over the Hong Kong stock market. Accordingly, to take into account the difference in valuation of stocks between the SZSE and the Hong Kong stock market, we have adjusted the respective PE Ratio and PB Ratio of the Reference Company listed on SZSE with a factor of 0.49 and 0.83, calculated based on the PE ratio and PB ratio of Hang Seng Index of the Stock Exchange of approximately 14.3 times and 1.4 times over the PE ratio and the PB ratio of SZSE Composite Index of approximately 29.3 times and 1.7 times, respectively, as quoted on Bloomberg as at the Latest Practicable Date ("**SZSE Factor**") for illustration purpose only.

Set out below are the PE Ratio and PB Ratio of the Reference Companies:

Reference Companies *(times)*	**PE Ratio** *(Note 1)*	**Adjusted PE Ratio** *(Note 1)*	**PB Ratio** *(Note 2)*	**Adjusted PB Ratio** *(Note 2)*
Kin Yat	5.8	5.8	1.2	1.2
Broad-Ocean	37.7	18.5	1.9	1.6
Maximum	37.7	18.5	1.9	1.6
Minimum	5.8	5.8	1.2	1.2
Cancellation Price *(Note 3)*	9.9	9.9	1.2	1.2

Notes:

1. The PE ratio of the Reference Companies are calculated based on the market capitalisation of the Reference Companies as at the Latest Practicable Date divided by the respective profit attributable to shareholders of the Reference Companies as shown on its latest annual report. The adjusted PE ratios of the Reference Companies were adjusted with the SZSE Factor.

2. The PB ratio of the Reference Companies are calculated based on the market capitalisation of the Reference Companies as at the Latest Practicable Date divided by the respective NAV attributable to shareholders of the Reference Companies as at the latest financial reporting date as shown on its latest annual report. The adjusted PB ratios of the Reference Companies were adjusted with the SZSE Factor.

   The implied PE ratio represented by the Cancellation Price of approximately 9.9 times is calculated based on the theoretical market capitalisation of the Cancellation Price for the Shares of HK$5,900.1 million, divided by the net profit attributable to the Shareholders for FY2016 of approximately HK$596.6 million.

3. The implied PB ratio represented by the Cancellation Price of approximately 1.2 times is calculated based on the theoretical market capitalisation of the Cancellation Price for the Shares of HK$5,900.1 million, divided by the NAV attributable to the Shareholders as at 30 June 2017 of approximately HK$4,781.5 million.

4. Due to the limited number of the Reference Companies (i.e. the population of which being too small), we consider that the average or median of the PE Ratios or PB Ratios of the Reference Companies are not meaningful indicators and therefore were excluded from the table.

As set out in the table above, the implied PE Ratio of the Cancellation Price of approximately 9.9 times is within the range of those of the Reference Companies from 5.8 times to 18.5 times. We note that the Company had idle cash of approximately HK$1,123.5 million as at 31 December 2016 which had been set aside for subscribing wealth management products. If excluding this part of idle cash of approximately HK$0.39 per Share, the Cancellation Price would be adjusted to HK$1.67 and the earnings of the Group (having excluded the investment income generated from the wealth management products of approximately HK$41.5 million for FY2016) would be adjusted to HK$0.19 per Share. The PE Ratio of the Company adjusted in this way would be 8.8 times, which is still within the range of the PE Ratios of the Reference Companies.

The implied PB of the Cancellation Price of 1.2 times is within the range of the Adjusted PB Ratio of the Reference Companies.

2. Privatisation Precedents (as defined below)

We have also followed the norm to identify the privatization precedents available in the market in the past few years so as to ensure relevant precedents were taken into account when considering the merits of the terms of the Proposal. We have sought to identify privatisation precedents (the "**Privatisation Precedents**") exhaustively on Bloomberg and the website of the Stock Exchange based on the criteria that (i) the offeree company was listed on the Stock Exchange before delisting; (ii) the offeree company had a market capitalization implied by its cancellation price of not more than HK$10.0 billion (so as to exclude the mega precedents which are not comparable to the Proposal); (iii) the privatization proposal was carried out by way of scheme of arrangement; (iv) the privatization proposal was first announced and successfully completed during the period from 1 January 2012 up to the Latest Practicable Date; and (v) the offeree company is engaged in the Similar Business so as to ensure meaningful comparison with the Company.

Based on the above criteria, no precedents could be identified unless the last criterion was dropped out. However, if excluding the last criterion, the Independent Shareholders should be reminded that the Privatization Precedents were conducted under different market conditions and the offeree companies involved do not entirely operate in the same industry and business segment as the Group and therefore the Privatisation Precedents could only provide reference to the Independent Shareholders as to the general market appetite to the privatization proposals in the market.

Set out below is the comparison between the Proposal and the Privatisation Precedents in terms of the cancellation price over the share prices and NAV of the offeree companies:

Date of initial announcement	Company (stock code)	Industry	Cancellation Price (HK$)	Market capitalisation at cancellation price	Premium over/ (discount) to the Last Trading Date	Premium over/ (discount) to the Last 30 Days	Premium over/ (discount) to the Last 60 Days	Premium over/ (discount) to the Last 90 Days
19 June 2017	Bloomage Bio Technology Corporation Limited (963)	Medical	16.30	5,946.8	14.0%	24.4%	30.3%	30.3%
29 May 2017	China Metal International Holdings Inc. (319)	Materials	3.01	3,002.0	27.5%	25.9%	22.9%	24.4%
26 July 2016	Peak Sports Products Co., Limited (1968)	Sports Products	2.60	6,211.8	10.6%	15.6%	20.9%	24.4%
8 July 2016	Nirvana Asia Ltd (1438)	Funeral	3.00	8,097.9	22.4%	36.4%	36.4%	37.0%
17 June 2016	Bracell Limited (1768)	Chemical	2.28	7,800.8	44.3%	132.0%	137.5%	156.2%
12 June 2016	TCL Communication Technology Holdings Limited (2618)	Information Technology	7.50	9,589.8	34.7%	47.1%	45.1%	42.1%
29 May 2016	Aupu Group Holding Company Limited (477)	Manufacturing	2.71	2,838.0	24.9%	29.7%	29.7%	30.3%
4 February 2016	Dongpeng Holdings Company Limited (3386)	Manufacturing	4.48	5,681.0	31.8%	46.9%	51.9%	54.5%
26 February 2015	econtext Asia Limited (1390)	Information Technology	4.09	2,121.7	41.0%	59.9%	60.5%	51.3%
8 May 2014	Regent Manner International Holdings Limited (1997)	Technology	1.80	3,869.6	32.4%	37.5%	39.0%	38.5%
2 August 2013	Magic Holdings International Limited (1633)	Consumer retail	6.30	6,538.7	24.8%	25.7%	29.9%	39.7%
30 January 2012	Samling Global Limited (3938)	Resources	0.76	3,263.8	5.6%	43.2%	93.4%	80.5%
	Simple average				26.2%	43.7%	49.8%	50.8%
	Median				26.2%	37.0%	37.7%	39.1%
	Maximum				44.3%	132.0%	137.5%	156.2%
	Minimum				5.6%	15.6%	20.9%	24.4%
	The Proposal				30.4%	34.2%	35.5%	28.8%

Source: Data from the websites of Bloomberg and the Stock Exchange

As set out in the table above, the cancellation prices of all the Privatisation Precedents are at a premium to the last trading day, 30-day, 60-day and 90-day average share price of the subject companies in the Privatisation Precedents but the magnitude of the premiums varied with the industry where the subject companies operate and the market conditions at the time of privatization.

The premiums implied by the Cancellation Price to the Last Trading Day, the 30-day, 60-day and 90-day average Share price of approximately 30.4%, 34.2%, 35.5% and 28.8% respectively, all fall within the range of the premiums represented by the Privatisation Precedents. The Cancellation Price represents a lower premium to its 30-day, 60-day and 90-day average closing price as compared to the simple average premium of the Privatisation Precedents. However, the premium represented by the Cancellation Price is higher than both median and simple average premium to the last trading day of the Privatisation Precedents.

Independent Shareholders should note that all offeree companies in the Privatisation Precedents were engaged in different industries as the Group and under different market conditions and the Privatisation Precedents are for illustration purpose only. Independent Shareholders should also note that the premiums of the cancellation price in the Privatisation Precedents may be different from that of the Proposal.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons in the section headed "Principal Factors and Reasons" above, in particular:

(i) the Directors anticipate that the optimization process of the product mix will incur significant costs (in particular the R&D costs), which may impact the financial performance as well as the share price performance of the Group, and the Proposal will allow the Company to make strategic decisions for long-term benefits whilst free from the pressure of market expectations of short-term profit visibility and share price fluctuation as being a publicly listed company;

(ii) the thin trading liquidity of the Shares (with average daily trading volume below 1.0% of the total issued Shares and below 3.0% of the public float of the Shares during the Review Period) makes it difficult for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares and therefore the Proposal offers a cash exit opportunity for the Independent Shareholders to realise their holdings amid thin trading liquidity and weak price performance of the Shares; and

(iii) the Cancellation Price is higher than the closing prices of the Shares for approximately 83.7% of all the trading days of the Pre-Announcement Period (i.e. from the date on which the Company announced its proposed change of principal business to the Motor Business to the date of the Announcement),

we consider that the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Shareholders are reminded to monitor the trading price and liquidity of the Shares during the period prior to 6 February 2018, being the expected last day for trading in the Shares on the Stock Exchange and should, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme. Shareholders should also keep in mind that, if applicable, dealings in the Shares will be ceased from 6 February 2018, being the expected last day for trading in the Shares on the Stock Exchange up to the withdrawal of listing of the Shares from the Stock Exchange.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

Ms. Leung is licensed person and responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.

This Explanatory Statement constitutes the statement required under Section 671 of the Companies Ordinance.

INTRODUCTION

On 10 November 2017, the Offeror and the Company jointly announced that on 5 November 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders, which, if implemented, will result in the Company becoming wholly-owned by the Offeror and the Offeror Concert Parties, and the withdrawal of listing of the Shares from the Stock Exchange. As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties beneficially owned or controlled 1,965,702,779 Shares, representing approximately 68.63% of the issued share capital of the Company. The Proposal, if proceeded with, will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance. The Offeror also confirmed in the Joint Announcement that there would be no revision to the Cancellation Price and that the Offeror did not reserve a right to do so.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide the Scheme Shareholders with additional information in relation to the Scheme.

THE PROPOSAL

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

THE SCHEME

The Scheme involves a reduction of the issued share capital of the Company by the cancellation of the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of the new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror. The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will be entitled to receive from the Offeror:

HK$2.06 in cash . . . . for every Scheme Share cancelled

The Offeror has advised that the Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The Cancellation Price of HK$2.06 per Scheme Share represents:

(i) a premium of approximately 30.4% over the closing price of HK$1.58 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a premium of approximately 33.8% over the average closing price of approximately HK$1.54 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(iii) a premium of approximately 35.5% over the average closing price of approximately HK$1.52 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;

(iv) a premium of approximately 28.8% over the average closing price of approximately HK$1.60 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(v) a premium of approximately 22.6% over the average closing price of approximately HK$1.68 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;

(vi) a premium of approximately 29.6% to the audited consolidated net asset value per Share of approximately HK$1.59 as at 31 December 2016;

(vii) a premium of approximately 22.6% to the unaudited consolidated net asset value per Share of approximately HK$1.68 as at 30 June 2017; and

(viii) a premium of approximately 2.5% over the closing price of HK$2.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined on an arm's length commercial basis after taking into account (i) the prices of the Shares traded on the Stock Exchange since November of 2015; (ii) the trading multiples (such as price to earnings ratio and price to book ratio) of comparable companies listed on the Stock Exchange that engaged in the manufacture and sales of motors of electrical household appliances business; (iii) with reference to the premium as represented by the cancellation prices over the historical share prices of other successful privatisation of companies listed in Hong Kong by way of scheme of arrangement in the past three years; and (iv) the audited consolidated net asset value per Share as at 31 December 2016 and the unaudited consolidated net asset value per Share as at 30 June 2017.

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK$2.06 per Scheme Share and 898,410,043 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK$1,850,724,688.58. The Company had no other outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through its internal financial resources or from an irrevocable standby letter of credit for an amount of up to HK$1,900,000,000 provided by the Hong Kong Branch of Credit Agricole Corporate & Investment Bank. CMB International, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

Pursuant to section 674(2) of the Companies Ordinance, for a scheme of arrangement that involves a takeover offer to be approved, the votes cast against the scheme of arrangement must not exceed 10% of the voting rights attached to all Disinterested Shares. This requirement is in addition to the requirement under the Companies Ordinance that the scheme of arrangement must be approved by shareholders representing at least 75% of the voting rights of the shareholders present and voting, in person or by proxy, at the court meeting, and to similar voting threshold requirements under the Takeovers Code.

The Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

(a) the approval of the Scheme at the Court Meeting (by way of a poll) by Scheme Shareholders representing at least 75% of the votes attaching to the Scheme Shares that are cast, in person or by proxy, at the Court Meeting, and the number of votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:

  (i) the Scheme is approved (by way of poll) by Scheme Shareholders holding at least 75% of the votes attaching to the Disinterested Shares that are voted either in person or by proxy at the Court Meeting; and

  (ii) the number of votes cast (by way of poll) by Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Disinterested Shares;

(b) the passing of a special resolution(s) by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled;

(c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the issued share capital of the Company involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;

(d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company and the Scheme, respectively;

(e) all necessary authorisations, consents and approvals (including approval in-principle) of any Relevant Authority in relation to the Proposal (including its implementation) having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong and other relevant jurisdictions;

(f) all necessary third party consents in relation to the Proposal required pursuant to any agreement to which any member of the Group is a party having been obtained or waived by the relevant party(ies) and remaining in full force and effect without modification;

(g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Proposal;

(h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme becomes effective;

(i) there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which as a consequence of the Proposal or the Scheme would result in (in each case to an extent which is material in the context of the Group as a whole and in the context of the Proposal):

    (i) any monies borrowed by or any other indebtedness (actual or contingent) of any member of the Group being or becoming repayable (or capable of being declared repayable) immediately or earlier than their or its stated maturity date or repayment date;

(ii) any such agreement, arrangement, licence, permit or instrument (or the rights, liabilities, obligations or interests of any member of the Group thereunder) being terminated or adversely modified (or any material obligation or liability arising or any material action being taken thereunder); or

(iii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Group or any such security (whenever arising) becoming enforceable,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Group is a party or by which any such member or all or any of its assets may be bound, entitled or subject, would result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (iii) of this paragraph (i) (in each case to an extent which is material in the context of the Group as a whole and in the context of the Proposal);

(j) no event having occurred which would make the Proposal, the cancellation of the Scheme Shares or the issue of the new Shares in the Scheme void, unenforceable or illegal or which would prohibit the implementation of the Proposal or impose any additional material conditions or obligations with respect to the Proposal or any part thereof, on the cancellation of the Scheme Shares or the issue of the new Shares in the Scheme; and

(k) since the date of the Joint Announcement:

(i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and

(ii) there not having been instituted or remaining outstanding any litigation, arbitration, proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no such proceedings having been threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member), in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal.

With reference to Conditions (e), (f), (g) and (h), the Company and the Offeror are not aware of any necessary authorisations, consents, approvals (including approval-in-principle), third party consents, Authorisations required. With reference to Condition (i), the Company and the Offeror are not aware of any such provision of any agreement, arrangement, licence, permit or other instrument.

The Offeror reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (j) above) in whole or in part. The Company does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the High Court may direct), failing which the Proposal and the Scheme will lapse. If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn. In accordance with Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not be permitted to invoke all or any of the conditions of the Proposal so as to cause the Scheme to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the Offeror in the context of the Proposal.

None of the Conditions had been satisfied (or waived) as at the Latest Practicable Date.

As of the Latest Practicable Date, there were no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

In accordance with Rule 31.1 of the Takeovers Code, except with the consent of the Executive, neither the Offeror nor any person who acted in concert with it in the course of the Proposal, nor any person who is subsequently acting in concert with any of them, may within 12 months from the date on which the Proposal is withdrawn or lapses, either announce an offer or possible offer for the Company or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting.

Assuming that the above conditions are fulfilled or, as applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Thursday, 15 February 2018, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Tuesday, 20 February 2018 pursuant to Rule 6.15(2) of the Listing Rules. An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Stock Exchange and if the Scheme is withdrawn or lapses.

Warning:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional advisers.

IRREVOCABLE UNDERTAKING

On 29 December 2017, Gaoling Fund, L.P. and YHG Investment, L.P. entered into an irrevocable undertaking in favour of the Offeror pursuant to which each of Gaoling Fund, L.P. and YHG Investment, L.P. has irrevocably undertaken, among other things, that:

(i) it will exercise or procure the exercise of the voting rights attached to all of the Shares owned by it (the "**Relevant Shares**") to vote in favour of the Scheme at the Court Meeting;

(ii) if the Scheme is approved at the Court Meeting, it will exercise or procure the exercise of the voting rights attached to all of the Relevant Shares to vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company and any resolutions proposed at the EGM to assist with the implementation of the Scheme or are necessary for the Scheme to become effective; and

(iii) it shall not, and shall procure that the relevant registered holder of the Relevant Shares shall not: (x) sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Shares owned by it or any interest therein; (y) accept, or give any undertaking (whether conditional or unconditional) to accept, exercise voting rights attached to the Shares owned by it to approve or otherwise agree to, any offer, scheme of arrangement, merger or other business combination made or proposed to be made in respect of such Shares by any person other than the Offeror; or (z) purchase, acquire or otherwise deal or undertake any dealing or make an offer to acquire or deal in any Shares or other securities of the Company (or any interest therein) other than with the prior written consent of the Offeror.

As at the Latest Practicable Date, Gaoling Fund, L.P. and YHG Investment, L.P. hold, in aggregate, 134,068,000 Shares, representing approximately 4.68% of the total issued share capital of the Company.

The Irrevocable Undertaking shall terminate immediately: (a) if the Proposal and the Scheme are otherwise not implemented by the Long Stop Date; (b) if the Scheme is not approved at the Court Meeting; (c) if the reduction of the share capital of the Company is not approved at the EGM; (d) if the High Court does not sanction the Scheme or confirm the reduction of the share capital of the Company; (e) by mutual agreement of Gaoling Fund, L.P., YHG Investment, L.P. and the Offeror; or (f) 90 days from the date of the Irrevocable Undertaking, whichever is the earlier.

SHAREHOLDING STRUCTURE OF THE COMPANY AND EFFECT OF THE PROPOSAL AND THE SCHEME

As at the Latest Practicable Date, the issued share capital of the Company was 2,864,112,822 Shares.

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective and assuming no other new Shares will be issued prior thereto:

Shareholders	**As at the Latest Practicable Date**		**Upon the Scheme becoming effective**	
	Number of shares	*Approximate % of the total issued share capital*[(2)]	*Number of shares*	*Approximate % of the total issued share capital*[(2)]
Offeror				
Midea International Corporation Company Limited[(1)]	64,498,000	2.25	962,908,043	33.62
Offeror Concert Parties				
Midea Holding (Cayman Islands) Limited[(1)]	1,901,204,779	66.38	1,901,204,779	66.38
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	1,965,702,779	68.63	2,864,112,822	100.00
Scheme Shareholders				
Public shareholders	898,410,043	31.37	—	—
Total number of Shares in issue	2,864,112,822	100.00	2,864,112,822	100.00

Notes:

1. The Offeror is directly and wholly-owned by Midea Group Co., Ltd. (000333.SZ), whose shares have been listed on the Shenzhen Stock Exchange since September 2013. Midea Holding (Cayman Islands) Limited is directly and wholly-owned by Midea Investment Holding (BVI) Limited which is in turn directly and wholly-owned by Midea Group Co., Ltd. (000333.SZ). Midea Holding (Cayman Islands) Limited is presumed to be acting in concert with the Offeror under class (1) of the definition of "acting in concert" under the Takeovers Code.

2. All percentages in the above table are approximations.

As at the Latest Practicable Date, the Directors did not hold any Shares.

Assuming that no new Shares will be issued after the Latest Practicable Date up to the Record Date, upon the Scheme having become unconditional and effective, the Offeror will hold approximately 33.62% of the issued share capital of the Company, and the Offeror Concert Parties will hold approximately 66.38% of the issued share capital of the Company, and accordingly the entire issued share capital of the Company will be held by the Offeror and the Offeror Concert Parties.

As at the Latest Practicable Date, the Scheme Shares, comprising 898,410,043 Shares, represent approximately 31.37% of the issued Shares.

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties beneficially own or control 1,965,702,779 Shares, representing approximately 68.63% of the issued Shares. The Shares beneficially owned by the Offeror and the Offeror Concert Parties in respect of the Company will not form part of the Scheme Shares, will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue.

If the Scheme is approved at the Court Meeting in accordance with the requirements of Section 673 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other Conditions are either fulfilled or (to the extent permitted) waived, then the Scheme will become binding on the Company and all the Scheme Shareholders.

If the Scheme becomes effective:

(i) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share by the Offeror;

(ii) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of the new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror;

(iii) the expected withdrawal of the listing of the Shares on the Stock Exchange is expected to take place forthwith following the Effective Date; and

(iv) the Offeror will pay the Cancellation Consideration of HK$2.06 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them on the Record Date.

Pursuant to Rule 2.3 of the Takeovers Code, if the Proposal is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the Independent Financial Adviser, all expenses incurred by the Company in connection with the Proposal shall be borne by the Offeror if the Scheme is not approved. Given that the Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, the Company has agreed that it will bear its own expenses incurred in connection with the Scheme, irrespective of whether the Scheme will become effective.

REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE OFFEROR'S INTENTION IN RELATION TO THE GROUP

The liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.3 million Shares per day, representing only approximately 0.05% of the issued Shares as at the Last Trading Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at an attractive premium over the prevailing market price (particularly in light of the relative underperformance of the share price since the Company's listing in 1993) without having to suffer any illiquidity discount. The Scheme also provides the Scheme Shareholders with the opportunity, if they so wish, to invest the monies received from realising their investments in the Company in alternative investments with higher liquidity.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated as a result of implementation of the Proposal, the funds saved could be used for growing the Company's business operations.

The Offeror intends to continue the existing business of the Company upon successful implementation of the Scheme and the Proposal. The Offeror has no intention to make any major changes to the existing operations and business, or to discontinue the employment of the employees of the Group after implementation of the Scheme and the Proposal. However, the Offeror will continue to assess business opportunities as they arise.

The Offeror accordingly considers that the Scheme provides the Scheme Shareholders with a good opportunity to realise their investments in the Company:

- Premium valuation: The Cancellation Price of HK$2.06 per Scheme Share represents a premium of approximately 30.4% over the closing price per Share on the Last Trading Date.

- Certain and immediate premium over recent trading prices despite low liquidity: The Scheme provides an opportunity for Scheme Shareholders, if they so wish, to dispose of their Shares expeditiously and receive cash at a price above recent market prices.

IF THE SCHEME DOES NOT BECOME EFFECTIVE

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers. The Offeror and the Offeror Concert Parties have no intention of disposing any of its approximately 68.63% interest in the Company if the Scheme does not become effective. Considering that the Offeror and the Offeror Concert Parties were interested in approximately 68.63% of the issued Shares of the Company as at the Latest Practicable Date, the Directors are of the belief that it is unlikely the Scheme Shareholders will receive any other offer from a third party to acquire their Shares if the Scheme does not become effective.

INFORMATION ON THE OFFEROR

The Offeror is a limited liability company incorporated in Hong Kong which is directly and wholly-owned by Midea Group Co., Ltd. (000333.SZ). The principal activity of the Offeror is investment holding.

As at the Latest Practicable Date, the directors of the Offeror are Mr. Fang Hongbo, Mr. Li Feide and Mr. Xiao Mingguang.

As at the Latest Practicable Date, the directors of Midea Group Co., Ltd. (000333.SZ) are Mr. Fang Hongbo, Mr. Gu Yanmin, Mr. Yin Bitong, Mr. Zhu Fengtao, Mr. Li Feide, Mr. He Jianfeng, Mr. Guo Xuejin, Ms. Li Wenjing, Mr. Rui Meng and Mr. Wu Shinong.

INFORMATION ON THE OFFEROR CONCERT PARTIES

The Offeror is directly and wholly-owned by Midea Group Co., Ltd. (000333.SZ). Midea Holding (Cayman Islands) Limited is directly and wholly-owned by Midea Investment Holding (BVI) Limited which is in turn directly and wholly-owned by Midea Group Co., Ltd. (000333.SZ). Midea Holding (Cayman Islands) Limited is presumed to be acting in concert with the Offeror under class (1) of the definition of "acting in concert" under the Takeovers Code.

As at 30 September 2017, the registered capital of Midea Group Co., Ltd. (000333.SZ) is owned as to approximately 33.78% by Midea Holding Co., Ltd. The shares of Midea Group Co., Ltd. (000333.SZ) have been listed on the Shenzhen Stock Exchange since September 2013 and its largest shareholder is Midea Holding Co., Ltd., whose registered capital is in turn owned as to approximately 94.55% by Mr. He Xiangjian.

INFORMATION ON THE COMPANY

The Company is a limited liability company incorporated in Hong Kong whose shares have been listed on the Main Board of the Stock Exchange since 1993. The Group is principally engaged in the manufacturing, distribution and selling of motors and electronic and electric components for electrical household appliances in the PRC and overseas.

Set out below is a summary of certain audited financial information of the continuing operations of the Group for the financial years ended 31 December 2015 and 31 December 2016 extracted from the Company's annual reports:

	Year ended 31 December 2016	**Year ended 31 December 2015**
	HK$'000	*HK$'000*
Income	7,954,460	8,040,366
Operating profit	727,306	559,650
Profit before income tax	769,935	631,021
Profit for the year	591,629	522,699
Consolidated net asset value	4,555,125	4,401,801

The attention of the Scheme Shareholders is drawn to Appendix I to this Scheme Document which sets out financial information relating to the Group.

WITHDRAWAL OF THE LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the date on which the Scheme becomes effective.

The Company does not intend to retain its listing on the Stock Exchange. Conditional upon the approval of the Scheme at the Court Meeting and the passing of the special resolution to give effect to the Scheme at the EGM, the listing of the Shares from the Stock Exchange will be withdrawn in accordance with Rule 6.15(2) of the Listing Rules as soon as practicable. If the Scheme becomes effective on Thursday, 15 February 2018, the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn at 9:00 a.m. on Tuesday, 20 February 2018.

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the conditions described in the section headed "Conditions of the Proposal and the Scheme" has not been fulfilled or waived, as applicable. The Scheme Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme is withdrawn or not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

ENTITLEMENTS TO AND PAYMENT OF CANCELLATION CONSIDERATION

In order to qualify to vote at the Court Meeting and the EGM, all transferees of the Shares must lodge the duly completed transfer forms, together with the relevant share certificate, with the Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 26 January 2018.

Upon the Scheme becoming effective, the Cancellation Consideration will be paid to the Scheme Shareholders whose names appear on the register of members of the Company on the Record Date as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) of the Effective Date. On the basis that the Scheme becomes effective on Thursday, 15 February 2018, the cheques for the payment of the Cancellation Consideration will be despatched on or before Wednesday, 28 February 2018, in compliance with Rule 20.1 of the Takeovers Code.

The cheques for the payment of the Cancellation Consideration will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the register of members in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and none of the Offeror, the Company and any of their respective officers or agents will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Thursday, 15 February 2018.

Settlement of the Cancellation Consideration to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

OVERSEAS SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The making and implementation of the Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

As at the Latest Practicable Date, based on the records in the Company's register of members, outside of Hong Kong, the Company had three overseas Shareholders in the PRC holding 1,362,800 Shares in aggregate, three overseas Shareholders in Japan holding 6,000 Shares in aggregate, and one overseas Shareholder in Macau holding 22,000 Shares. The Offeror had been advised by local counsels in these jurisdictions that this Scheme Document may be sent to such overseas Scheme Shareholders, and will do so accordingly.

The Mandatory Tender Offer Requirements under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") do not apply to the Scheme. Accordingly, the Offeror has not and will not file a tender offer registration statement under the FIEA in Japan or it will not distribute a tender offer prospectus in Japanese language to any Scheme Shareholders who are resident in Japan.

When any Scheme Shareholders in Japan receive cash in consideration of cancellation of the Scheme Shares, they may be subject to certain reporting obligations under applicable laws and regulations of Japan. Neither of the Offeror nor the Company shall be liable for any failure to comply with such reporting obligations by such Scheme Shareholders.

TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong, in this respect.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Consideration will make them liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Company, the Offeror, CMB International, the Independent Financial Adviser, their respective officers or advisers and any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

GENERAL

The Offeror confirms that, as at the Latest Practicable Date:

(i) save as disclosed in the section headed "Shareholding structure of the Company and effect of the Proposal and the Scheme" above, none of the Offeror or each of the Offeror Concert Parties owns or has control or direction over any shares, rights over shares, convertible securities, warrants or options of the Company;

(ii) none of the Offeror or each of the Offeror Concert Parties had entered into any arrangements or contracts in relation to any outstanding derivative in respect of the securities of the Company;

(iii) save for the Irrevocable Undertaking, none of the Offeror or each of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal and the Scheme. The Offeror and the Offeror Concert Parties have indicated that those Shares held by them will be voted in favour of the special resolution to be proposed at the EGM;

(iv) save for the Proposal and the Scheme, there were no arrangements (whether by way of option, indemnity or otherwise) relating to the relevant securities as described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any of the Offeror Concert Parties and any other person in relation to the shares of the Offeror or the Company which might be material to the Proposal and the Scheme;

(v) save for the Conditions set out in the section headed "Conditions of the Proposal and the Scheme" above, there was no agreement or arrangement to which the Offeror or each of the Offeror Concert Parties is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposal;

(vi) none of the Offeror or each of the Offeror Concert Parties had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and

(vii) none of the Offeror or each of the Offeror Concert Parties had any dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date.

In accordance with Rule 22 of the Takeovers Code, associates of the Offeror and the Company (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in paragraphs (a) to (d) in Note 4 to Rule 22 of the Takeovers Code) of the Offeror or the Company) are hereby reminded to disclose their dealings in any securities of the Company pursuant to the requirements of the Takeovers Code during the offer period commencing on 10 November 2017, being the date of the Joint Announcement.

COURT MEETING AND THE EGM

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme (with or without modification). Only the Scheme Shareholders will be entitled to attend and vote at the Court Meeting under Rule 2.10 of the Takeovers Code. The Shares beneficially owned by the Offeror and the Offeror Concert Parties in respect of the Company will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. As at the Latest Practicable Date, the Directors did not hold any Shares.

Gaoling Fund, L.P. and YHG Investment, L.P. have entered into the Irrevocable Undertaking in favour of the Offeror pursuant to which each of Gaoling Fund, L.P. and YHG Investment, L.P. has irrevocably undertaken that it will exercise or procure the exercise of the voting rights attached to all of the Shares owned by it to vote in favour of the Scheme at the Court Meeting.

Immediately following the conclusion of the Court Meeting, the EGM will be held for the purpose of considering and, if thought fit, passing the special resolution to give effect to the Scheme, including the reduction of the issued share capital of the Company. All

Shareholders will be entitled to attend and vote in respect of the special resolution at the EGM. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled. The Offeror Concert Parties will also be entitled to vote on the special resolution to be proposed at the EGM to approve and give effect to the Scheme.

Gaoling Fund, L.P. and YHG Investment, L.P. have entered into the Irrevocable Undertaking in favour of the Offeror pursuant to which each of Gaoling Fund, L.P. and YHG Investment, L.P. has irrevocably undertaken that, if the Scheme is approved at the Court Meeting, it will exercise or procure the exercise of the voting rights attached to all of the Shares owned by it to vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the share capital of the Company and any resolutions proposed at the EGM to assist with the implementation of the Scheme or are necessary for the Scheme to become effective.

Notice of the Court Meeting is set out on pages CM-1 to CM-3 of this Scheme Document. The Court Meeting will be held on Monday, 5 February 2018 at the time and place specified in the notice.

Notice of the EGM is set out on pages EGM-1 to EGM-3 of this Scheme Document. The EGM will be held at the same place and on the same date at 10:30 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

ACTIONS TO BE TAKEN

Actions to be taken by Shareholders

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 29 January 2018 to Monday, 5 February 2018 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 26 January 2018.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of

proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged by 10:00 a.m. on Friday, 2 February 2018 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged by 10:30 a.m. on Friday, 2 February 2018.

The completion and return of a form of proxy for each of the Court Meeting or the EGM (as the case may be) will not preclude you from attending and voting in person at the Court Meeting or the EGM (as the case may be) or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Stock Exchange and if the Scheme is withdrawn or lapses.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS

The Company is not permitted under its articles of association to recognise any person as holding any Shares through any trust except as provided therein as required by law or ordered by a court of competent jurisdiction. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS).

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote in person at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay a withdrawal fee to CCASS per board lot withdrawn, a registration fee, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

FURTHER INFORMATION

Further information in relation to the Proposal is set out in the appendices in this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, CMB International, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents, affiliates or any other persons involved in the Proposal has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

LANGUAGE

In case of any inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.

1. FINANCIAL SUMMARY

The following is a summary of the financial information of the Group for each of the three years ended 31 December 2014, 2015, 2016 and the half year ended 30 June 2017 extracted from the Company's annual reports for the years ended 31 December 2015, 2016, and the Company's interim report for the six months ended 30 June 2017.

PricewaterhouseCoopers, the auditor of the Company, did not issue any qualified opinion on the audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

There was no exceptional item because of size, nature or incidence that was required to be disclosed in the financial statements of the Group for the 3 years ended 31 December 2014, 2015, 2016 and the half year ended 30 June 2017.

Consolidated Income Statement

	For the six months ended 30 June	**Year ended 31 December**		
	2017	**2016**	**2015**	**2014**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	4,972,181	7,954,460	8,040,366	9,273,399
Cost of goods sold	(4,407,561)	(6,776,454)	(6,930,634)	(7,848,965)
Gross profit	564,620	1,178,006	1,109,732	1,424,434
Other gains/(loss) — net	80,770	149,838	90,279	(10,258)
Selling and marketing expenses	(88,031)	(216,228)	(212,013)	(214,414)
Administrative expenses	(118,174)	(384,310)	(428,348)	(350,430)
Operating profit	439,185	727,306	559,650	849,332
Finance incomes	2,948	27,775	35,947	16,416
Finance expenses	(22,815)	(3,971)	(15,972)	(54,609)

	For the six months ended 30 June	Year ended 31 December		
	2017	**2016**	**2015**	**2014**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finance (expenses)/incomes — net	(19,867)	23,804	19,975	(38,193)
Share of profit of associates accounted for using the equity method	—	18,825	51,396	41,253
Profit before income tax	419,318	769,935	631,021	852,392
Income tax expense	(76,480)	(178,306)	(108,322)	(171,217)
Profit for the year	342,838	591,629	522,699	681,175
Profit attributable to:				
Owners of the Company	342,502	596,574	525,030	678,372
Non-controlling interests	336	(4,945)	(2,331)	2,803
	342,838	591,629	522,699	681,175
Earnings per share attributable to the owners of the Company, expressed in HK cents per share				
Basic	11.96	20.83	18.34	23.76
Diluted	11.96	20.83	18.33	23.75

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	Year ended 31 December		
	2017	**2016**	**2015**	**2014**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	342,838	591,629	522,699	681,175
Other comprehensive income/(loss):				
Items that may be reclassified to profit or loss				
Currency translation differences	136,984	(283,125)	(265,564)	(11,198)
Change in value of available-for-sale financial assets	(10,144)	10,186	11,704	6,011
Other comprehensive income/(loss) for the year, net of tax	126,840	(272,939)	(253,860)	(5,187)
Total comprehensive income for the year	469,678	318,690	268,839	675,988
Total comprehensive income for the year attributable to:				
— Owners of the Company	468,130	327,197	274,900	673,387
— Non-controlling interests	1,548	(8,507)	(6,061)	2,601
	469,678	318,690	268,839	675,988

2. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2016 extracted from the Company's annual report for the year ended 31 December 2016. Capitalised terms used in this section shall have the same meanings as those defined in such annual report.

Consolidated Statement of Financial Position
As at 31 December 2016

		As at 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	180,329	197,646
Property, plant and equipment	7	1,042,310	1,194,052
Investment properties	8	41,028	46,591
Intangible assets	9	78,971	80,455
Investments accounted for using the equity method	11	—	345,897
Deferred income tax assets	19	30,032	19,499
Available-for-sale financial assets	12	122,936	120,306
Prepayments for property, plant and equipment	14	11,863	5,103
		1,507,469	2,009,549
Current assets			
Inventories	13	891,010	554,938
Trade and other receivables	14	2,205,314	2,986,724
Derivative financial instruments	22	5,479	9,249
Available-for-sale financial assets	12	1,123,535	720,857
Pledged bank deposits	15	36,790	76,960
Cash and cash equivalents	16	1,661,429	1,236,209
		5,923,557	5,584,937
Total assets		7,431,026	7,594,486

		As at 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
EQUITY			
Equity attributable to the owners of the Company			
Share capital	17	4,967,225	4,966,858
Other reserves	18	(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

		As at 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	150,379	136,224
Deferred government grants	20	61,028	32,137
		211,407	168,361
Current liabilities			
Trade and other payables	21	2,611,834	2,989,166
Derivative financial instruments	22	—	7,751
Current income tax liabilities		52,660	6,757
Borrowings	23	—	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

The notes on pages 98 to 203 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 91 to 203 were approved by the board of directors on 17 March 2017 and were signed on its behalf.

Director	*Director*
Xiang Weimin	**Pan Xinling**

Consolidated Income Statement
For the year ended 31 December 2016

		Year ended 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
Revenue	5	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	24	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	27,775	35,947
Finance expenses	27	(3,971)	(15,972)
Finance incomes — net	27	23,804	19,975
Share of profit of associates accounted for using the equity method	11	18,825	51,396
Profit before income tax		769,935	631,021
Income tax expense	28	(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	29	20.83	18.34
Diluted	29	20.83	18.33

The notes on pages 98 to 203 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Year ended 31 December	
	2016	**2015**
	HK$'000	*HK$'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

The notes on pages 98 to 203 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Attributable to the owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2015	4,965,641	(2,539,934)	1,838,646	4,264,353	65,491	4,329,844
Comprehensive income:						
Profit/(loss) for the year	—	—	525,030	525,030	(2,331)	522,699
Other comprehensive income:						
Available-for-sale financial assets	—	11,704	—	11,704	—	11,704
Currency translation differences	—	(261,834)	—	(261,834)	(3,730)	(265,564)
Total comprehensive income	—	(250,130)	525,030	274,900	(6,061)	268,839
Transaction with owners:						
Transfer to statutory reserves *(note 18)*	—	16,057	(16,057)	—	—	—
Share option scheme *(note 17)*						
— proceeds from shares issued	1,240	—	—	1,240	—	1,240
— share issuance expenses	(23)	—	—	(23)	—	(23)
Contribution by owners relating to share-based payment *(note 18(b))*	—	16,672	—	16,672	—	16,672
Dividend relating to 2014 *(note 30)*	—	—	(214,771)	(214,771)	—	(214,771)
Total transaction with owners	1,217	32,729	(230,828)	(196,882)	—	(196,882)
Balance at 31 December 2015	4,966,858	(2,757,335)	2,132,848	4,342,371	59,430	4,401,801

	Attributable to the owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2016	4,966,858	(2,757,335)	2,132,848	4,342,371	59,430	4,401,801
Comprehensive income:						
Profit/(loss) for the year	—	—	596,574	596,574	(4,945)	591,629
Other comprehensive income:						
Available-for-sale financial assets	—	10,186	—	10,186	—	10,186
Currency translation differences	—	(279,563)	—	(279,563)	(3,562)	(283,125)
Total comprehensive income	—	(269,377)	596,574	327,197	(8,507)	318,690
Transaction with owners:						
Transfer to statutory reserves *(note 18)*	—	56,632	(56,632)	—	—	—
Share option scheme *(note 17)*						
— proceeds from shares issued	393	—	—	393	—	393
— share issuance expenses	(26)	—	—	(26)	—	(26)
Contribution by owners relating to share-based payment *(note 18(b))*	—	20,395	—	20,395	—	20,395
Unclaimed dividend forfeited *(note 21(c))*	—	—	7	7	—	7
Dividend relating to 2015 *(note 30)*	—	—	(186,135)	(186,135)	—	(186,135)
Others	—	11,538	—	11,538	(11,538)	—
Total transaction with owners	367	88,565	(242,760)	(153,828)	(11,538)	(165,366)
Balance at 31 December 2016	4,967,225	(2,938,147)	2,486,662	4,515,740	39,385	4,555,125

The notes on pages 98 to 203 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

		Year ended 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Cash generated from operations	31(a)	905,001	660,338
Interest paid		(3,971)	(15,972)
Interest received		9,784	24,137
Income tax paid		(122,696)	(96,991)
Net cash generated from operating activities		788,118	571,512
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(101,824)	(266,140)
(Increase)/decrease in prepayments for property, plant and equipment	14	(6,760)	50,708
Investment income from available-for-sale financial assets — wealth management products	24	41,510	20,852
Proceeds from disposal of property, plant and equipment	31(b)	4,649	19,838
Development cost	9	(20,464)	(21,061)
Proceeds from deferred government grants	20	32,944	—
Proceeds from sale of associates	31(c)	369,417	—
Dividends received		16,214	26,784
Proceeds from sales of available-for-sale financial assets — wealth management products		699,995	—
Purchases of available-for-sale financial assets — wealth management products		(1,166,658)	(745,362)
Net cash used in investing activities		(130,977)	(914,381)

		Year ended 31 December	
		2016	**2015**
	Note	*HK$'000*	*HK$'000*
Cash flows from financing activities			
Proceeds from borrowings		—	476,038
Repayments of borrowings		(20,650)	(537,997)
Decrease in pledged bank deposits		40,170	2,968
Dividends paid		(186,135)	(214,771)
Proceeds from issuance of ordinary shares	17(a)	393	1,240
Shares issuance expenses	17(a)	(26)	(23)
Net cash used in financing activities		(166,248)	(272,545)
Net increase/(decrease) in cash and cash equivalents		490,893	(615,414)
Cash and cash equivalents at the beginning of the year		1,236,209	1,939,564
Effect on exchange difference		(65,673)	(87,941)
Cash and cash equivalents at end of the year	16	1,661,429	1,236,209

The notes on pages 98 to 203 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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 on 17 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 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.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination involving entities under common control

For business combination involving entities under common control, the consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(b) Business combination other than involving entities under common control

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non- controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re- measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition- date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (note 2.9.1).

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Interests in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is different from the Company's functional currency of Renminbi ("RMB"), in view of that the shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance incomes — net'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains — net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the available- for-sale revaluation reserve in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the reporting period;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Leasehold land and land use rights

Leasehold land and land use rights are up-front to acquire long-term interests in the usage of land and it is accounted for as an operating lease. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

	Estimated useful lives
Buildings	10–20 years
Furniture, fixtures and decoration	3–5 years
Plant and machinery	5–10 years
Motor vehicles	5–10 years
Electronic and other equipment	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction-in-progress represents the direct costs of construction incurred and machinery pending to installation plus interest capitalised up to date of completion of the construction of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and put into use. Construction-in- progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains — net' in the consolidated income statement.

2.8 Investment properties

Property that is held for long-term rental yields, and that is not occupied by the Group, are classified as investment property. Investment property is stated at historical cost less accumulated depreciation and impairment loss, if any.

Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss during the financial period in which they are incurred.

Depreciation of investment property is calculated using the straight- line method to allocate cost to their residual values over their estimated lease period.

2.9 Intangible assets

2.9.1 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.9.2 Technology

Technology acquired is initially measured at the purchase costs and amortised on a straight-line basis over the estimated useful lives.

2.9.3 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities (relating to the design and testing of new or improved products) is capitalised under the category of development cost if the product or process is technically and commercially feasible, the Group has sufficient resources and the intention to complete the development, and if the cost can be reliably measured. Upon the commencement of the commercial production of a product, the expenditure on development cost amortised on a straight-line basis over the period of its expected benefit. Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Subsequent expenditure on development activities after its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non- financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available- for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (notes 2.16 and 2.17).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other gains — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other gains when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other gains. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other gains when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if not, the gain or loss from fair value change is recognised immediately in the consolidated income statement within 'other gains — net'.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowings Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) Retirement benefits obligation

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee.

The Group's subsidiaries incorporated in the PRC make contributions to a state-sponsored defined contribution scheme for the Group's local staff on a monthly basis pursuant to laws of the PRC and relevant regulations issued by local social security authorities.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

The Group has no further payment obligations once the contributions have been paid.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.24 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among group entities

The grant by the Company's ultimate holding company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as share- based payment expenses, with a corresponding credit to equity.

2.25 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans of the associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Group.

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of finished goods and raw materials

Sales of finished goods and raw materials are recognised when an entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Rental income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk, liquidity risk and concentration risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of its business activities are denominated in foreign currencies, primarily with respect to the HK$, the United States dollar ("USD") and the Euro ("EUR").

To manage their foreign exchange risks arising from future commercial transactions, entities in the Group enter into forward contracts, transacted with the commercial banks. The directors are of the view that the Group's exposure to foreign exchange risk is manageable.

At 31 December 2016, if the HK$ has weakened/strengthened by 5% against the RMB with all other variables held constant, the post-tax profit for the year would have been HK$51,000 (2015: HK$226,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK$-denominated cash and cash equivalents, other receivables and other payables.

At 31 December 2016, if the USD has weakened/strengthened by 5% against the RMB with all other variables held constant, the post-tax profit for the year would have been HK$55,207,000 (2015: HK$18,403,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents, trade and other receivables, trade and other payables.

At 31 December 2016, if the EUR has weakened/strengthened by 5% against the RMB with all other variables held constant, the post-tax profit for the year would have been HK$10,629,000 (2015: HK$6,056,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated cash and cash equivalents, trade and other receivables, trade and other payables.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings. All the borrowings obtained at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2016 and 2015, the Group did not have any long- term borrowings.

The Group's amounts due from/(to) related parties were issued at interest free, and expose the Group to fair value interest rate risk.

The directors are of the view that the interest rate risk is not material as at 31 December 2016.

(iii) Price risk

The Group exposes to commodity price risk, mainly due to the fluctuations in prices of copper and aluminium, which are key raw materials to the Group's products. The price risk due to copper and aluminium is reduced through the derivatives market and through certain clause in contracts with our customers to enable the Group to have the flexibility to pass the increases in raw material costs to the customers.

At 31 December 2016, if the copper and aluminium price had been 5% higher/lower with other variables held constant, the post-tax profit for the year would have been of HK$10,413,000 (2015: HK$9,211,000) higher/lower, representing the change in fair value of copper and aluminium derivatives at the end of the reporting period.

The Group is not exposed to equity securities price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, pledged bank deposits, derivative financial instruments, available-for-sale financial assets, due from related parties and trade and other receivables.

For cash and cash equivalents, pledged bank deposits, derivative financial instruments and available-for-sale financial assets, management manages the credit risk by transacting with state- owned financial institutions and reputable commercial banks. The maximum exposure to the credit risk before collateral held or other credit enhancements relating to cash and cash equivalents, pledged bank deposits, derivative financial instruments and available-for-sale financial assets, were their carrying value as disclosed in note 16, note 15, note 22 and note 12, respectively, as at 31 December 2016 and 2015.

For trade and other receivables and due from related parties, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the view that the risk of default by these counterparties is low.

For financial guarantees provided for the associates, the Group monitors the credit quality of the associates by taking into account their financial position and business development plan. During the year, the associates was disposed and the financial guarantees provided for the associates were released.

	2016	**2015**
	HK$'000	*HK$'000*
	Face value	*Face value*
Financial guarantees		
— bank loans drawn *(note 34)*	—	179,045

(c) Liquidity risk

Liquidity risk management includes maintaining sufficient cash balance, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Group's non-derivative financial liabilities and net-settled financial derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Over 2 years**
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2016			
Trade and other payables	2,611,834	—	—
At 31 December 2015			
Borrowings	20,731	—	—
Trade and other payables	2,989,166	—	—
Derivative financial instruments	7,751	—	—
Principal amount of financial guarantees			
— bank loans drawn	179,045	—	—

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The Group's strategy for the year ended 31 December 2016 was to maintain a gearing ratio under 75% or had a net cash position. This ratio was calculated as net debt divided by total equity. Net debt is calculated as total borrowings less pledged bank deposits and cash and cash equivalents. As the Group was in a net cash position as at 31 December 2016 and 2015, gearing ratio was not applicable.

	2016	**2015**
	HK$'000	*HK$'000*
Cash and cash equivalents *(note 16)*	1,661,429	1,236,209
Pledged bank deposits	36,790	76,960
Less: Total borrowings *(note 23)*	—	(20,650)
Net cash	1,698,219	1,292,519
Total equity	4,555,125	4,401,801
Gearing ratio *(%)*	N/A	N/A

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2016.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Financial assets at fair value through profit or loss				
Derivative financial instruments				
— Commodity futures contracts	89	—	—	89
— Foreign exchange forward contracts	—	5,390	—	5,390
Available-for-sale financial assets				
— Wealth management products	—	1,123,535	—	1,123,535
— Equity investments	—	—	122,936	122,936

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2015.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Financial assets at fair value through profit or loss				
Derivative financial instruments				
— Commodity futures contracts	7,963	—	—	7,963
— Foreign exchange forward contracts	—	1,286	—	1,286
Available-for-sale financial assets				
— Wealth management products	—	720,857	—	720,857
— Equity investments	—	—	120,306	120,306
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
— Commodity futures contracts	1,688	—	—	1,688
— Foreign exchange forward contracts	—	6,063	—	6,063

There were no transfers between level 1 and level 2 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise commodity futures contracts.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, foreign exchange forward contracts) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of foreign exchange forward contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2015 and 2016:

	Available-for-sale financial assets
	HK$'000
At 1 January 2015	118,678
Net gains transferred to equity	8,900
Currency translation differences	(7,272)
At 31 December 2015	120,306
At 1 January 2016	120,306
Net gains transferred to equity	10,707
Currency translation differences	(8,077)
At 31 December 2016	122,936

If the fair value of equity investments would be shifted by 10%, the impact on the net gains transferred to equity would be HK$1,071,000.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9.1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of certain key assumptions (note 9). Changing in such key assumptions selected by management, including the discount rates or the growth rate assumptions, could materially affect the net present value used in the impairment test.

If the estimated pre-tax discount rate applied to the discounted cash flows for the CGU of GD Welling and Changzhou Welling had been 2% and 7% higher than management's estimates respectively, the recoverable amount of goodwill would be lower than its carrying amount and impairment of goodwill would be recognised.

If the estimated gross margin of the CGU of GD Welling and Changzhou Welling had been 2% and 1% lower than management's estimates respectively, the recoverable amount of goodwill would be lower than its carrying amount and impairment of goodwill would be recognised.

If the growth rate of the CGU of GD Welling and Changzhou Welling had been 5% and 1% lower than management's estimates respectively, the recoverable amount of goodwill would be lower than its carrying amount and impairment of goodwill would be recognised.

(b) Income taxes

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

(c) Useful lives adopted for the calculation of depreciation of property, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles.

If the estimated useful lives of property, plant and equipment had been higher/lower by 10% from management's estimates, the depreciation charge would have decreased/increased by HK$16,103,000 and HK$19,681,000 (2015: HK$17,156,000 and HK$20,968,000), respectively.

(d) Provision for impairment of inventories

Provision for impairment of inventories is based on the net realisable value which is the selling price in the ordinary course of business, less applicable variable selling expenses. The calculation of the net realisable value is determined based on management's estimates of the selling price and variable selling expenses according to prevailing market conditions.

The amount of impairment of inventories included in the consolidated income statement for the year ended 31 December 2016 is HK$2,963,000 (2015: HK$874,000).

(e) Impairment of trade receivables

Management reviews its trade receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, management makes judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, management makes judgments as to whether an impairment loss should be recorded as an expense.

Provision for impairment of trade receivables of the Group for the year ended 31 December 2016 is HK$56,926,000 (2015: HK$54,218,000).

5 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 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.

6 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Opening net book amount	197,646	215,212
Amortisation charge	(4,991)	(5,213)
Currency translation differences	(12,326)	(12,353)
Closing net book amount	180,329	197,646

At 31 December 2016 and 2015, no leasehold land and land use rights have been pledged as security for the Group's banking facilities (note 23).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and decoration	Plant and machinery	Motor vehicles	Electronic and other equipment	Construction-in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015							
Cost	557,916	30,536	1,198,633	28,218	132,686	90,904	2,038,893
Accumulated depreciation	(162,635)	(19,488)	(499,904)	(17,180)	(93,007)	—	(792,214)
Net book amount	395,281	11,048	698,729	11,038	39,679	90,904	1,246,679
Year ended 31 December 2015							
Opening net book amount	395,281	11,048	698,729	11,038	39,679	90,904	1,246,679
Additions	3,538	30,412	155,342	1,291	52,113	23,444	266,140
Currency translation differences	(21,958)	(407)	(35,527)	(500)	(1,651)	(5,303)	(65,346)
Disposals	(3,095)	(11,193)	(46,585)	(940)	(2,425)	(471)	(64,709)
Transfers	3,755	433	76,059	—	5,995	(86,242)	—
Depreciation	(28,198)	(6,065)	(121,354)	(3,663)	(29,432)	—	(188,712)
Closing net book amount	349,323	24,228	726,664	7,226	64,279	22,332	1,194,052
At 31 December 2015							
Cost	529,512	48,184	1,212,668	23,932	169,422	22,332	2,006,050
Accumulated depreciation	(180,189)	(23,956)	(486,004)	(16,706)	(105,143)	—	(811,998)
Net book amount	349,323	24,228	726,664	7,226	64,279	22,332	1,194,052
Year ended 31 December 2016							
Opening net book amount	349,323	24,228	726,664	7,226	64,279	22,332	1,194,052
Additions	224	3,012	39,815	627	30,780	27,366	101,824
Currency translation differences	(20,852)	(1,389)	(41,965)	(341)	(2,365)	(1,417)	(68,329)
Disposals	(208)	(228)	(3,967)	(191)	(3,478)	(37)	(8,109)
Transfers	4,057	(6,717)	1,538	1,580	16,340	(16,798)	—
Depreciation	(28,059)	(7,064)	(98,743)	(2,821)	(40,441)	—	(177,128)
Closing net book amount	304,485	11,842	623,342	6,080	65,115	31,446	1,042,310
At 31 December 2016							
Cost	495,515	35,314	1,154,090	23,979	198,307	31,446	1,938,651
Accumulated depreciation	(191,030)	(23,472)	(530,748)	(17,899)	(133,192)	—	(896,341)
Net book amount	304,485	11,842	623,342	6,080	65,115	31,446	1,042,310

Depreciation charge of HK$146,591,000 (2015: HK$172,453,000) has been charged to cost of goods sold, HK$321,000 (2015: HK$606,000) to selling and marketing expenses, and HK$30,216,000 (2015: HK$15,653,000) to administrative expenses.

As at 31 December 2016 and 2015, construction-in-progress mainly comprises new manufacturing equipment being constructed.

8 INVESTMENT PROPERTIES

	2016	**2015**
	HK$'000	*HK$'000*
Opening net book amount	46,591	52,435
Depreciation	(2,722)	(2,898)
Currency translation differences	(2,841)	(2,946)
Closing net book amount	41,028	46,591
Cost	54,906	58,624
Accumulated depreciation	(13,878)	(12,033)
Net book amount	41,028	46,591

The fair value of the Group's investment properties as at 31 December 2016 was HK$48,081,000 (2015: HK$51,951,000), as estimated by the directors of the Group. It falls under level 3 in the fair value hierarchy. No valuation has been performed by independent qualified professional valuers.

The rental income of the investment properties in 2016 was HK$4,083,000 (2015: HK$4,348,000).

As at 31 December 2016 and 2015, the Group had no unprovided contractual obligations for future repairs and maintenance.

(a) Leasing arrangements

Investment properties have been leased to tenants under long-term operating leases with rentals payable quarterly.

Minimum lease receivables under non-cancellable operating leases of investment properties not recognised in the financial statements are as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Not later than one year	4,083	1,812
Later than one year and not later than five years	1,701	—
	5,784	1,812

The investment properties of the Group is situated in the PRC.

9 INTANGIBLE ASSETS

	Goodwill	Technology	Development cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015				
Cost	29,927	31,795	17,066	78,788
Accumulated amortisation	—	(10,333)	—	(10,333)
Net book amount	29,927	21,462	17,066	68,455
Year ended 31 December 2015				
Opening net book amount	29,927	21,462	17,066	68,455
Additions	—	—	21,061	21,061
Amortisation charge	—	(3,116)	(1,299)	(4,415)
Currency translation differences	(1,746)	(1,131)	(1,769)	(4,646)
Closing net book amount	28,181	17,215	35,059	80,455
At 31 December 2015				
Cost	28,181	29,940	36,358	94,479
Accumulated amortisation	—	(12,725)	(1,299)	(14,024)
Net book amount	28,181	17,215	35,059	80,455
Year ended 31 December 2016				
Opening net book amount	28,181	17,215	35,059	80,455
Additions	—	—	20,464	20,464
Amortisation charge	—	(2,926)	(9,359)	(12,285)
Written off	—	—	(4,402)	(4,402)
Currency translation differences	(1,787)	(969)	(2,505)	(5,261)
Closing net book amount	26,394	13,320	39,257	78,971
At 31 December 2016				
Cost	26,394	28,042	48,616	103,052
Accumulated amortisation	—	(14,722)	(9,359)	(24,081)
Net book amount	26,394	13,320	39,257	78,971

Amortisation charge of HK$12,285,000 (2015: HK$4,415,000) has been charged to administrative expenses.

The goodwill is attributable to the synergies expected to arise upon the Group's acquisition of the cash-generating units ("CGU") of Guangdong Welling Motor Manufacturing Co., Ltd. ("GD Welling") and Changzhou Welling Motor Manufacturing Co., Ltd. ("Changzhou Welling") located in the PRC from the third parties. A summary of the goodwill allocation is presented as follows:

	2016	2015
	HK$'000	*HK$'000*
GD Welling	22,057	23,551
Changzhou Welling	4,337	4,630
	26,394	28,181

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

	GD Welling	Changzhou Welling
As at 31 December 2016		
Gross margin (budgeted gross margin)	12%	13%
Volume growth rate	6%	9%
Long term growth rate	1%	3%
Discount rate (pre-tax discount rate applied to the cash flow projections)	13%	13%
As at 31 December 2015		
Gross margin (budgeted gross margin)	12%	13%
Volume growth rate	7%	10%
Long term growth rate	1%	3%
Discount rate (pre-tax discount rate applied to the cash flow projections)	13%	13%

Management determined the compound annual volume growth rate for each CGU covering over the five-year forecast period to be a key assumption. The volume of sales in each period is the main driver for revenue and costs. The compound annual volume growth rate is based on past performance and management's expectations for the market development. The long term growth rates used are consistent with the forecasting's included in industry report. The discount rates used are pre-tax and reflect specific risks relating to the Group. No impairment is considered necessary based on the assessment.

10 SUBSIDIARIES

The following list contains the particulars of the subsidiaries of the Group as at 31 December 2016. All of these are controlled subsidiaries as defined under note 2.2 and have been consolidated into the Group's financial statements.

Name	Place of incorporation and operation/establishment and kind of legal entity	Principal activities	Particulars of issued share capital/registered capital	Interest held
Directly held:				
Welling Holding (BVI) Ltd.	British Virgin Islands, limited liability company	Investment holding	10,000 ordinary shares of USD1 each	100%
Indirectly held:				
Changzhou Honglu Huate Electric Co., Ltd	PRC, limited liability company	Manufacture and trading of motors	Registered capital RMB40,622,545	75.97%
Changzhou Welling Motor Manufacturing Co., Ltd. ("Changzhou Welling")	PRC, limited liability company (sino-foreign equity joint venture enterprise)	Manufacture and trading of motors	Registered capital USD23,634,600	75.97%
Foshan Welling Electronic & Electric Co., Ltd.	PRC, limited liability company (sino-foreign equity joint venture enterprise)	Manufacture and trading of motors	Registered capital USD15,000,000	100%
Foshan Welling Material Supply Co., Ltd.	PRC, limited liability company	Trading of raw materials	Registered capital RMB20,000,000	100%
Foshan Welling Washer Motor Manufacturing Co., Ltd. ("Welling Washer")	PRC, limited liability company (sino-foreign equity joint venture enterprise)	Manufacture and trading of motors	Registered capital USD6,400,000	100%
Guangdong Welling Motor Manufacturing Co., Ltd. ("GD Welling")	PRC, limited liability company (foreign investment enterprises)	Manufacture and trading of motors	Registered capital USD48,810,000	100%
Hefei Welling Motor Manufacturing Co., Ltd.	PRC, limited liability company	Investment holding	Registered capital RMB50,000,000	100%
Huaian Welling Motor Manufacturing Co., Ltd. ("Huaian Welling")	PRC, limited liability company (sino-foreign equity joint venture enterprise)	Manufacture and trading of motors	Registered capital USD45,000,000	100%
Midea Welling Motor Technology (Shanghai) Co., Ltd.	PRC, limited liability company	Providing technical consultancy services	Registered capital RMB10,000,000	100%
Welling International Hong Kong Ltd.	Hong Kong, limited liability company	Investment holding and trading of motors	10,000,000 ordinary shares	100%
Welling (Wuhu) Motor Manufacturing Co., Ltd. ("Wuhu Welling")	PRC, limited liability company (sino-foreign equity joint venture enterprise)	Manufacture and trading of motors	Registered capital USD17,680,000	100%
Wuhu Welling Motor Sales Co., Ltd.	PRC, limited liability company	Trading of motors	Registered capital RMB50,000,000	100%

The English name of certain companies referred in this financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

(a) Material non-controlling interests

The total non-controlling interest as at 31 December 2016 is HK$39,385,000 (2015: HK$59,430,000), which are all attributed to Changzhou Welling Group, which included Changzhou Welling and its subsidiary Changzhou Honglu Huate Electric Co., Ltd.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for Changzhou Welling Group.

Summarised balance sheet

	Changzhou Welling Group	
	2016	**2015**
	HK$'000	*HK$'000*
Current		
— Assets	101,162	101,272
— Liabilities	(127,946)	(134,574)
Total current net liabilities	(26,784)	(33,302)
Non-current		
— Assets	194,051	223,612
— Liabilities	(3,365)	(4,339)
Total non-current net assets	190,686	219,273
Net assets	163,902	185,971

Summarised income statement

	Changzhou Welling Group	
	2016	**2015**
	HK$'000	*HK$'000*
Revenue	342,815	300,606
Loss before income tax	(18,930)	(12,684)
Income tax (expense)/credit	(1,649)	2,492
Loss for the year	(20,579)	(10,192)
Loss for the year allocated to non-controlling interests	(4,945)	(2,331)
Other comprehensive loss allocated to non-controlling interests	(3,562)	(3,730)
Total comprehensive loss allocated to non-controlling interests	(8,507)	(6,061)

Summarised cash flows

	Changzhou Welling Group	
	2016	**2015**
	HK$'000	*HK$'000*
Cash flows from operating activities		
Cash (used in)/generated from operations	(8,753)	21,431
Income tax paid	(155)	(827)
Net cash (used in)/generated from operating activities	(8,908)	20,604
Net cash used in investing activities	(1,329)	(13,490)
Net cash generated from financing activities	2,446	5,938
Net (decrease)/increase in cash and cash equivalents	(7,791)	13,052
Cash and cash equivalents at beginning of year	16,868	4,595
Effect on exchange difference	(744)	(779)
Cash and cash equivalents at end of year	8,333	16,868

The information above is the amount before inter-company eliminations.

11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016	**2015**
	HK$'000	*HK$'000*
At beginning of the year	345,897	328,918
Share of profit of associates	18,825	51,396
Dividend received	—	(13,752)
Disposal *(note 31(c))*	(360,892)	—
Exchange difference	(3,830)	(20,665)
At end of the year	—	345,897

On 15 August 2016, GD Welling and Welling International Hong Kong Ltd. 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) to Shanxi Linfen Huaxiang Shiye Co., Ltd. at a consideration of RMB313,227,943 and HK$98, respectively. The above disposals had been completed as at 31 December 2016 and resulted in a gain of approximately HK$8,525,000 (note 24). After the completion of the above disposals, GD Welling and Welling International Hong Kong Ltd. had no longer hold any equity interest in Shanxi Huaxiang and Linkgo-HK.

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	HK$'000	*HK$'000*
Non-current		
Equity investment, at fair value (a)	122,936	120,306
Current		
Investment in wealth management products, at fair value (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 GD Welling 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 value of the wealth management products approximate to their costs plus expected investment return.

13 INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials	175,109	88,805
Work-in-progress	25,012	13,563
Finished goods *(note)*	690,889	452,570
	891,010	554,938

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$5,670,778,000 (2015: HK$5,918,722,000), which were deducted the proceed for the disposal of left over materials approximately HK$289,999,000.

Note: As at 31 December 2016, the Group had finished goods which were delivered and kept in stores at customers' location amounting to approximately HK$300,069,000 (2015: HK$172,657,000). No sales have been recognised for these finished goods as the risks and rewards have not been passed to the customers.

14 TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	1,132,651	1,017,813
Less: allowance for impairment *(note (c))*	(56,926)	(54,218)
Trade receivables-net	1,075,725	963,595
Amounts due from related parties *(notes (a), 35(b))*	676,299	1,301,080
Notes receivable *(notes (a), (d))*	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 *(note (e))*	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.

The carrying values of trade and other receivables of the Group are denominated in the following currencies:

	2016	2015
	HK$'000	*HK$'000*
RMB	1,500,793	2,364,650
USD	538,020	469,558
EUR	171,286	156,721
Others	7,078	898
	2,217,177	2,991,827

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

As at 31 December 2016, the trade receivables of HK$1,037,669,000 (2015: HK$934,078,000) are not impaired.

(b) As at 31 December 2016, trade receivables of HK$257,147,000 (2015: HK$142,869,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
3 to 6 months	248,686	141,671
Over 6 months	8,461	1,198
	257,147	142,869

(c) As at 31 December 2016, trade receivables of approximately HK$94,982,000 (2015: HK$83,735,000) were impaired. The provision in relation thereto was approximately HK$56,926,000 (2015: HK$54,218,000) as at 31 December 2016. The individual impaired receivables mainly relate to past due receivables from customers. The ageing of these receivables is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
3 to 6 months	23,921	44,522
Over 6 months	71,061	39,213
	94,982	83,735

Movements of the Group's allowance for impairment of trade receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
At beginning of the year	54,218	48,111
Provision for impairment	14,794	9,277
Bad debts written off	(8,380)	—
Currency translation differences	(3,706)	(3,170)
At end of year	56,926	54,218

The creation and release of allowance for impaired receivables have been included in administrative expenses in the consolidated income statement (note 25). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The provision written back represented the subsequent collection of previously provided impaired amounts.

The other classes within trade and other receivables do not contain impaired assets.

(d) The balance represents bank acceptance notes with maturity periods within six months. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

(e) The Group has paid input value-added taxes ("VAT") to the State Tax Bureau for the goods purchased from its suppliers. In accordance with the relevant PRC tax regulations, these VAT can be offset with the output VAT arising from future sales but are not refundable. The balances at 31 December 2016 and 2015 represented net input VAT after offsetting the output VAT payable by the Group for domestic sales made during the year.

15 PLEDGED BANK DEPOSITS

Certain bank balances were pledged against bank acceptance notes issued by the Group and these deposits will be released upon the maturity of the relevant bank acceptance notes issued. These pledged bank deposits bear interest at bank saving's rates of 1.82% per annum (2015: 2.56% per annum). All pledged bank deposits are denominated in RMB.

16 CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Bank deposits and cash on hand	1,661,429	1,236,209

The weighted average effective interest rate on bank deposits was 0.88% per annum (2015: 1.46% per annum).

17 SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

Ordinary shares, issued and fully paid:

	Number of shares *('000)*	*HK$'000*
At 1 January 2015	2,862,033	4,965,641
Shares issued under the share option scheme *(note (i))*	1,580	1,217
At 31 December 2015 and 1 January 2016	2,863,613	4,966,858
Shares issued under the share option scheme *(note (ii))*	500	367
At 31 December 2016	2,864,113	4,967,225

Notes:

(i) The share options exercised by the employees of the Group for the year ended 31 December 2015, resulted in 1,580,000 shares being issued at HK$0.785 each, yielding proceeds after transaction costs of approximately HK$1,217,000, which was recognised as share capital. The weighted average closing price of shares of the Company at the time of exercise of share options was HK$1.40.

(ii) The share options exercised by the employees of the Group for the year ended 31 December 2016, resulted in 500,000 shares being issued at HK$0.785 each, yielding proceeds after transaction costs of approximately HK$367,000, which was recognised as share capital. The weighted average closing price of shares of the Company at the time of exercise of share options was HK$1.56.

(b) Share options

The share option scheme adopted on 27 June 2003 (the "2003 Share Option Scheme") was terminated on 30 May 2013 and a new share option scheme (the "2013 Share Option Scheme") was adopted by the shareholders of the Company at the Company's annual general meeting held on 30 May 2013.

Pursuant to the terms of the 2013 Share Option Scheme, the Company may grant share options to eligible participants as recognition and acknowledgement of the contributions that the eligible participants have made or may make to the Group or any affiliates; and to attract, retain and motivate talented eligible participants to strive for the future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants. Eligible participants of the 2013 Share Option Scheme include (1) any full-time or part-time employees or potential employees, executives or officers of the Group or any affiliates; (2) any directors (including non-executive directors and independent non-executive directors) of the Group or any affiliates; or (3) anyone who, as to be determined by the Board at its absolute discretion, have contributed or will contribute to the Group or any affiliates.

The 2013 Share Option Scheme is valid for a period of 10 years commencing from 30 May 2013. The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2013 Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the 2013 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the 2013 Share Option Scheme (being 283,724,682 shares), but the Company may seek approval of its shareholders in general meeting for refreshing the 10% limit under the 2013 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted under the 2013 Share Option Scheme and any other share option schemes of the Company to each eligible participant in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue. Any further grant of share options in excess of such limit must be separately approved by the shareholders of the Company in general meeting.

Share options granted under the 2013 Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or their respective associates, must be approved by the independent non-executive Directors of the Company (excluding independent non-executive Director who is the grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non- executive Director of the Company, or any of their respective associates, in aggregate more than 0.1% of the total number of shares of the Company in issue or with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK$5,000,000, within any 12-month period up to and including the date of such grant, must be subject to shareholders' approval in general meeting of the Company.

The offer of a grant of share options may be accepted by the grantee with payment of HK$1 as consideration within 28 days from the date of approval for the grant of share options by the Board. The exercise period of the share options granted may be determined by the Board and in any event, such period shall not be longer than 10 years from the date upon which any particular share options are granted in accordance with the 2013 Share Option Scheme.

The exercise price of the share options shall be at least the highest of (i) the closing price of the Company's shares as stated in daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of share options, which must be a business day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of share options, which must be a business day.

As at 31 December 2016, 700,000 share options remain outstanding and exercisable under the 2003 Share Option Scheme. No share options were granted to any eligible participants since the adoption of the 2013 Share Option Scheme.

Movements in the share options granted under the 2003 Share Option Scheme during the year ended 31 December 2016 were as follows:

Name	Date of Grant	Exercise price *HK$*	Exercisable period	Balance as at 1 January 2016	Exercised during the year *(note (i))*	Balance as at 31 December 2016	Approximate percentage of shareholdings *(note (ii))*
Director							
Mr. Lam Ming Yung	30/07/2007	3.900	30/07/2007–29/07/2017	400,000	—	400,000	0.014%
Employees							
In aggregate	30/07/2007	3.900	30/07/2007–29/07/2017	300,000	—	300,000	0.011%
	09/01/2009	0.785	01/04/2010–31/03/2017	500,000	(500,000)	—	—
Total				1,200,000	(500,000)	700,000	

Notes:

(i) The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK$1.54.

(ii) The percentage has been compiled on the basis of 2,864,112,822 shares of the Company as at 31 December 2016.

The fair values of the options granted are determined using the Binomial Valuation Model ("the Model"). Key assumptions of the Model are set out below:

Date of grant:	**9 January 2009**	**30 July 2007**
Risk-free rate:	1.299%	4.13%
Expected dividend yield:	3%	0%
Expected volatility of the market price of the Company's shares:	52.34%	65.38%
Expected option life:	8.2 years	5.23 years
Fair value as at the date of grant (approximately):	HK$25,229,000	HK$3,453,000

The Model requires the input of subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the Model does not necessarily provide a reliable single measure of the fair value of share options.

18 OTHER RESERVES

	Statutory reserve fund HK$'000 Note (a)	General reserve fund HK$'000 Note (a)	Enterprise expansion fund HK$'000 Note (a)	Share option reserve HK$'000	Share-based payment reserve HK$'000 Note (b)	Available-for-sale revaluation reserve HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000 Note (c)	Total HK$'000
Balance at 1 January 2015	6,593	200,583	191,430	25,779	31,123	19,598	242,973	(3,258,013)	(2,539,934)
Contribution by owners relating to share-based payment *(note (b)(ii), (iii))*	—	—	—	—	16,672	—	—	—	16,672
Change in value of available-for-sale financial assets, net of tax *(note 12)*	—	—	—	—	—	11,704	—	—	11,704
Transfer to statutory reserve	1,155	7,451	7,451	—	—	—	—	—	16,057
Currency translation differences	—	—	—	—	—	—	(261,834)	—	(261,834)
Balance at 31 December 2015	7,748	208,034	198,881	25,779	47,795	31,302	(18,861)	(3,258,013)	(2,757,335)
Balance at 1 January 2016	7,748	208,034	198,881	25,779	47,795	31,302	(18,861)	(3,258,013)	(2,757,335)
Contribution by owners relating to share-based payment *(note (b)(ii), (iii), (iv))*	—	—	—	—	20,395	—	—	—	20,395
Change in value of available-for-sale financial assets, net of tax *(note 12)*	—	—	—	—	—	10,186	—	—	10,186
Transfer to statutory reserve	—	28,316	28,316	—	—	—	—	—	56,632
Currency translation differences	—	—	—	—	—	—	(279,563)	—	(279,563)
Others	—	11,538	—	—	—	—	—	—	11,538
Balance at 31 December 2016	7,748	247,888	227,197	25,779	68,190	41,488	(298,424)	(3,258,013)	(2,938,147)

(a) The Company's PRC subsidiaries are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to provide for certain statutory funds, namely, general reserve fund and enterprise expansion fund, which are appropriated from net profit after taxation but before dividend distribution based on the local statutory accounts prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in the PRC. These PRC subsidiaries are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Such appropriations are determined at the discretion of the directors. The general reserve fund can only be used, upon approval by the relevant authority, to offset accumulated deficit or increase capital.

(b) **(i)** **2012 Midea Incentive Share Plan**

Midea Group Co., Ltd. ("Midea"), the intermediate holding company of the Company, implemented an incentive share plan for core management staff of Midea and its subsidiaries during the year ended 31 December 2012, under which Midea Holding Co., Ltd. ("Midea Holding"), the controlling shareholder of Midea, transferred its equity interest in Ningbo Meicheng Equity Investment Partnership ("Ningbo Meicheng") to the participants to the said incentive share plan. Ningbo Meicheng holds an aggregate interest of 3% (representing 30 million shares) in the share capital of Midea. Further to the arrangement of the incentive share plan, Midea Holding transferred 3% of its equity interest in Ningbo Meicheng to two executive directors of the Company, namely, Mr. Zhou Xiangyang (resigned on 9 July 2015) and Mr. Jiang Deqing (resigned on 3 June 2014) on 22 November 2012.

Since the Company has no obligation to settle the above share-based payment transaction granted by Midea Holding, the difference between the fair value of the shares transferred and the cash consideration paid for such shares amounting to HK$19,423,000 was treated as an equity-settled share-based payment. Award of the said shares were vested immediately and this share-based payment were recognised as expenses in the Group's consolidated income statement. The Group accounted for the shares granted to its Directors as a contribution from its ultimate holding company and credited it to share-based payment reserve. The fair value of the shares transferred as estimated by management using market approach by referencing the market capitalisation and Price/Earnings multiple for the listed and unlisted subsidiaries controlled by Midea, respectively.

(ii) Midea Share Option Incentive Plan Phase I

On 18 February 2014, Midea granted Midea Share Option Incentive Plan Phase I to the core management staffs of Midea and its subsidiaries, under which 2,145,000 share options were granted to the Directors and senior managements of the Group. A bonus issue of shares on the basis of 15 bonus shares for every 10 existing shares for the year ended 31 December 2013 to the shareholders was approved at Midea's annual general meeting held on 21 April 2014. In addition, the shareholders of Midea approved a bonus issue of shares on the basis of 5 bonus shares for every 10 existing shares for the year ended 31 December 2015 to the shareholders on 26 April 2016. Therefore, adjustments were made to the outstanding share options and the exercise price. As at 31 December 2016, 1,970,000 share options remain outstanding and exercisable under Midea Share Option Incentive Plan Phase I.

(iii) Midea Share Option Incentive Plan Phase II

On 27 May 2015, Midea granted Midea Share Option Incentive Plan Phase II to the core management staff of Midea and its subsidiaries, under which 2,280,000 share options were granted to the Directors and senior managements of the Group. The shareholders of Midea approved a bonus issue of shares on the basis of 5 bonus shares for every 10 existing shares for the year ended 31 December 2015 to the shareholders on 26 April 2016. Therefore, adjustments were made to the outstanding share options and the exercise price. As at 31 December 2016, 2,158,600 share options remain outstanding and exercisable under Midea Share Option Incentive Plan Phase II.

(iv) Midea Share Option Incentive Plan Phase III

On 28 June 2016, Midea granted Midea Share Option Incentive Plan Phase III to the core management staff of Midea and its subsidiaries, under which 4,230,000 share options were granted to the Directors and senior managements of the Group.

Since the Company has no obligation to settle the above share-based payment transactions granted by Midea, the fair value of the share options granted was treated as an equity-settled share-based payment. Award of the said share options were vested in three tranches subject to the achievement of Midea's performance target and these share- based payments were recognised as expenses in the Group's consolidated income statement. The Group accounted for the shares granted to its Directors and senior managements as a contribution from its ultimate holding company and credited to share-based payment reserve.

Movements of the Group's contribution by owners related to share-based payment is as follows:

	2016	2015
	HK$'000	*HK$'000*
Balance at 1 January	47,795	31,123
Midea Share Option Incentive Plan Phase I	3,366	8,096
Midea Share Option Incentive Plan Phase II	9,252	8,576
Midea Share Option Incentive Plan Phase III	7,777	—
Balance at 31 December	68,190	47,795

(c) Merger reserve represents the difference between the consideration paid for the acquisition under common control, and the aggregate nominal value of share capital/paid-up capital of the subsidiaries comprising the Group contributed by the owners of the Company.

19 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using taxation rates applicable to the companies comprising the Group.

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2016	2015
	HK$'000	*HK$'000*
Deferred income tax assets:		
— Deferred income tax assets to be recovered within 12 months	30,032	19,499
Deferred income tax liabilities:		
— Deferred income tax liabilities to be released after more than 12 months	116,780	107,976
— Deferred income tax liabilities to be released within 12 months	33,599	28,248
	150,379	136,224

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Impairment losses	Fair value losses	Unpaid accruals	Deferred government grants	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	15,787	2,098	18,922	7,824	44,631
Charged to consolidated income statement	(7,593)	(1,000)	(11,274)	(3,579)	(23,446)
Currency translation differences	(624)	(83)	(663)	(316)	(1,686)
At 31 December 2015	7,570	1,015	6,985	3,929	19,499
Credit/(charged) to consolidated income statement	619	(992)	2,735	9,921	12,283
Currency translation differences	(506)	(23)	(558)	(663)	(1,750)
At 31 December 2016	7,683	—	9,162	13,187	30,032

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$1,213,000 (2015: HK$6,083,000) in respect of losses amounting to HK$4,850,000 (2015: HK$24,330,000) that can be carried forward against future taxable income. Such losses will expire on 2021.

Deferred income tax liabilities:

	Undistributed profits of PRC subsidiaries	Fair value gain	Revaluation of assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	107,187	7,438	5,382	120,007
Charged/(credited) to consolidated income statement	28,101	928	(781)	28,248
Charged directly to equity	—	2,065	—	2,065
Payment of withholding tax	(6,148)	—	—	(6,148)
Currency translation differences	(7,113)	(551)	(284)	(7,948)
At 31 December 2015	122,027	9,880	4,317	136,224
Charged/(credited) to consolidated income statement	33,037	1,296	(734)	33,599
Charged directly to equity	—	1,798	—	1,798
Payment of withholding tax	(11,609)	—	—	(11,609)
Currency translation differences	(8,634)	(756)	(243)	(9,633)
At 31 December 2016	134,821	12,218	3,340	150,379

Deferred income tax liabilities have been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of all subsidiaries after the deduction of relevant statuary reserves.

20 DEFERRED GOVERNMENT GRANTS

	HK$'000
At 1 January 2015	34,615
Credited to consolidated income statement	(479)
Currency translation difference	(1,999)
At 31 December 2015	32,137
At 1 January 2016	32,137
Receipt of grants	32,944
Credited to consolidated income statement	(665)
Currency translation difference	(3,388)
At 31 December 2016	61,028

The amounts represented subsidies granted by local government authority in the PRC which related to acquisition of leasehold land and land use rights and high technology research and development program.

The deferred government grants will be amortised to other gains from the point at which the relevant assets are ready for use on a straight-line basis over the assets' useful lives.

21 TRADE AND OTHER PAYABLES

	2016	**2015**
	HK$'000	*HK$'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 *(notes (a), 35(b))*	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.

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Commodity futures contracts (a)	89	—	7,963	1,688
Foreign exchange forward contracts (b)	5,390	—	1,286	6,063
	5,479	—	9,249	7,751

(a) The Group has entered into various copper and aluminum futures contracts to manage the fluctuation of copper and aluminum price which did not meet the criteria for hedge accounting. The fair value gain of the non-hedging copper and aluminum futures contracts amounting to approximately HK$6,879,000 (note 24) were dealt within the consolidated income statement during the year (2015: HK$10,792,000).

The notional principal amounts of outstanding commodity futures contracts as at 31 December 2016 were HK$6,586,000 (2015: HK$201,847,000).

(b) The Group has entered into various foreign exchange forward contracts to manage the fluctuation of foreign currencies which did not meet the criteria for hedge accounting. The fair value gain of non-hedging foreign exchange forward contracts amounting to approximately HK$4,274,000 (note 24), were dealt within the consolidated income statement during the year (2015: HK$24,420,000).

The notional principal amounts of the outstanding foreign exchange forward contracts as at 31 December 2016 were HK$321,594,000 (2015: HK$268,003,000).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

23 BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Current		
Short-term bank borrowings, unsecured	—	20,650

At 31 December 2016, the Group's bank borrowings were repayable as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	—	20,650

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates are as follows:

	2016	2015
	HK$'000	*HK$'000*
Borrowings with floating rate as:		
6 months or less	—	20,650

The effective interest rates of the above floating rate borrowings at 31 December 2015 was 2.01% per annum.

The carrying amount of bank borrowings approximates their fair value, as the impact of discounting is not significant.

The carrying amounts of the borrowings are denominated in the following currencies.

	2016	2015
	HK$'000	*HK$'000*
USD	—	18,247
EUR	—	2,403
	—	20,650

24 OTHER GAINS — NET

	2016	2015
	HK$'000	*HK$'000*
Government grants received (a)	12,506	18,079
Amortisation of deferred government grants *(note 20)*	665	479
Derivative financial instruments:		
— fair value gain on commodity futures contracts not qualified for hedge accounting *(note 22(a))*	6,879	10,792
— fair value gain on foreign exchange forward contracts not qualified for hedge accounting *(note 22(b))*	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 disposals of the equity interests of associate *(note 31)*	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.

25 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 *(note 13)*	5,670,778	5,918,722
Employee benefit expenses *(note 26)*	886,054	894,413
Depreciation of property, plant and equipment *(note 7)*	177,128	188,712
Depreciation of investment properties *(note 8)*	2,722	2,898
Amortisation of leasehold land and land use rights *(note 6)*	4,991	5,213
Amortisation of intangible assets *(note 9)*	12,285	4,415
Provision for impairment of trade receivables — net *(note 14(c))*	14,794	9,277
Provision of impairment of 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

26 EMPLOYEE BENEFIT EXPENSES

	2016	2015
	HK$'000	*HK$'000*
Wages and salaries	705,136	671,443
Pension costs-defined contribution plans (a)	46,933	53,456
Medical benefits-defined contribution plans	22,428	23,944
Redundancy payment	4,389	38,366
Contribution by owners relating to share-based payment *(note 18(b))*	20,395	16,672
Other allowances and benefits	86,773	90,532
	886,054	894,413

(a) Pensions — defined contribution plans

The Group has arranged for its Hong Kong employees to join the MPF Scheme. Under the MPF Scheme, each of the Group companies (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employers and employees are subject to a cap of HK$1,500 per month and thereafter contributions are voluntary.

Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group is currently required to make a monthly contribution equivalent to 15% to 28% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

27 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

28 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 corporate income tax rate of 25%, except for enterprises under specific preferential policies and provisions are disclosed as follows.

GD Welling, Welling Washer and Wuhu Welling have been eligible to high technology enterprises CIT incentive starting from year 2008 to 2016. The applicable preferential tax rate of high technology enterprises is 15% for the year ended 31 December 2016 (2015: 15%).

Huaian Welling has been eligible to high technology enterprises CIT incentive from year 2010 to 2018. The applicable preferential tax rate of high technology enterprises is 15% for the year ended 31 December 2016 (2015: 15%).

	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

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entities as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Profit before income tax	769,935	631,021
Calculated at the PRC statutory tax rate of 25% (2015: 25%)	192,484	157,755
Effect of difference in applicable tax rates	(71,037)	(75,951)
Withholding tax on attributable profit	33,037	28,101
Income not subject to tax	(508)	(11,478)
Gain on disposal of associates subject to tax	17,898	—
Expenses not deductible for taxation purposes	5,219	3,812
Tax losses not recognised as deferred income tax assets	1,213	6,083
Income tax expense	178,306	108,322

PRC corporate income tax is provided for at 25% (2015: 25%) of the taxable profits for the PRC statutory financial reporting purposes, adjusted for items which are not assessable or deductible for the PRC corporate income tax purpose.

The tax charge relating to components of other comprehensive income is as follows:

	2016		
	Before tax	**Tax charged**	**After tax**
	HK$'000	*HK$'000*	*HK$'000*
Fair value gains on available-for-sale financial assets *(note 12)*	11,984	(1,798)	10,186
Currency translation differences	(283,125)	—	(283,125)
	(271,141)	(1,798)	(272,939)

	2015		
	Before tax	**Tax charged**	**After tax**
	HK$'000	*HK$'000*	*HK$'000*
Fair value gains on available-for-sale financial assets *(note 12)*	13,769	(2,065)	11,704
Currency translation differences	(265,564)	—	(265,564)
	(251,795)	(2,065)	(253,860)

29 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

30 DIVIDEND

	2016	**2015**
	HK$'000	*HK$'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.

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations:

	2016 *HK$'000*	2015 *HK$'000*
Profit before income tax	769,935	631,021
Adjustments for:		
— Depreciation of property, plant and equipment *(note 7)*	177,128	188,712
— Depreciation of investment properties *(note 8)*	2,722	2,898
— Amortisation of leasehold land and land use rights *(note 6)*	4,991	5,213
— Amortisation of intangible assets *(note 9)*	12,285	4,415
— Written off for intangible asset *(note 9)*	4,402	—
— Deferred government grants *(note 20)*	(665)	(479)
— Loss on disposals of property, plant and equipment *(note 24)*	3,460	44,871
— Gain on disposals of the equity interests of associates *(note 24)*	(8,525)	—
— Contribution by owners related to share-based payment *(note 18(b))*	20,395	16,672
— Share of profits of investments accounted for using the equity method *(note 11)*	(18,825)	(51,396)
— Interest income *(note 27)*	(9,784)	(24,137)
— Interest expenses *(note 27)*	3,971	15,972
— Impairment of inventories — net	—	3,068
— Provision for impairment of trade and other receivables-net *(note 14(c))*	14,794	9,277
— Dividend income from available-for-sale financial assets		
— equity investment *(note 24)*	(16,214)	(13,032)
— Investment income from available-for-sale financial assets		
— wealth management products *(note 24)*	(41,510)	(20,852)
Changes in working capital:		
— Inventories	(336,072)	433,940
— Derivative financial instruments	(3,981)	7,876
— Trade and other receivables	703,826	(165,925)
— Trade and other payables	(377,332)	(427,776)
Cash generated from operations	905,001	660,338

(b) Proceeds from sale of property, plant and equipment comprise:

	2016	2015
	HK$'000	*HK$'000*
Net book amount *(note 7)*	8,109	64,709
Loss on disposals of property, plant and equipment *(note 24)*	(3,460)	(44,871)
Proceeds from disposals of property, plant and equipment	4,649	19,838

(c) Proceeds from disposal of associates:

	2016	2015
	HK$'000	*HK$'000*
Proceeds from disposal of associates	369,417	—
Carrying value *(note 11)*	(360,892)	—
Gain on disposals of associates *(note 24)*	8,525	—

(d) There is no non-cash transaction during this year.

32 CONTINGENT LIABILITIES

Except for the financial guarantees disclosed in note 34, as at 31 December 2016 and 2015, the Group did not have any material contingent liabilities.

33 COMMITMENTS

(a) Capital commitments

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

	2016	2015
	HK$'000	*HK$'000*
Capital expenditures 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

34 FINANCIAL GUARANTEES

During the year, the guarantees was released for the disposal of the associates (note 11).

As at 31 December 2015, the Group and the controlling shareholder of an associate had jointly and severally given guarantee to banks in respect of the banking facilities extended to the associate of the Group of approximately HK$656,497,000. As at 31 December 2015, bank loans of approximately HK$179,045,000 being guaranteed by the Group to the associate had been drawn down. Under the terms of the relevant financial guarantee contract, the Group and the controlling shareholder of the associate will make payments to reimburse the lenders upon failure of the guaranteed associate to make payments when the bank loans are due.

Terms and face values of the liabilities guaranteed were as follows:

	2016	2015
	HK$'000	*HK$'000*
	Face value	*Face value*
Financial guarantees		
— bank loans drawn	—	179,045

In the opinion of the directors, the fair values of these financial guarantees are insignificant at initial recognition and the directors consider that the possibility of the default of the parties involved is remote, accordingly no value has been recognised at the inception of the guarantee contracts and at the end of the reporting period.

35 RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is Midea Holding Company Limited, which owns 68.63% of the Company's shares. The remaining 31.37% of the shares are widely held. The ultimate controlling party of the Group is Mr. He Xiangjian.

Transactions between the Group and other related parties during the year are summarised below:

(a) Transactions with related parties

The following transactions were carried out with related parties in accordance with the terms mutually agreed between the respective parties:

	2016	2015
	HK$'000	*HK$'000*
Sales to related parties*:		
— Controlled by the ultimate holding company	3,638,616	3,656,024
Purchases from related parties*:		
— Controlled by the ultimate holding company	110,539	47,163
— Controlled by a close family member of the ultimate holding company's substantial shareholder	85,142	152,891
	195,681	200,054

		2016	2015
		HK$'000	*HK$'000*
Other transactions with related parties — Controlled by the ultimate holding company			
(i)	Logistics services received from related parties*	73,752	67,812
(ii)	Rental income received from a related party*	4,083	4,348
(iii)	Contribution by owners related to share-based payment *(note 18(b))*	20,395	16,672
(iv)	Investment income from available-for-sale financial assets — wealth management products subscribed from a related party	6,053	1,752
(v)	Wealth management products subscribed from a related party	134,152	119,363
(vi)	Sales of patent to a related party	1,651	—

		2016	2015
		HK$'000	*HK$'000*
Financial services provided by the Finance Company* — Controlled by the ultimate holding company			
(i)	Issues of bills	2,097,862	3,320,236
(ii)	Discounted bills	350,365	1,303,681
(iii)	Interest income on deposits received	8,783	22,756
(iv)	Interest expense and bank charges paid	3,723	14,387
(v)	Settlement of foreign currency	298,402	519,039
(vi)	Guarantee	103,968	—

* *The related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Continuing Connected Transactions" of the Reports of the Directors.*

(b) Balances with related parties

	2016	2015
	HK$'000	*HK$'000*
Due from related parties included in trade and other receivables:		
— Controlled by the ultimate holding company	676,299	1,301,080

The credit periods for majority of amounts due from related parties are within 90 days.

As at 31 December 2016, the amounts due from related parties including notes receivable of approximately HK$120,524,000 (2015: HK$880,492,000).

	2016	2015
	HK$'000	*HK$'000*
Due to related parties included in trade and other payables:		
— Controlled by the ultimate holding company	4,569	28,057
— Controlled by a close family member of the ultimate holding company's substantial shareholder	32,764	117,581
	37,333	145,638

As at 31 December 2016, the amounts due to related parties including notes payable of approximately HK$2,599,000 (2015: HK$95,971,000).

The balances due from/to related parties are denominated in RMB, unsecured, interest free and are repayable on demand. No balance due from related parties is past due or impaired.

	2016	2015
	HK$'000	*HK$'000*
Other balances with related parties		
— Controlled by the ultimate holding company		
(i) Short-term deposits in the Finance Company	987,209	1,234,141
(ii) Bills have been issued but not yet due in the Finance Company	719,033	1,506,806
(iii) Discounted bills receivable not yet due in the Finance Company	221,887	1,194
(iv) Available-for-sale financial assets — wealth management products subscribed from a related party	134,152	119,363

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2016	**2015**
	HK$'000	*HK$'000*
ASSETS		
Non-current assets		
Property, plant and equipment	—	20
Interests in subsidiaries	5,066,304	5,371,945
	5,066,304	5,371,965
Current assets		
Trade and other receivables	483	484
Dividend receivable	230,000	203,000
Cash and cash equivalents	13,562	2,315
	244,045	205,799
Total assets	5,310,349	5,577,764
EQUITY		
Equity attributable to the owners of the Company		
Share capital	4,967,225	4,966,858
Other reserves	42,480	349,813
Retained earnings	287,508	246,707
Total equity	5,297,213	5,563,378
LIABILITIES		
Current liabilities		
Trade and other payables	13,136	14,386
Total liabilities	13,136	14,386
Total equity and liabilities	5,310,349	5,577,764

The statement of financial position of the Company was approved by the board of directors on 17 March 2017 and was signed on its behalf.

Director	*Director*
Xiang Weimin	**Pan Xinling**

	Retained earnings	Share option reserve	Other reserves Exchange reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2015	276,476	25,779	669,321	695,100
Profit for the year	185,002	—	—	—
Dividends paid relating to 2014	(214,771)	—	—	—
Currency translation differences	—	—	(345,287)	(345,287)
Balance at 31 December 2015	246,707	25,779	324,034	349,813
Balance at 1 January 2016	246,707	25,779	324,034	349,813
Profit for the year	226,929	—	—	—
Dividend paid relating to 2015	(186,135)	—	—	—
Unclaimed dividend forfeited *(note 21(c))*	7	—	—	—
Currency translation differences	—	—	(307,333)	(307,333)
Balance at 31 December 2016	287,508	25,779	16,701	42,480

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Benefits and interests of directors and chief executive

Directors' and Chief Executive's emoluments disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

For the year ended 31 December 2016

Name of Director	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Sub-total	Contribution by owners related to share-based payment *(Note)*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors							
Mr. Xiang Weimin (i)	—	1,021	2,333	12	3,366	—	3,366
Mr. Zhong Lin (Chief Executive)	—	620	1,179	12	1,811	1,086	2,897
Ms. Pan Xinling (i)	—	525	1,556	12	2,093	857	2,950
Mr. Li Li (ii)	—	398	1,708	12	2,118	972	3,090
Mr. Xiao Mingguang (iii)	—	—	—	—	—	—	—
Mr. Li Feide	—	—	—	—	—	—	—
Ms. Yuan Liqun (iv)	—	—	—	—	—	—	—
Independent Non-executive Directors							
Mr. Tan Jinsong	180	—	—	—	180	—	180
Mr. Lam Ming Yung	180	—	—	—	180	—	180
Ms. Cao Zhoutao	180	—	—	—	180	—	180
	540	2,564	6,776	48	9,928	2,915	12,843

For the year ended 31 December 2015

Name of Director	Fees	Salaries and other benefits	Discretionary bonuses	Retirement scheme contributions	Sub-total	Contribution by owners related to share-based payment *(Note)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Mr. Xiang Weimin (i)	—	543	2,293	5	2,841	—	2,841
Mr. Zhong Lin (Chief Executive)	—	503	1,133	9	1,645	328	1,973
Ms. Pan Xinling (i)	—	238	1,193	5	1,436	—	1,436
Mr. Li Li (ii)	—	89	1,576	2	1,667	—	1,667
Mr. Zhou Xiangyang (v)	—	643	978	5	1,626	—	1,626
Mr. Yu Yonghua (vi)	—	288	—	4	292	328	620
Mr. Luo Huagang (vii)	—	475	2,071	8	2,554	328	2,882
Ms. Yuan Liqun (iv)	—	—	—	—	—	—	—
Mr. Li Feide	—	—	—	—	—	—	—
Independent Non-executive Directors							
Mr. Tan Jinsong	180	—	—	—	180	—	180
Mr. Lam Ming Yung	180	—	—	—	180	—	180
Ms. Cao Zhoutao	180	—	—	—	180	—	180
	540	2,779	9,244	38	12,601	984	13,585

(i) Mr. Xiang Weimin and Ms. Pan Xinling were appointed on 9 July 2015.

(ii) Mr. Li Li was appointed on 23 November 2015.

(iii) Mr. Xiao Mingguang was appointed on 15 July 2016.

(iv) Ms. Yuan Liqun resigned on 15 July 2016.

(v) Mr. Zhou Xiangyang resigned on 9 July 2015.

(vi) Mr. Yu Yonghua resigned on 9 July 2015.

(vii) Mr. Luo Huagang resigned on 10 November 2015.

Note: These represent the fair value of share options granted to the Directors under Midea Share Option Incentive Plans. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2.24.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Disclosure of Interests" in the Directors' Report.

(b) Directors' termination benefits

No directors' emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid to or receivable by the directors during the year ended 31 December 2016 (2015: HK$424,000).

(c) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2015: four) are directors whose emoluments are disclosed above. The aggregate of the emolument in respect of the remaining two individuals (2015: one) are as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Salaries and other benefits	1,074	295
Discretionary bonuses	4,341	1,386
Retirement scheme contributions	24	6
Termination benefit	—	171
Contribution by owners related to share-based payment	1,658	328
	7,097	2,186

The emoluments of the remaining two individuals (2015: one) with the highest emoluments are within the following bands:

	Number of individuals	
	2016	**2015**
HK$2,000,000 to HK$3,000,000	—	1
HK$3,000,001 to HK$4,000,000	2	—

Five-year Financial Summary

	Year ended 31 December				
	2016	**2015**	**2014**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited
Results					
Revenue	7,954,460	8,040,366	9,273,399	8,881,723	7,787,502
Profit attributable to the owners of the Company	596,574	525,030	678,372	785,499	640,256
Assets and liabilities					
Total assets	7,431,026	7,594,486	8,046,711	7,891,778	6,839,053
Total liabilities	(2,875,901)	(3,192,685)	(3,716,867)	(4,016,802)	(3,735,799)
Total equity	4,555,125	4,401,801	4,329,844	3,874,976	3,103,254

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

The following is the full text of the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017 extracted from the Company's interim report for the six months ended 30 June 2017. Capitalised terms used in this section shall have the same meanings as those defined in such interim report.

The Directors hereby present the unaudited consolidated results of 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 ("**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	6	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	7	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	9	(19,867)	3,954
Share of profit of associates accounted for using the equity method		—	19,171
Profit before income tax		419,318	505,103
Income tax expense	10	(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	11	11.96	14.28
Diluted	11	11.96	14.28

The notes on pages 9 to 37 form an integral part of this condensed consolidated interim financial information.

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

The notes on pages 9 to 37 form an integral part of this condensed consolidated interim financial information.

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	13	183,430	180,329
Property, plant and equipment	13	1,034,531	1,042,310
Investment properties	13	40,941	41,028
Intangible assets	13	81,341	78,971
Deferred income tax assets		21,677	30,032
Available-for-sale financial assets	14	119,698	122,936
Prepayments for property, plant and equipment	16	16,122	11,863
		1,497,740	1,507,469
Current assets			
Inventories	15	677,334	891,010
Trade and other receivables	16	2,704,622	2,205,314
Derivative financial instruments		2,361	5,479
Available-for-sale financial assets	14	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	17	4,967,225	4,967,225
Other reserves	18	(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	19	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

The notes on pages 9 to 37 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 June 2017

	Unaudited					
	Attributable to the owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2017	4,967,225	(2,938,147)	2,486,662	4,515,740	39,385	4,555,125
Comprehensive income:						
Profit for the period	—	—	342,502	342,502	336	342,838
Other comprehensive income:						
Available-for-sale financial assets	—	(10,144)	—	(10,144)	—	(10,144)
Currency translation differences	—	135,772	—	135,772	1,212	136,984
Total comprehensive income	—	125,628	342,502	468,130	1,548	469,678
Transactions with owners:						
Transfer to statutory reserve *(Note 18)*	—	2,172	(2,172)	—	—	—
Contribution by owners relating to share-based payment *(Note 18(b))*	—	12,430	—	12,430	—	12,430
Dividend relating to 2016 *(Note 12)*	—	—	(214,808)	(214,808)	—	(214,808)
Unclaimed dividend forfeited *(Note 19(c))*	—	—	7	7	—	7
Total transactions with owners	—	14,602	(216,973)	(202,371)	—	(202,371)
Balance at 30 June 2017	4,967,225	(2,797,917)	2,612,191	4,781,499	40,933	4,822,432
Balance at 1 January 2016	4,966,858	(2,757,335)	2,132,848	4,342,371	59,430	4,401,801
Comprehensive income:						
Profit for the period	—	—	408,967	408,967	(34)	408,933
Other comprehensive income:						
Available-for-sale financial assets	—	(452)	—	(452)	—	(452)
Currency translation differences	—	(89,321)	—	(89,321)	(1,174)	(90,495)
Total comprehensive income	—	(89,773)	408,967	319,194	(1,208)	317,986
Transactions with owners:						
Share option scheme						
— proceeds from shares issued *(Note 17)*	79	—	—	79	—	79
— share issuance expenses *(Note 17)*	(7)	—	—	(7)	—	(7)
Contribution by owners relating to share-based payment *(Note 18(b))*	—	8,403	—	8,403	—	8,403
Dividend relating to 2015 *(Note 12)*	—	—	(186,135)	(186,135)	—	(186,135)
Unclaimed dividend forfeited *(Note 19(c))*	—	—	7	7	—	7
Total transactions with owners	72	8,403	(186,128)	(177,653)	—	(177,653)
Balance at 30 June 2016	4,966,930	(2,838,705)	2,355,687	4,483,912	58,222	4,542,134

The notes on pages 9 to 37 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 HK$'000	2016 HK$'000
Net cash generated from operating activities	234,842	95,787
Cash flows from investing activities		
Purchases of available-of-sale financial assets — wealth management products	(1,099,721)	(653,451)
Proceeds from sale of available-of-sale financial assets — wealth management products	816,288	475,237
Purchases of property, plant and equipment	(71,981)	(66,002)
(Increase)/decrease in prepayments for property, plant and equipment	(4,259)	1,338
Proceeds from sale of property, plant and equipment	22,213	26,862
Development cost	(7,844)	(8,611)
Dividends received	18,650	16,512
Investment income from available-for-sale financial assets — wealth management products	29,529	14,742
Net cash used in investing activities	(297,125)	(193,373)
Cash flows from financing activities		
Repayments of borrowings	—	(20,650)
(Increase)/decrease in pledged bank deposits	(41,299)	7,482
Dividends paid	—	(186,135)
Proceeds from issuance of ordinary shares	—	79
Share issuance expenses	—	(7)
Net cash used in financing activities	(41,299)	(199,231)
Net decrease in cash and cash equivalents	(103,582)	(296,817)
Cash and cash equivalents at the beginning of the period	1,661,429	1,236,209
Effect on exchange difference	45,533	(20,467)
Cash and cash equivalents at the end of the period	1,603,380	918,925

The notes on pages 9 to 37 form an integral part of this condensed consolidated interim financial information.

Notes to 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 at Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 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. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Liquidity risk management includes maintaining sufficient cash balance, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2017.

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Financial assets at fair value through profit or loss				
Derivative financial instruments				
— Foreign exchange forward contracts	—	2,361	—	2,361
Available-for-sale financial assets				
— Wealth management products	—	1,440,878	—	1,440,878
— Equity investments	—	—	119,698	119,698
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
— Foreign exchange forward contracts	—	5,762	—	5,762

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2016.

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Financial assets at fair value through profit or loss				
Derivative financial instruments				
— Commodity futures contracts	89	—	—	89
— Foreign exchange forward contracts	—	5,390	—	5,390
Available-for-sale financial assets				
— Wealth management products	—	1,123,535	—	1,123,535
— Equity investments	—	—	122,936	122,936

6. 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:

	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.

7. 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.

8. 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

9. 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

10. 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.

11. 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.

12. DIVIDENDS

A dividend of HK$214,808,000 that relates to the year ended 31 December 2016 has been recognised as a liability in this interim financial information, which is payable on 4 July 2017 to the shareholders who are on the register of members of the Company on 26 June 2017. A dividend of HK$186,135,000 that related to the year ended 31 December 2015 was paid in June 2016.

The Directors have resolved not to declare an interim dividend in respect of the six months ended 30 June 2017 (2016: Nil).

13. CAPITAL EXPENDITURE

	Leasehold land and land use rights	Property, plant and equipment	Investment properties	Intangible assets
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Opening net book amount as at 1 January 2017	180,329	1,042,310	41,028	78,971
Additions	—	71,981	—	7,844
Disposals	—	(20,741)	—	—
Amortisation/depreciation charges	(2,384)	(89,497)	(1,322)	(7,892)
Currency translation differences	5,485	30,478	1,235	2,418
Closing net book amount as at 30 June 2017	183,430	1,034,531	40,941	81,341
Opening net book amount as at 1 January 2016	197,646	1,194,052	46,591	80,455
Additions	—	66,002	—	8,611
Disposals	—	(29,632)	—	—
Amortisation/depreciation charges	(2,839)	(87,901)	(1,386)	(2,555)
Currency translation differences	(3,862)	(22,263)	(900)	(1,683)
Closing net book amount as at 30 June 2016	190,945	1,120,258	44,305	84,828

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'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.

15. INVENTORIES

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
Raw materials	123,120	175,109
Work-in-progress	15,552	25,012
Finished goods	538,662	690,889
	677,334	891,010

16. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017	As at 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 *(Notes (a), 22(b))*	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

17. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares *('000)*	*HK$'000*
At 1 January 2017 and 30 June 2017	2,864,113	4,967,225
At 1 January 2016	2,863,613	4,966,858
Shares issued under the share option scheme *(Note (a))*	100	72
At 30 June 2016	2,863,713	4,966,930

(a) The share options exercised by the employees of the Group for the period ended 30 June 2016, resulted in 100,000 shares being issued at HK$0.785 each, yielding proceeds after transaction costs of approximately HK$72,000, which was recognised as share capital. The weighted average closing price of shares of the Company at the time of exercise of share options was HK$1.42.

(b) Details of the movements in respect of share option schemes are set out under the section "Other Information" on pages 49 to 51.

18. OTHER RESERVES

	Statutory reserve fund *HK$'000* *Note (a)*	General reserve fund *HK$'000* *Note (a)*	Enterprise expansion fund *HK$'000* *Note (a)*	Share option reserve *HK$'000*	Share- based payment reserve *HK$'000* *Note (b)*	Available-for-sale revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Merger reserve *HK$'000* *Note (c)*	Total *HK$'000*
Balance at 1 January 2017	7,748	247,888	227,197	25,779	68,190	41,488	(298,424)	(3,258,013)	(2,938,147)
Contribution by owners relating to share-based payment *(Note (b))*	—	—	—	—	12,430	—	—	—	12,430
Change in value of available-for-sale financial assets, net of tax	—	—	—	—	—	(10,144)	—	—	(10,144)
Transfer to statutory reserve	2,172	—	—	—	—	—	—	—	2,172
Currency translation differences	—	—	—	—	—	—	135,772	—	135,772
Balance at 30 June 2017	9,920	247,888	227,197	25,779	80,620	31,344	(162,652)	(3,258,013)	(2,797,917)
Balance at 1 January 2016	7,748	208,034	198,881	25,779	47,795	31,302	(18,861)	(3,258,013)	(2,757,335)
Contribution by owners relating to share-based payment *(Note (b))*	—	—	—	—	8,403	—	—	—	8,403
Change in value of available-for-sale financial assets, net of tax	—	—	—	—	—	(452)	—	—	(452)
Currency translation differences	—	—	—	—	—	—	(89,321)	—	(89,321)
Balance at 30 June 2016	7,748	208,034	198,881	25,779	56,198	30,850	(108,182)	(3,258,013)	(2,838,705)

(a) The Company's PRC subsidiaries are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to provide for certain statutory funds, namely, general reserve fund and enterprise expansion fund, which are appropriated from net profit after taxation but before dividend distribution based on the local statutory accounts prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises established in the PRC. These PRC subsidiaries are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Such appropriations are determined at the discretion of the directors. The general reserve fund can only be used, upon approval by the relevant authority, to offset accumulated deficit or increase capital.

(b) (i) 2012 Midea Incentive Share Plan

Midea Group Co., Ltd. ("Midea"), the intermediate holding company of the Company, implemented an incentive share plan for core management staff of Midea and its major subsidiaries during the year ended 31 December 2012, under which Midea Holding Co., Ltd. ("Midea Holding"), the controlling shareholder of Midea, transferred its equity interest in Ningbo Meicheng Equity Investment Partnership ("Ningbo Meicheng") to the participants to the said incentive share plan. Ningbo Meicheng holds an aggregate interest of 3% (representing 30 million shares) in the share capital of Midea. Further to the arrangement of the incentive share plan, Midea Holding transferred 3% of its equity interest in Ningbo Meicheng to two executive directors of the Company, namely, Mr. Zhou Xiangyang (resigned on 9 July 2015) and Mr. Jiang Deqing (resigned on 3 June 2014) on 22 November 2012.

Since the Company has no obligation to settle the above share-based payment transaction granted by Midea Holding, the difference between the fair value of the shares transferred and the cash consideration paid for such shares amounting to HK$19,423,000 was treated as an equity-settled share-based payment. Award of the said shares were vested immediately and this share-based payment were recognised as expenses in the Group's consolidated income statement. The Group accounted for the shares granted to its Directors as a contribution from its ultimate holding company and credited it to share-based payment reserve. The fair value of the shares transferred as estimated by management using market approach by referencing the market capitalisation and Price/Earnings multiple for the listed and unlisted subsidiaries controlled by Midea respectively.

(b) (ii) Midea Share Option Incentive Plan Phase I

On 18 February 2014, Midea granted Midea Share Option Incentive Plan Phase I to the core management staffs of Midea and its subsidiaries, under which 2,145,000 share options was granted to the Directors and senior managements of the Group.

(b) (iii) Midea Share Option Incentive Plan Phase II

On 27 May 2015, Midea granted Midea Share Option Incentive Plan Phase II to the core management staffs of Midea and its subsidiaries, under which 2,280,000 share options was granted to the Directors and senior managements of the Group.

(b) (iv) Midea Share Option Incentive Plan Phase III

On 28 June 2016, Midea granted Midea Share Option Incentive Plan Phase III to the core management staffs of Midea and its subsidiaries, under which 4,230,000 share options was granted to the Directors and senior managements of the Group.

(b) (v) Midea Share Option Incentive Plan Phase IV

On 12 May 2017, Midea granted Midea Share Option Incentive Plan Phase IV to the core management staffs of Midea and its subsidiaries, under which 3,546,000 share options was granted to the senior managements of the Group.

(b) (vi) Midea Restricted Share Scheme

On 12 May 2017, Midea granted Midea Restricted Share Scheme to the core management staffs of Midea and its subsidiaries, under which 840,000 Midea's shares was granted to the Directors and senior managements of the Group.

Since the Company has no obligation to settle the above share- based payment transactions granted by Midea, the fair value of the share options and restricted shares granted was treated as an equity-settled share-based payment. Award of the said share options and restricted shares were vested in three tranches subject to the achievement of Midea's performance target and these share-based payment were recognised as expenses in the Group's consolidated income statement. The Group accounted for the shares granted to its Directors and senior managements as a contribution from its ultimate holding company and credited it to share-based payment reserve.

Movements of the Group's contribution by owners related to share- based payment is as follows:

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Balance at 1 January	68,190	47,795
Midea Share Option Incentive Plan Phase I	443	2,036
Midea Share Option Incentive Plan Phase II	2,614	6,367
Midea Share Option Incentive Plan Phase III	7,557	—
Midea Share Option Incentive Plan Phase IV	1,667	—
Midea Restricted Share Scheme	149	—
	12,430	8,403
Balance at 30 June	80,620	56,198

(c) Merger reserve represents the difference between the consideration paid for the acquisition under common control, and the aggregate nominal value of share capital/paid-up capital of the subsidiaries comprising the Group contributed by the owners of the Company.

19. 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 *(Notes (a), 22(b))*	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 *(Note (c))*	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).

(c) During the six months ended 30 June 2017, HK$7,000 (31 December 2016: HK$7,000) 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.

20. CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, the Group did not have any material contingent liabilities.

21. COMMITMENTS

(a) Capital commitments

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'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	As at 31 December 2016
	HK$'000	*HK$'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

22. RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is Midea Holding Company Limited, which owns 68.63% of the Company's shares. The remaining 31.37% of the shares are widely held. The ultimate controlling shareholder of the Group is Mr. He Xiangjian.

Transactions between the Group and other related parties during the period are summarised below:

(a) Transactions with related parties

The following transactions were carried out with related parties in accordance with the terms mutually agreed between the respective parties:

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Sales to related parties*:		
— Controlled by the ultimate holding company	2,356,613	1,908,987
— Controlled by a close family member of the ultimate holding company's substantial shareholder	71	—
	2,356,684	1,908,987
Purchases from related parties*:		
— Controlled by the ultimate holding company	28,011	79,474
— Controlled by a close family member of the ultimate holding company's substantial shareholder	55,300	45,942
	83,311	125,416
Other transactions with related parties		
— Controlled by the ultimate holding company		
(i) Logistics services received from related parties*	45,656	25,374
(ii) Rental income received from a related party*	1,984	2,079
(iii) Contribution by owners related to share-based payment *(Note 18(b))*	12,430	8,403
(iv) Investment income from available-for-sale financial assets — wealth management products subscribed from a related party	410	3,036
(v) Wealth management products subscribed from a related party	—	140,405

	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Financial services provided by Finance Company*		
— Controlled by the ultimate holding company		
(i) Issues of bills	914,739	1,362,531
(ii) Discounted bills	298,708	120,989
(iii) Interest income on deposits received	2,723	5,559
(iv) Interest expense and bank charges paid	6,556	2,124
(v) Settlement of foreign currency	388,831	268,893
(vi) Guarantee	86,413	79,563

* *The related party transactions constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

(b) Balances with related parties

	As at 30 June 2017 HK$'000	31 December 2016 HK$'000
Due from related parties included in trade and other receivables:		
— Controlled by the ultimate holding company	1,101,222	676,299

As at 30 June 2017, the amount due from related parties including notes receivable of approximately HK$584,549,000 (31 December 2016: HK$120,524,000).

	As at 30 June 2017 HK$'000	31 December 2016 HK$'000
Due to related parties included in trade and other payables:		
— Controlled by the ultimate holding company	13,855	4,569
— Controlled by a close family member of the ultimate holding company's substantial shareholder	39,935	32,764
	53,790	37,333

As at 30 June 2017, the amount due to related parties including notes payable of approximately HK$6,567,000 (31 December 2016: HK$2,599,000).

The balances due from/to related parties are denominated in Renminbi, unsecured, interest free and are repayable on demand. No balances due from related parties are past due or impaired.

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
Other balances with related parties		
— Controlled by the ultimate holding company		
(i) Short-term deposits in the Finance Company	452,937	987,209
(ii) Bills have been issued but not yet due in the Finance Company	927,437	719,033
(iii) Discounted bills receivable not yet due in the Finance Company	232,776	221,887
(iv) Available-for-sale financial assets — wealth management products subscribed from a related party	—	134,152

4. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

As at the close of business on 30 November 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group had no: (i) debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (ii) borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt; (iii) mortgages and charges; and (iv) contingent liabilities or guarantees.

5. MATERIAL CHANGE

Save as disclosed below, the Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2016 (being the date to which the latest published audited financial statements of the Group have been made up) and up to and including the Latest Practicable Date:

(i) As disclosed in the interim report of the Company for 2017 (the "**2017 Interim Report**"), despite the increase in the Group's turnover for the first half 2017 of approximately 15.6% year on year, the Group recorded a 16.3% year-on-year decrease in the profit attributable to the owners of the Company, which was mainly attributable to the decrease in the gross profit margin from 15.5% to 11.4%. Such decrease was mainly attributable to the price surge of raw materials and other materials. The Group expected that the consolidated profit attributable to the owners of the Company for the ten months ended 31 October 2017 (the "**Profit Estimate**") would decrease as compared to the ten months ended 31 October 2016 given the gross profit remained under downward pressure mainly due to the continuous increase in raw material prices and the Group's difficulties to transfer the cost increments to the customers amidst intense market competition;

(ii) As disclosed in the 2017 Interim Report, the trade and other receivables and trade and other payables of the Group as at 30 June 2017 increased with the sales increase and the trade receivables turnover as well as trade payables turnover improved in the first half of 2017 as compared to 31 December 2016. The Group expected that the trade and other receivables and trade and other payables would further increase with the sales increment;

(iii) As disclosed in the 2017 Interim Report, the Group recorded a slight decrease in cash and cash equivalents as at 30 June 2017 as compared to 31 December 2016 but a significant increase in the available-for-sale financial assets due to the increased subscription for the wealth management products. However, the Group expected that the cash and cash equivalents would decrease significantly subsequent to 30 June 2017 mainly due to the cash outlays for payment of dividends declared by the Board for the year ended 2016 and further subscription of the principal-guaranteed wealth management products from the PRC banks for better return;

(iv) The Group expected that the trading position with the customers would improve significantly subsequent to 31 December 2016, which was mainly driven by the increased market demand. The Group also expected that the inventories of the Group would increase significantly as more finished goods were produced to cater for the expected increase in sales orders subsequent to 30 June 2017 and therefore it is expected that the inventories turnover of the Group would increase subsequent to 30 June 2017; and

(v) As disclosed in the 2017 Interim Report, the growth momentum in respect of the sales of the motors for air-conditioners for the first half 2017 was expected to maintain in the second half of the year. However, the Directors consider that the prospects of the Group's Motor Business may be limited by the existing product mix of which the AC motors (which offer relatively lower gross profit margin as compared to the DC motors and other eco-motors) constitute the majority of the Group's Motors. Accordingly, the Group intends to optimize its product mix to shift its focus on the motors which offer higher gross profit margin such as DC motors, high-speed motors, high performance motors, eco-motors and etc by way of strengthening the R&D efforts and installing new production lines of DC Motors. As disclosed in the 2017 Interim Report, the Group had contracted capital commitments in respect of the purchase of property, plant and equipment of approximately HK$138.2 million. The Group expected further increase in capital commitment subsequent to 30 June 2017 given three new production lines of DC motors would be built and other production lines would be improved and enhanced.

The Profit Estimate was prepared by the Directors based on the unaudited consolidated results based on the management accounts of the Group for the ten months ended 31 October 2017. As the Profit Estimate constitutes a profit forecast under Rule 10 of the Takeovers Code, it was reported on by the Independent Financial Adviser and the reporting accountant of the Company, the letters of which are set out in Appendix III and Appendix IV of the Scheme Document respectively. The Profit Estimate has been prepared, in all material respects, in accordance with the accounting policies consistent with those adopted by the Group as summarised in the annual report of the Company for the year ended 31 December 2016.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes materials given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, the Offeror and the Company.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The Directors jointly and severally accept full responsibility for accuracy of the information contained in this Scheme Document (other than that relating to the Offeror and the Offeror Concert Parties) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

The issued and paid-up share capital of the Company as at the Latest Practicable Date was approximately HK$4,967,225,000.

All the Shares in issue rank *pari passu* in all respects with each other, including as to rights in respect of capital and dividends and voting. The Company has not issued any Shares since 31 December 2016, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, there were 2,864,112,822 Shares in issue, of which the Offeror and parties acting in concert with it held 1,965,702,779 Shares, representing approximately 68.63% of the issued share capital of the Company.

Other than the Shares in issue, the Company has no other outstanding shares, options, warrants, derivative or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue.

3. MARKET PRICES

The table below shows the closing price of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months before the date of the Joint Announcement; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

Date	Closing price per Share *HK$*
31 May 2017	1.68
30 June 2017	1.78
31 July 2017	1.70
31 August 2017	1.42
29 September 2017	1.42
31 October 2017	1.59
3 November 2017	1.58
8 January 2018 (the Latest Practicable Date)	2.01

During the period commencing six months before the date of the Joint Announcement, the highest closing price of the Shares quoted on the Stock Exchange was HK$1.90 on 9 June 2017 and the lowest closing price of the Shares quoted on the Stock Exchange was HK$1.36 on 26 September 2017.

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, "interested" and "interests" have the same meanings as ascribed to those terms in Part XV of the SFO.

Directors and the chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company, including their respective associates in the equity or equity securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers had been notified to the Company and the Stock Exchange; or (d) to be disclosed under the Takeovers Code were as follows:

A. Long Position in the shares of Midea Group Co., Ltd. ("Midea")

Name	Number of shares held: Beneficial owner	Number of shares held: Family interests	Number of shares held: Corporate interests	Total	Approximate percentage of shareholding *(Note 9)*
Mr. Fu Yongjun	100,595	—	—	100,595	0.0015%
Mr. Zhang Lifeng	152,982 *(Note 1)*	—	—	152,982	0.0023%
Ms. Pan Xinling	190,000 *(Note 2)*	—	—	190,000	0.0029%
Mr. Li Li	180,000 *(Note 3)*	—	—	180,000	0.0027%
Mr. Li Feide	1,335,000 *(Note 4)*	—	—	1,335,000	0.0203%

B. Long Position in the underlying shares in Midea — Share Options

Name	Capacity	Date of grant	Exercise Price *(RMB)*	Exercise period	Total	Approximate percentage of shareholding *(Note 9)*
Mr. Fu Yongjun	Beneficial owner	27/05/2015	18.56 *(Note 5)*	*(Note 6)*	180,000	0.0075%
		28/06/2016	20.35 *(Note 7)*	*(Note 8)*	315,000	
Mr. Zhang Lifeng	Beneficial owner	27/05/2015	18.56 *(Note 5)*	*(Note 6)*	75,000	0.0034%
		28/06/2016	20.35 *(Note 7)*	*(Note 8)*	150,000	
Ms. Pan Xinling	Beneficial owner	27/05/2015	18.56 *(Note 5)*	*(Note 6)*	81,000	0.0047%
		28/06/2016	20.35 *(Note 7)*	*(Note 8)*	225,000	
Mr. Li Li	Beneficial owner	27/05/2015	18.56 *(Note 5)*	*(Note 6)*	150,000	0.0057%
		28/06/2016	20.35 *(Note 7)*	*(Note 8)*	225,000	
Mr. Xiao Mingguang	Beneficial owner	28/06/2016	20.35 *(Note 7)*	(Note 8)	315,000	0.0048%

Notes:

1. Mr. Zhang Lifeng is interested in 152,982 shares of Midea, in which 150,000 shares of Midea granted to him on 12 May 2017 under the restricted share scheme (the "**Restricted Share Scheme**") entitling him to receive 150,000 shares of Midea at a price of RMB15.86 per share, which are subject to the performance target as specified under the Restricted Share Scheme.

2. Ms. Pan Xinling is interested in 190,000 shares of Midea, in which 180,000 shares of Midea granted to her on 12 May 2017 under the Restricted Share Scheme entitling her to receive 180,000 shares of Midea at a price of RMB15.86 per share, which are subject to the performance target as specified under the Restricted Share Scheme.

3. Mr. Li Li is interested in 180,000 shares of Midea granted to him on 12 May 2017 under the Restricted Share Scheme entitling him to receive 180,000 shares of Midea at a price of RMB15.86 per share, which are subject to the performance target as specified under the Restricted Share Scheme.

4. Mr. Li Feide is interested in 1,335,000 shares of Midea, in which 210,000 shares of Midea granted to him on 12 May 2017 under the Restricted Share Scheme entitling him to receive 210,000 shares of Midea at a price of RMB15.86 per share, which are subject to the performance target as specified under the Restricted Share Scheme.

5. The shareholders of Midea approved a declaration of dividend for the year ended 31 December 2016 to the shareholders on 21 April 2017. Therefore, the exercise price per share of the share options was adjusted to RMB18.56 on 10 May 2017.

6. Subject to a vesting scale in three tranches and the achievement of the performance target of each relevant period, the first tranche of share options shall be exercisable from 27 May 2016 to 27 May 2018, the second tranche of share options shall be exercisable from 27 May 2017 to 27 May 2019 and the third tranche of share options shall be exercisable from 27 May 2018 to 27 May 2020.

7. The shareholders of Midea approved a declaration of dividend for the year ended 31 December 2016 to the shareholders on 21 April 2017. Therefore, the exercise price per share of the share options was adjusted to RMB20.35 on 10 May 2017.

8. Subject to a vesting scale in three tranches and the achievement of the performance target of each relevant period, the first tranche of share options shall be exercisable from 28 June 2017 to 28 June 2019, the second tranche of share options shall be exercisable from 28 June 2018 to 28 June 2020 and the third tranche of share options shall be exercisable from 28 June 2019 to 28 June 2021.

9. The percentage has been compiled on the basis of 6,561,053,319 shares of Midea in issue as at 31 December 2017.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company, including their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers to be notified to the Company and the Stock Exchange; or (d) to be disclosed under the Takeovers Code.

Substantial shareholders' interests and short positions in shares, underlying shares and securities of the Company

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or in any options in respect of such share capital were as follows:

Name	**Capacity**	**Number of Shares held**	**Approximate percentage of shareholding** *(Note 6)*
Midea Holding (Cayman Islands) Limited ("**Midea (Cayman Islands)**") *(Note 1)*	Beneficial owner	1,901,204,779	66.38%
Midea Investment Holding (BVI) Limited ("**Midea Holding (BVI)**") *(Note 2)*	Interests of a controlled corporation	1,901,204,779	66.38%
Midea *(Note 3)*	Interests of controlled corporations	1,965,702,779	68.63%
Midea Holding Co., Ltd. ("**Midea Holding**") *(Note 4)*	Interests of controlled corporations	1,965,702,779	68.63%
Mr. He Xiangjian *(Note 5)*	Interests of controlled corporations	1,965,702,779	68.63%

Notes:

1. These 1,901,204,779 shares of the Company were registered in the name of and beneficially owned by Midea (Cayman Islands).

2. Midea Holding (BVI) was deemed to be interested in 1,901,204,779 shares of the Company in which Midea Holding (BVI) owns the entire equity interest in Midea (Cayman Islands).

3. There were 64,498,000 shares of the Company registered in the name of and beneficially owned by the Offeror which is a company wholly-owned by Midea. Midea Holding (BVI) is also wholly-owned by Midea. Accordingly, Midea was deemed to be interested in the aggregate of 1,965,702,779 shares of the Company including 64,498,000 shares in which the Offeror was interested and 1,901,204,779 shares in which Midea Holding (BVI) was deemed to be interested.

4. The registered capital of Midea is owned as to 33.78% by Midea Holding as at 30 September 2017. Accordingly, Midea Holding was deemed to be interested in the aggregate number of 1,965,702,779 shares of the Company in which Midea was deemed to be interested.

5. The registered capital of Midea Holding is owned as to 94.55% by Mr. He Xiangjian. Accordingly, Mr. He Xiangjian was deemed to be interested in the aggregate number of 1,965,702,779 shares of the Company in which Midea Holding was deemed to be interested.

6. The percentage has been compiled on the basis of 2,864,112,822 shares of the Company in issue as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or any options in respect of such share capital, or required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

5. INTERESTS IN THE COMPANY AND THE OFFEROR AND ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

As at the Latest Practicable Date,

(i) CMB International does not hold any securities of the Company, save and except for securities of the Company that are held by members of the CMB group on a non-discretionary basis for and on behalf of the clients of the relevant members of the CMB group, and has not dealt in any securities of the Company during the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date, save as disclosed in paragraph "6. Dealing in Securities and Other Arrangements" of this appendix, and there was no agreement, arrangement or understanding that any securities of the Company acquired in pursuance of the Proposal would be transferred, charged or pledged to any other persons;

(ii) save as disclosed in paragraph "4. Disclosure of Interests" of this appendix, neither the Offeror, its directors nor any of the Offeror Concert Parties was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares;

(iii) save for the Irrevocable Undertaking, none of the Offeror and the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal and the Scheme;

(iv) no arrangement of the kind referred to in the Note 8 to Rule 22 of the Takeovers Code existed between any person and the Offeror or any of the Offeror Concert Parties;

(v) none of the Offeror or each of the Offeror Concert Parties has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(vi) no arrangement was in place for any benefit (save for any statutory compensation required under applicable laws) to be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;

(vii) save for the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any of the Offeror Concert Parties and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or being dependent upon the Proposal;

(viii) there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not seek to invoke a condition to the Proposal;

(ix) save for the Proposal and the Scheme, there were no arrangements relating to the relevant securities as of the type described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any parties acting in concert with any other person;

(x) none of the Company and the Directors was interested in or owned or controlled any shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, shares of the Offeror;

(xi) none of the Directors was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares;

(xii) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(xiii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of "associate" in the Takeovers Code;

(xiv) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(xv) there were no Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares which the Company, Directors had borrowed or lent;

(xvi) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and

(xvii) no material contracts have been entered into by the Offeror in which any Director has a material personal interest.

6. DEALING IN SECURITIES AND OTHER ARRANGEMENTS

During the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date,

(i) none of the Offeror, the directors of the Offeror and the Offeror Concert Parties has dealt in any Shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company, save and except for dealings by members of the CMB group that were conducted on a non-discretionary basis for and on behalf of the clients of the relevant members of the CMB group;

(ii) no person who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any of the Offeror Concert Parties had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(iii) none of the Company, any of its subsidiaries, and the Directors has dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror;

(iv) none of the Directors has dealt in any Shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company;

(v) none of the subsidiaries of the Company or any pension funds of the Group or any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(vi) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of "associate" under the Takeovers Code has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

(vii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

7. DIRECTORS' SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had entered into service contracts with any member of the Group or the associated companies of the Company which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the offer period; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period. None of the Directors will be or has been given any benefits (save for any statutory compensation required under applicable laws) as compensation for loss of office or otherwise in connection with the Proposal.

Name	Date of service contract	Effective date of appointment	Expiry date of service contract
Executive Director *(Note 1)*			
Mr. Fu Yongjun	20 July 2017	20 July 2017	19 July 2020
Mr. Zhang Lifeng	24 April 2017	24 April 2017	23 April 2020
Ms. Pan Xinling	15 July 2016	15 July 2016	14 July 2019
Mr. Li Li	15 July 2016	15 July 2016	14 July 2019
Mr. Xiao Mingguang	15 July 2016	15 July 2016	14 July 2019
Mr. Li Feide	15 July 2016	15 July 2016	14 July 2019
Independent Non-Executive Director *(Note 2)*			
Mr. Tan Jinsong	16 June 2017	16 June 2017	At the forthcoming annual general meeting of the Company
Mr. Lam Ming Yung	16 June 2017	16 June 2017	
Ms. Cao Zhoutao	16 June 2017	16 June 2017	

Notes:

1. Under the service contracts as an executive Director, none of the executive Directors is entitled to any fixed remuneration but they may receive variable remuneration such as compensation or bonus (in the form of cash, shares and/or share options in the Company and other members of the Group). This is generally determined by the remuneration committee of the Company, in its absolute

discretion, based on the responsibility and work performance of each individual executive Director and the performance of the Group, as well as the prevailing market conditions. As at the Latest Practicable Date, none of the executive Directors had received any remuneration under the service contracts. Save for the above disclosures, the executive Directors had not entered into any directors' service contracts with the Company previously.

2. Under the letters of appointment as an independent non-executive Director, each of the independent non-executive Directors is entitled to a remuneration which is determined from time to time by the Board. Each of them had received a director's fee of HK$180,000 for the year ended 31 December 2016. No other variable remuneration is payable under the letters of appointment. The independent non-executive Directors entered into the current letters of appointment following the expiry of the previous letters of appointment dated 31 May 2016. Save for the service period, the terms of the current and expired letters of appointment are identical.

8. LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The following contracts (being contracts entered into outside the ordinary course of business carried on by the Group) have been entered into by members of the Group within the two years immediately preceding the date of the Joint Announcement and up to the Latest Practicable Date:

(a) as disclosed in the Company's announcement dated 31 March 2017, the agreement dated 31 March 2017 made between 安徽美芝製冷設備有限公司 (Anhui GMCC Refrigeration Equipment Co., Ltd.*) ("**Anhui GMCC**") as purchaser and 威靈(蕪湖)電機製造有限公司 (Welling (Wuhu) Motor Manufacturing Co., Ltd.*) ("**Welling Wuhu**"), an indirect wholly-owned subsidiary of the Company, as vendor in relation to the sale of a total of 162 devices involved in the refrigerator compressor motor business of the Group from Welling Wuhu to Anhui GMCC at an aggregate consideration of RMB32,852,400;

(b) as disclosed in the Company's announcement dated 28 September 2016, the agreement dated 28 September 2016 made between 五礦國際信託有限公司 (China Minmetals Trust Co., Ltd.*) as asset manager and 廣東威靈電機製造有限公司 (Guangdong Welling Motor Manufacturing Co., Ltd.*) ("**GD Welling**"), an indirect wholly-owned subsidiary of the Company, as subscriber in relation to the subscription by GD Welling in the amount of RMB280,000,000 of 280,000,000 trust units of an asset management scheme;

(c) as disclosed in the Company's announcement dated 15 August 2016, the agreement dated 15 August 2016 made between 山西臨汾華翔實業有限公司 (Shanxi Linfen Huaxiang Shiye Co. Ltd.*) ("**Huaxiang**") as purchaser and GD

Welling as vendor in relation to the disposal of 49% of the equity interest in 山西華翔集團有限公司 (Shanxi Huaxing Group Co., Ltd.*) ("**Shanxi Huaxiang**") by GD Welling to Huaxiang at a consideration of RMB313,227,943.40;

(d) as disclosed in the Company's announcement dated 15 August 2016, the agreement dated 15 August 2016 made between Huaxiang or its nominee as purchaser and Welling International Hong Kong Limited ("**Welling International**"), an indirect wholly-owned subsidiary of the Company, as vendor in relation to the disposal of 98 shares of Linkgo-HK Limited (香港林柯有限公司) by Welling International to Huaxiang or its nominee at a consideration of HK$98;

(e) as disclosed in the Company's announcement dated 31 May 2016, the agreement dated 31 May 2016 made between, among others, 銀華財富資本管理(北京)有限公司 (Yinhua Wealth and Capital Management (Beijing) Co., Ltd.*) ("**Yinhua**") as manager, 中國建設銀行股份有限公司 (China Construction Bank Corporation*) ("**CCB**") as financial adviser, 寧波銀行股份有限公司 (Bank of Ningbo Co., Ltd*) ("**Ningbo Bank**") as custodian and 佛山市威靈洗滌電機製造有限公司 (Foshan Welling Washer Motor Manufacturing Co., Ltd.*) ("**Welling Washer**"), an indirect wholly-owned subsidiary of the Company, as subscriber in relation to the subscription by Welling Washer in the amount of RMB230,000,000 of an asset management scheme; and

(f) as disclosed in the Company's announcement dated 19 May 2016, the agreement dated 19 May 2016 made between, among others, Yinhua as manager, CCB as financial adviser, Ningbo Bank as custodian and Welling Washer as subscriber in relation to the subscription by Welling Washer in the amount of RMB200,000,000 of an asset management scheme.

* *The English names are translations of the respective Chinese names and are included in this Scheme Document for identification purposes only.*

10. EXPERTS AND CONSENTS

The followings are the names and qualifications of the professional advisers whose letters, opinions or advice are contained or referred to in this Scheme Document:

Name	**Qualification**
CMB International Capital Limited	a corporation licensed by the SFC to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO
Optima Capital Limited	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO)
PricewaterhouseCoopers	Certified Public Accountants

The above experts have given and have not withdrawn their written consent to the issue of this Scheme Document with the inclusion herein of their advice, letter and/or references to their names in the form and context in which it appears.

11. MISCELLANEOUS

As at the Latest Practicable Date:

(a) the registered office of the Offeror is at Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong;

(b) the principal members of the Offeror's concert party are the Offeror and Midea Holding (Cayman Islands) Limited, whose correspondence address is at Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong;

(c) the Offeror is indirectly and wholly owned by Midea Group Co., Ltd. (000333.SZ);

(d) the registered office and principal place of business of the Company is Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong;

(e) The company secretary of the Company is Ms. Cheung Wai Yu, who is a fellow member of the Association of Chartered Certified Accountants, a certified public accountant of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom;

(f) the registered office and principal business address of CMB International is 45/F, Champion Tower, 3 Garden Road, Central, Hong Kong;

(g) the registered office and principal business address of the Independent Financial Adviser is Suite 1501, 15th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong; and

(h) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Securities and Futures Commission at http://www.sfc.com.hk; (ii) on the website of the Company at http://www.welling.com.cn; and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong)) (Hong Kong time) at the registered office of the Company at Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, from the date of this Scheme Document up to the Effective Date or the date on which the Scheme is withdrawn or lapses (whichever is earlier):

(a) the articles of association of the Company;

(b) the articles of association of the Offeror;

(c) the annual reports containing the audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016;

(d) the interim report containing the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017;

(e) the letter from the Board, the text of which is set out on pages 12 to 20 of this Scheme Document;

(f) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this Scheme Document;

(g) the letter from the Independent Financial Adviser, the text of which is set out on pages 23 to 46 of this Scheme Document;

(h) the directors' service contracts referred to in section 7 above headed "Directors' Service Contracts" in this Appendix II;

(i) the material contracts referred to in section 9 above headed "Material Contracts" in this Appendix II;

(j) the written consents referred to in section 10 above headed "Experts and consent" in this Appendix II;

(k) the letter from the Independent Financial Adviser on Profit Estimate, the text of which is set out on pages III-1 to III-2 of this Scheme Document;

(l) the letter from PricewaterhouseCoopers on Profit Estimate, the text of which is set out on pages IV-1 to IV-3 of this Scheme Document; and

(m) the Irrevocable Undertaking.

OPTIMA CAPITAL

Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

11 January 2018

The Board of Directors
Welling Holding Limited
Suites 3906–10, 39/F, Tower 6
The Gateway, Harbour City
No. 9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

Dear Sirs,

WELLING HOLDING LIMITED

We refer to the estimate of "*the Group expected that the consolidated profit attributable to the owners of the Company for the ten months ended 31 October 2017*" (the "**Profit Estimate**") made in the scheme document issued by the Company on 11 January 2018 (the "**Scheme Document**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document unless otherwise stated.

We note that the Profit Estimate constitutes a profit forecast under Rule 10 of the Takeovers Code. As the Profit Estimate relates to a period which has already expired, no assumptions are involved when preparing the Profit Estimate. Accordingly, we have discussed with the Directors the bases upon which the Profit Estimate was made. The Profit Estimate has been prepared by the Directors based on the unaudited consolidated results based on the management accounts of the Group prepared by the management of the Company for the ten months ended 31 October 2017. We have also considered the letter on the "Letter from PricewaterhouseCoopers on Profit Estimate" dated 11 January 2018 issued to you, the text of which is set out in section headed "Letter from PricewaterhouseCoopers on Profit Estimate" in the Scheme Document, which states that so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Directors as set out in Scheme Document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2016. The preparation of the Profit Estimate is the sole responsibility of, and has been approved by the Directors.

Based on our review, we are satisfied that the Profit Estimate has been prepared by the Directors after due care and consideration.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Scheme Document.

pwc 羅兵咸永道

The Board of Directors
Welling Holding Limited
Suites 3906–10, 39/F, Tower 6
The Gateway, Harbour City
No. 9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong
11 January 2018

Dear Sirs,

Welling Holding Limited (the "**Company**")

Profit Estimate for the Ten Months Ended 31 October 2017

We refer to the estimate of the consolidated profit attributable to the owners of the Company for the ten months ended 31 October 2017 (the "**Profit Estimate**") as set forth in the Company's scheme document dated 11 January 2018 (the "**Scheme Document**").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated results based on the management accounts of the Company and its subsidiaries (collectively referred to as the "**Group**") for the ten months ended 31 October 2017.

The Company's directors are solely responsible for the Profit Estimate.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the Scheme Document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

HCMP No. 2690 of 2017

IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION COURT OF FIRST INSTANCE MISCELLANEOUS PROCEEDINGS NO. 2690 OF 2017 IN THE MATTER OF WELLING HOLDING LIMITED

AND

IN THE MATTER OF THE COMPANIES ORDINANCE, CHAPTER 622 OF THE LAWS OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

SCHEME OF ARRANGEMENT

Under Section 673 of the Companies Ordinance Chapter 622 of the Laws of the Hong Kong Special Administrative Region

PRELIMINARY

a) In this Scheme, unless inconsistent with the subject or context:

acting in concert	has the meaning ascribed to it in the Takeovers Code, and "persons acting in concert" and "concert parties" shall be construed accordingly
Cancellation Price	means the cancellation price of HK$2.06 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
Companies Ordinance	means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	means Welling Holding Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange (Stock Code: 382)
Effective Date	means the date on which the Scheme becomes effective pursuant to paragraph 5 of this Scheme
High Court	means the High Court of Hong Kong
HK$	means the Hong Kong dollar(s), the lawful currency of Hong Kong

Hong Kong	means Hong Kong Special Administrative Region of the People's Republic of China
Latest Practicable Date	means 8 January 2018, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
New Shares	means the new Shares to be issued to the Offeror pursuant to this Scheme, the number of which is equal to the number of the Scheme Shares cancelled
Offeror	means Midea International Corporation Company Limited, a company incorporated in Hong Kong with limited liability
Offeror Concert Parties	parties acting in concert or presumed to be acting in concert with the Offeror under the definition of "acting in concert" under the Takeovers Code, including Midea Holding (Cayman Islands) Limited
Record Date	15 February 2018
Register	means the register of members of the Company
Scheme	means this scheme of arrangement under Section 673 of the Companies Ordinance (with or subject to any modification thereto or condition approved or imposed by the High Court) between the Company and the Scheme Shareholders involving, *inter alia*, the cancellation of all the Scheme Shares and the issue of the New Shares to the Offeror
Scheme Document	means the scheme document dated 11 January 2018 issued jointly by the Company and the Offeror, which includes this Scheme
Scheme Share(s)	means Share(s) other than those beneficially owned by the Offeror and parties acting in concert with it
Scheme Shareholders	means registered holders of the Scheme Shares
Share(s)	means ordinary share(s) in the capital of the Company
Shareholder(s)	means registered holder(s) of the Share(s)
Stock Exchange	means The Stock Exchange of Hong Kong Limited
Takeovers Code	means the Hong Kong Code on Takeovers and Mergers

b) As at the Latest Practicable Date, the issued share capital of the Company was 2,864,112,822 Shares.

c) On the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 1,965,702,779 Shares, representing approximately 68.63% of the issued Shares.

d) The Shares beneficially owned by the Offeror Concert Parties, including Midea Holding (Cayman Islands) Limited, in respect of the Company will not form part of the Scheme Shares and will not be cancelled.

e) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Scheme Shareholders as appearing in the Register on the Record Date shall be entitled to receive HK$2.06 in cash for every Scheme Share cancelled.

f) The Offeror has agreed to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

g) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, the New Shares created and issued to the Offeror, and the Company will become wholly-owned by the Offeror and the Offeror Concert Parties.

THE SCHEME OF ARRANGEMENT

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:

   (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;

   (b) subject to and forthwith upon the said reduction of capital taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of new shares of the Company as is equal to the number of Scheme Shares cancelled; and

   (c) the Company shall apply the credit arising in the Company's books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up the new Shares so allotted and issued, credited as fully paid, to Midea International Corporation Company Limited.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, the Offeror will pay or cause to be paid to each Scheme Shareholder as appearing in the Register on the Record Date, HK$2.06 for every Scheme Share cancelled.

PART III

GENERAL

3. (a) Not later than seven business days (as defined in the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register on the Record Date) cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.

   (b) Unless indicated otherwise in writing before the Effective Date to the share registrar of the Company in Hong Kong (being Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong), all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to the persons entitled thereto:

      (i) in the case of sole holders, to the respective registered addresses of such holders as appearing in the Register on the Record Date; and

      (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in the Register in respect of the relevant joint holding.

   (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.

   (d) All cheques shall be posted at the risk of the addressees and once posted, none of the Company, the Offeror and their respective officers or agents shall be liable for any loss or delay in transmission.

   (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong

Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligations to make any payments under this Scheme and the Offeror shall thereafter retain the balance (if any) of the sums standing to the credit of the account referred to in paragraph 3(e) of this Scheme, including accrued interest (if any) subject, if applicable, to the deduction of interest or any withholding or other tax or any other deductions required by law and subject also to the deduction of any expenses.

(g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. As from and including the Effective Date:

(a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;

(b) all instruments of transfer validly subsisting on the Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and

(c) all mandates or other instructions to the Company in force on the Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme and confirming, under Section 229 of the Companies Ordinance, the reduction of capital provided for by this Scheme of Arrangement, together with a minute and a return relating to the reduction of capital of the Company containing the particulars required by Section 230 of the Companies Ordinance, shall have been registered by the Registrar of Companies in Hong Kong.

6. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the High Court may see fit to approve or impose without any further court meeting to be held therefor.

7. Irrespective of whether this Scheme will become effective, the Company will bear its own expenses incurred in connection with this Scheme.

11 January 2018

IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION COURT OF FIRST INSTANCE MISCELLANEOUS PROCEEDINGS NO. 2690 OF 2017

IN THE MATTER OF WELLING HOLDING LIMITED AND IN THE MATTER OF THE COMPANIES ORDINANCE, CHAPTER 622 OF THE LAWS OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

SCHEME OF ARRANGEMENT

Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 5 January 2018 (the "**Order**") made in the above matters, the High Court of the Hong Kong Special Administrative Region (the "**High Court**") has directed a meeting (the "**Meeting**") to be convened of the registered holders of the shares (the "**Shares**") of Welling Holding Limited (the "**Company**") (other than those beneficially owned by Midea International Corporation Company Limited and parties acting in concert with it) (the "**Scheme Shares**") for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the "**Scheme**") proposed to be made between the Company and the registered holders of the Scheme Shares (the "**Scheme Shareholders**"), and that the Meeting will be held at 10:00 a.m. on Monday, 5 February 2018 at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the "**Explanatory Statement**") explaining the effect of the Scheme, required to be furnished pursuant to Section 671 of the abovementioned Ordinance, are incorporated in the scheme document of which this Notice forms part, which has been despatched by post to holders of the Scheme Shares. Copies are also available at http://www.welling.com.cn.

In compliance with the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"), Shares held by Midea International Corporation Company Limited and parties acting in concert (as defined in the Takeovers Code) with it may not be voted at the Meeting and, hence, only Shares held by Scheme Shareholders are eligible for voting thereat.

The above-mentioned Scheme Shareholders may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the scheme document despatched to the Shareholders on 11 January 2018. If more than one proxy is appointed, the number of Shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.

In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the Share.

It is requested that forms appointing proxies, together with power of attorney under which they are signed (if any) or a notarially certified copy thereof (in the case of a corporation either under its seal or under the hand of an officer or attorney duly authorised) if any, be lodged at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 10:00 a.m. on Friday, 2 February 2018. Forms of proxy may also be handed to the chairman of the Meeting at the Meeting if not so lodged.

Completion and return of the form of proxy will not preclude a Scheme Shareholder from attending the Meeting or any adjournment thereof and voting in person. In such event, his form of proxy shall be deemed to be revoked.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 29 January 2018 to Monday, 5 February 2018, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 26 January 2018.

By the Order, the High Court has appointed Mr. Fu Yongjun, or failing him, Ms. Pan Xinling, or any other available director of the Company to act as chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the High Court.

The Scheme will be subject to the subsequent sanction of the High Court as set out in the Explanatory Statement contained in the scheme document despatched to the Shareholders on 11 January 2018.

Dated the 11th day of January 2018.

Hogan Lovells
11th Floor
One Pacific Place
88 Queensway
Hong Kong, China

Solicitors for Welling Holding Limited

As at the date of this notice, the board of directors of the Company comprises six executive Directors, namely Mr. Fu Yongjun (Chairman), Mr. Zhang Lifeng (Chief Executive Officer), Ms. Pan Xinling, Mr. Li Li, Mr. Xiao Mingguang and Mr. Li Feide and three independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao.

Welling

WELLING HOLDING LIMITED
威靈控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 382)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of the abovenamed company (the "**Company**") will be held at 10:30 a.m. (or if later immediately after the conclusion or adjournment of the meeting of the registered holders of the shares of the Company (other than those beneficially owned by Midea International Corporation Company Limited and parties acting in concert with it) (the "**Scheme Shares**") convened at the direction of the High Court of Hong Kong Special Administrative Region for the same day and place) on Monday, 5 February 2018 at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, the following as a special resolution:

SPECIAL RESOLUTION

"**THAT**:

(A) the proposed scheme of arrangement (the "**Scheme**") between the Company and the registered holders of the Scheme Shares (the "**Scheme Shareholders**"), in the form of the print thereof which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the High Court of the Hong Kong Special Administrative Region, be and is hereby approved;

(B) for the purposes of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Effective Date**"):

(i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;

(ii) subject to and forthwith upon the said reduction of capital taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of new shares of the Company (the "**New Shares**") as is equal to the number of Scheme Shares cancelled; and

(iii) the Company shall apply the credit arising in the Company's books of account as a result of the said reduction of capital in paying up the New Shares which shall be allotted and issued, credited as fully paid, to Midea International Corporation Company Limited (the "**Offeror**");

(C) the directors of the Company be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the withdrawal of the listing of the Company's shares on the Stock Exchange, subject to the Scheme taking effect; and

(D) the directors of the Company be and are hereby unconditionally authorised to allot and issue the shares referred to in paragraph (B)(iii) above and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the reduction of capital, including (without limitation) the giving, on behalf of the Company, of consent to any modifications of, or additions to, the Scheme, which the High Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the proposal for the privatisation of the Company by the Offeror by way of the Scheme as a whole."

By order of the Board
Welling Holding Limited
Fu Yongjun
Chairman

Hong Kong, 11 January 2018

Notes:

(i) At the EGM, the above resolution will be voted on by way of poll.

(ii) A white form of proxy for use at the EGM is enclosed with the scheme document.

(iii) A member entitled to attend and vote at the EGM is entitled to appoint another person, whether a member of the Company or not, as his proxy to attend and vote instead of him.

(iv) In order to be valid, the white form of proxy, together with power of attorney under which it is signed (if any) or a notarially certified copy thereof (in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised) if any, must be lodged at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 10:30 a.m. on Friday, 2 February 2018. Completion and return of the white form of proxy will not preclude a member from attending the EGM or any adjournment thereof and voting in person. In such event, his form of proxy shall be deemed to be revoked.

(v) In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.

(vi) For the purpose of determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 29 January 2018 to Monday, 5 February 2018, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 26 January 2018.

(vii) If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the respective websites of the Hong Kong Exchanges and Clearing Limited and the Company to notify members of the date, time and venue of the rescheduled meeting.

As at the date of this notice, the board of directors of the Company comprises six executive Directors, namely Mr. Fu Yongjun (Chairman), Mr. Zhang Lifeng (Chief Executive Officer), Ms. Pan Xinling, Mr. Li Li, Mr. Xiao Mingguang and Mr. Li Feide and three independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao.