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WELLING HOLDING LIMITED

威靈控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 382)

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

RENEWAL OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

Reference is made to the Company's announcements dated 19 April 2012 and 23 January 2013 and circular dated 11 May 2012 in respect of the Existing Financial Services Framework Agreement entered into between GD Welling and the Finance Company on 19 April 2012 and the Supplemental Agreement entered into between the Company, GD Welling and the Finance Company on 23 January 2013.

Given that the Existing Financial Services Framework Agreement will expire on 31 December 2014, on 17 April 2014, the Company and the Finance Company entered into the Financial Services Framework (Renewal) Agreement, pursuant to which the parties thereto agreed to set the New Annual Caps in respect of the Core Financial Services for the three years ending 31 December 2017. The Financial Services Framework (Renewal) Agreement shall be effective from 1 January 2015 upon approval by the Independent Shareholders at the EGM.

The Finance Company is owned as to 5% by GD Welling and 95%# by Midea (the controlling shareholder of the Company). The Finance Company is a subsidiary of Midea and therefore a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the New Annual Caps as set out in the Financial Services Framework (Renewal) Agreement, on an annual basis, exceed 5%, the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VOTING AT EGM

The Company will convene the EGM for the purpose of seeking the approval of the Independent Shareholders on the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder. The relevant resolution to be proposed at the EGM will be voted by poll in compliance with the Listing Rules.

As Midea is the controlling shareholder of the Company and is a party interested in the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder, Midea and its associates will abstain from voting on the relevant resolution to be proposed at the EGM.

An independent board committee of the Company comprising all the Independent Non-executive Directors has been established to advise the Independent Shareholders in respect of the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder. Optima Capital has been appointed and approved as the independent financial adviser by the Board to advise the independent board committee of the Company and the Independent Shareholders in this regard.

DESPATCH OF CIRCULAR

A circular containing, among other things, (i) details of the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder; (ii) a letter of advice from the independent board committee of the Company; (iii) a letter of advice from Optima Capital to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 14 May 2014.

RENEWAL OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

Background

Reference is made to the Company's announcements dated 19 April 2012 and 23 January 2013 and circular dated 11 May 2012 in respect of the Existing Financial Services Framework Agreement entered into between GD Welling and the Finance Company on 19 April 2012 and the Supplemental Agreement entered into between the Company, GD Welling and the Finance Company on 23 January 2013.

Given that the Existing Financial Services Framework Agreement will expire on 31 December 2014, on 17 April 2014, the Company and the Finance Company entered into the Financial Services Framework (Renewal) Agreement, pursuant to which the parties thereto agreed to set the New Annual Caps in respect of the Core Financial Services for the three years ending 31 December 2017. The Financial Services Framework (Renewal) Agreement shall be effective from 1 January 2015 upon approval by the Independent Shareholders at the EGM.

Financial Services Framework (Renewal) Agreement

Date: 17 April 2014

Parties: The Company and the Finance Company

Term: Subject to the approval from the Independent Shareholders being obtained at the EGM, the Financial Service Framework (Renewal) Agreement shall be for a term of three years commencing from 1 January 2015 and ending 31 December 2017.

Principal Terms:

The Finance Company shall provide the following financial services to the Group on normal commercial terms not less favourable than those available to the Group from independent third parties, in accordance with the following principles:

(a) Deposit

The Group may from time to time deposit money with the Finance Company. The Finance Company shall accept deposits from the Group at an interest rate (i) not lower than the benchmark interest rate set by the PBOC for such types of deposit; and (ii) not lower than the interest rate offered by other major and independent PRC commercial banks for such types of deposit.

(b) Loan

The Group may from time to time request the Finance Company to provide loan and financing services to it. The Finance Company shall provide such loan and financing services to the Group at an interest rate (i) not higher than the benchmark interest rate set by the PBOC for such types of loan and financing services; and (ii) not higher than the interest rate offered by other major and independent PRC commercial banks for such types of loan and financing services. If the Group is required to provide security interest over its assets for the loan and financing services to be granted, the maximum fair value of the security interest shall not exceed 150% of the total loan amount.

(c) Bills Discounting

The Group may from time to time request the Finance Company to provide bills discounting services to it. The Finance Company shall pay the face value of bills presented by the Group net of the discount interests with the discount rate not higher than the discount rate offered by other major and independent PRC commercial banks for such types of services.

(d) *Bills Acceptance*

The Group may from time to time request the Finance Company to provide bills acceptance services to it. The Finance Company shall guarantee the payment of bills issued by the Group and charge it the service fee with reference to the face value of such bills at a rate not higher than the fee rate charged by other major and independent PRC commercial banks for such types of services.

(e) *Foreign Exchange*

The Group may from time to time request the Finance Company to provide foreign exchange services to it. The Finance Company shall buy or sell foreign currencies from or to the Group at the relevant exchange rates not less favourable than the relevant foreign exchange rates available in other major and independent PRC commercial banks for such types of services.

(f) *Guarantee*

The Group may from time to time request the Finance Company to provide performance guarantee or credit guarantee for bank loans and other liabilities of the Group with service charge at a rate not higher than the rate charged by other major and independent PRC commercial banks for such type of services.

(g) *Other Financial Services*

The Group may from time to time request the Finance Company to provide Other Financial Services. The fees charged by the Finance Company for the provision of Other Financial Services shall be at a rate (i) not higher than the standard charging rate set by the PBOC for such types of services (if applicable); and (ii) not higher than the rate charged by other major and independent PRC commercial banks for such types of services.

Existing Annual Caps and Historical Figures

The table below sets out the existing annual caps in respect of each of the Core Financial Services contemplated under the Existing Financial Services Framework Agreement for the three years ending 31 December 2014 as approved by the then independent Shareholders at the 2012 EGM and the historical figures of each of such Core Financial Services provided by the Finance Company to the PRC subsidiaries of the Company for the two years ended 31 December 2013:

	Existing annual caps			Historical figures	
	for the year ended 31 December		for the year ending 31 December	for the year ended 31 December	
	2012	2013	2014	2012	2013
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Deposit (daily maximum outstanding balances including accrued interest and handling fee)	1,172,000	1,524,000	1,981,000	352,792	1,073,014
Loan (daily maximum outstanding balances including accrued interest and handling fee)	853,000	1,109,000	1,442,000	191,215	281,581
Bills discounting (aggregate face value of the bills discounted)	2,308,000	3,001,000	3,901,000	152,977	621,431
Bills acceptance (aggregate face value of the bills accepted)	2,795,000	3,634,000	4,724,000	488,650	1,500,680
Foreign exchange	1,353,000	1,464,000	1,618,000	–	197,990
Guarantee	1,500,000	1,500,000	1,500,000	–	–

The table below sets out the historical figures of each of the Core Financial Services provided by other major and independent PRC commercial banks to the PRC subsidiaries of the Company for the four years ended 31 December 2013:

	Historical figures for the year ended 31 December			
	2010 <i>(RMB'000)</i>	2011 <i>(RMB'000)</i>	2012 <i>(RMB'000)</i>	2013 <i>(RMB'000)</i>
Deposit (daily maximum outstanding balances including accrued interest and handling fee)	602,891	737,085	862,448	310,732
Loan (daily maximum outstanding balances including accrued interest and handling fee)	243,205	320,586	353,096	611,736
Bills discounting (aggregate face value of the bills discounted)	1,725,396	1,302,793	20,000	43,020
Bills acceptance (aggregate face value of the bills accepted)	2,659,070	3,532,072	2,133,781	1,093,403
Foreign exchange	1,152,257	1,566,054	1,975,000	1,917,660
Guarantee	–	–	–	–

In respect of the provision of Other Financial Services, all the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the fees and charges paid by the PRC subsidiaries of the Company under the Existing Financial Services Framework Agreement for each of the two years ended 31 December 2012 and 2013 did not exceed 0.1%.

New Annual Caps

The table below sets out the proposed New Annual Caps in respect of each of the Core Financial Services for the three years ending 31 December 2017:

	New Annual Caps for the year ending 31 December		
	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)
Deposit (daily maximum outstanding balances including accrued interest and handling fee)	2,762,600	3,581,110	4,479,340
Loan (daily maximum outstanding balances including accrued interest and handling fee)	1,286,380	1,543,650	1,852,380
Bills discounting (aggregate face value of the bills discounted)	1,406,410	1,687,690	2,025,230
Bills acceptance (aggregate face value of the bills accepted)	3,979,910	4,775,890	5,731,060
Foreign exchange	3,046,540	3,655,840	4,387,010
Guarantee	1,500,000	1,500,000	1,500,000

In arriving at the proposed New Annual Caps, the following factors have been considered by the Directors:

(a) *Deposit*

The proposed New Annual Caps for deposit were determined by reference to (i) the highest historical deposit transaction amount for the year ended 31 December 2013; (ii) the expected increase in the deposit transaction amount for the four years ending 31 December 2017 at an anticipated growth rate equivalent to the Historical Sales CAGR plus 5% buffer catering for the potential price fluctuation arising from inflation or price surge of raw materials; and (iii) the estimated undistributed profits for the four years ending 31 December 2017 planned to be deposited in the Finance Company for the benefits of economies of scale resulting from the centralisation of management of funds.

(b) *Loan*

The proposed New Annual Caps for loan were determined by reference to (i) the highest historical loan amount for the year ended 31 December 2013; (ii) the expected increase in the loan amount for the four years ending 31 December 2017 at an anticipated growth rate equivalent to the Historical Sales CAGR plus 5% buffer catering for the potential price fluctuation arising from inflation or price surge of raw materials; and (iii) the Group's flexibility in catering for any possible projects not yet identified for the moment.

(c) *Bills Discounting*

The proposed New Annual Caps for bills discounting were determined by reference to (i) the average proportion of annual transaction amount of bills discounting services provided by the Finance Company and other major and independent PRC commercial banks to the Group over the domestic sales of the Group for the four years ended 31 December 2013; (ii) the expected increase in the bill discounting transaction amount for the four years ending 31 December 2017 at an anticipated growth rate equivalent to the Historical Sales CAGR plus 5% buffer catering for the potential price fluctuation arising from inflation or price surge of raw materials; and (iii) the possible shift from other major and independent PRC commercial banks to the Finance Company as to the bill discounting services subject to the terms to be offered by the Finance Company.

(d) *Bills Acceptance*

The proposed New Annual Caps for bills acceptance were determined by reference to (i) the average proportion of the annual transaction amount of bills acceptance services provided by the Finance Company and other major and independent PRC commercial banks to the Group over the total sales of the Group for the four years ended 31 December 2013; (ii) the expected increase in the bill acceptance transaction amount for the four years ending 31 December 2017 at an anticipated growth rate equivalent to the Historical Sales CAGR plus 5% buffer catering for the potential price fluctuation arising from inflation or price surge of raw materials; and (iii) the possible shift from other major and independent PRC commercial banks to the Finance Company as to the bill acceptance services subject to the terms to be offered by the Finance Company.

(e) *Foreign Exchange*

The proposed New Annual Caps for foreign exchange services were determined by reference to (i) the highest historical transaction amount of foreign exchange services for the year ended 31 December 2013; (ii) the expected increase in the foreign exchange transaction amount for the four years ending 31 December 2017 at an anticipated growth rate equivalent to the Historical Sales CAGR plus 5% buffer catering for the potential price fluctuation arising from inflation or price surge of raw materials; and (iii) the possible shift from other major and independent PRC commercial banks to the Finance Company as to the foreign exchange services subject to the terms to be offered by the Finance Company.

(f) *Guarantee*

The proposed New Annual Caps for guarantee services were determined by reference to the guidelines issued by the PBOC, which stipulated that the maximum amount of guarantee provided by the Finance Company shall not exceed its registered capital (i.e. RMB1,500,000,000).

Reasons for and benefits of entering into the Financial Services Framework (Renewal) Agreement

The Finance Company is a non-bank financial company approved and regulated by the PBOC and CBRC and is engaged in providing various financial services to its members and their subsidiaries in compliance with the rules and other operational requirements set by these regulatory authorities. The Finance Company has established its system of internal control and risk management and continued to implement the corporate governance guidelines in accordance with the requirements of the CBRC.

The Finance Company can centralise the management of funds among its member companies which will result in reduction of funding costs and enhancing the efficiency of employment of funds between those member companies. The Finance Company provides financing services to its member companies only and is therefore exposed to a lower level of capital risk.

As the Finance Company has a thorough understanding of the funding requirements for the operations and development of its member companies, this enables the Finance Company to respond quickly and provide more efficient funding support and financing services to the Group. In addition, the Finance Company could provide tailor-made financing service solution to its member companies within regulatory framework.

Given that the interest rates and other terms of the Core Financial Services and Other Financial Services available for the Group provided by the Finance Company shall be no less favourable than those offered by other major and independent PRC commercial banks, the Group can benefit from lower cost of financing and other financial service charges.

The entering into of the Financial Services Framework (Renewal) Agreement does not preclude the Group from using other major and independent PRC commercial banks. The Group still has the discretion in selecting other major and independent PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefits of the Group.

The undertaking executed by Midea to the Finance Company, which Midea undertook that in the event of financial difficulties of the Finance Company in discharging its payment obligations, Midea will inject additional capital to the Finance Company as required to fulfill its payment obligations, will remain in full force and effect.

The Directors (excluding the Independent Non-executive Directors, being members of the independent board committee of the Company, who will give their opinion after taking into account the advice of Optima Capital) are of the view that the Financial Services Framework (Renewal) Agreement is on normal commercial terms and the terms of the Financial Services Framework (Renewal) Agreement, including the New Annual Caps contemplated thereunder, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

The Finance Company is owned as to 5% by GD Welling and 95%# by Midea (the controlling shareholder of the Company). The Finance Company is a subsidiary of Midea and therefore a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the New Annual Caps as set out in the Financial Services Framework (Renewal) Agreement, on an annual basis, exceed 5%, the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

After taking the historical figures into account, it is also expected that all the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules in respect of the annual fees and charges payable for Other Financial Services by the Group to the Finance Company under the Financial Services Framework (Renewal) Agreement will not exceed 0.1%. Such transactions are exempt from all reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Group will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

INFORMATION ABOUT THE COMPANY

The Company is an investment holding company. The Group is principally engaged in the manufacturing and distribution of motors and electronic and electric components for electrical household appliances, including principally air-conditioners, washing machines, dishwashers, water heaters and refrigerators.

INFORMATION ABOUT THE FINANCE COMPANY

The Finance Company, a limited liability company incorporated in the PRC, is owned as to 5% by GD Welling and 95%# by Midea. The Finance Company is a non-bank financial institution regulated by the CBRC engaging in the business of providing deposit services, loan and financing services and other finance related services to members of the Finance Company in the PRC in accordance with the provisions set out in the "Management of Group Finance Company" promulgated by the CBRC.

VOTING AT EGM

The Company will convene the EGM for the purpose of seeking the approval of the Independent Shareholders on the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder. The relevant resolution to be proposed at the EGM will be voted by poll in compliance with the Listing Rules.

Midea is the controlling shareholder of the Company and is a party interested in the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder. Each of Midea and its associates will abstain from voting on the resolution in relation to the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder, at the EGM.

An independent board committee of the Company comprising all the Independent Non-executive Directors has been established to advise the Independent Shareholders in respect of the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder. Optima Capital has been appointed and approved as the independent financial adviser by the Board to advise the independent board committee of the Company and the Independent Shareholders in this regard.

DESPATCH OF CIRCULAR

A circular containing, among other things, (i) the details of the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder; (ii) a letter of advice from the independent board committee of the Company; (iii) a letter of advice from Optima Capital to the independent board committee of the Company and the Independent Shareholders; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 14 May 2014.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“2012 EGM”	the extraordinary general meeting of the Company held on 31 May 2012 approving, among other things, the Existing Financial Service Framework Agreement and the existing annual caps in respect of the Core Financial Services contemplated thereunder
“Board”	the board of Directors of the Company
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
“Company”	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)
“Core Financial Services”	deposit, loan and financing, bills discounting, bills acceptance, foreign exchange and guarantee services
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among other things, the Financial Services Framework (Renewal) Agreement and the New Annual Caps contemplated thereunder
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between GD Welling and the Finance Company on 19 April 2012 for the three years ending 31 December 2014
“Finance Company”	美的集團財務有限公司 (Midea Group Finance Co., Ltd.*), a limited liability company incorporated in the PRC, is owned as to 5% by GD Welling and 95%# by Midea

The Finance Company was owned as to 5% by GD Welling, 55% by Midea and 40% by GD Midea (a company controlled by Midea). The 40% interests of GD Midea in the Finance Company were transferred to Midea, subject to consent of the relevant regulatory authorities in the PRC. Upon approval of this equity transfer, Midea will hold an aggregate of 95% interest in the Finance Company.

“Financial Services Framework (Renewal) Agreement”	the Financial Services Framework (Renewal) Agreement entered into between the Company and the Finance Company on 17 April 2014 setting out the service charging principles of the Core Financial Services and Other Financial Services and the New Annual Caps for the three years ending 31 December 2017
“GD Midea”	廣東美的電器股份有限公司 (GD Midea Holding Co., Ltd.*), a company controlled by Midea, the shares of which were delisted on the Shenzhen Stock Exchange on 18 September 2013 due to Midea’s organisational restructuring
“GD Welling”	廣東威靈電機製造有限公司 (Guangdong Welling Motor Manufacturing Co., Ltd.*), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Historical Sales CAGR”	the historical compounded annual growth rate of the total sales of the Group for the period from 2004 to 2013 of approximately 15%
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Midea and any of its associates
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Midea”	美的集團股份有限公司 (Midea Group Co., Ltd.*), a company incorporated in the PRC with limited liability (the shares of which are listed on the Shenzhen Stock Exchange) and is the controlling shareholder of the Company holding approximately 68.95% of the issued share capital of the Company as at the date of this announcement
“New Annual Caps”	the proposed annual caps in respect of each of the Core Financial Services set out in the Financial Services Framework (Renewal) Agreement for each of the three years ending 31 December 2017

“Optima Capital”	Optima Capital Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser in respect of the Financial Service Framework (Renewal) Agreement
“Other Financial Services”	the financial services other than the Core Financial Services to be provided by the Finance Company including financing consultancy services, credit verification and related consultancy and agency services, assistance in payment and receipt of transaction proceeds, approved insurance agency services, intra-group transfer and settlement services, liquidation planning, entrusted loan and other business as may be approved by the CBRC
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	People’s Republic of China, but for the purposes of this announcement and for geographical reference only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the ordinary share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Existing Financial Services Framework Agreement entered into among the Company, GD Welling and the Finance Company on 23 January 2013
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

In addition, the terms “associate”, “connected person”, “controlling shareholder”, “percentage ratios”, “holding company” and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.

- * The Chinese names of the PRC entities have been translated into English in this announcement for reference only. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.

By order of the Board
Welling Holding Limited
Tang Wai Ying, Tracy
Company Secretary

Hong Kong, 17 April 2014

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

Executive Directors:	Mr. Zhou Xiangyang (Chairman and Chief Executive Officer), Mr. Jiang Deqing, Mr. Li Yang, Mr. Yu Yong Hua, Ms. Yuan Liqun and Mr. Li Feide
Independent Non-executive Directors:	Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao