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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Welling Holding Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

**MAJOR AND CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTIONS –  
2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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All capitalised terms used in this circular shall have the meanings set out in the section headed “Definitions” on pages 1 to 4 of this circular.

A notice convening the EGM to be held at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on 16 June 2017 at 12:00 noon (or immediately after the conclusion or adjournment of the annual general meeting of the Company held at the same place, on the same date and at 11:30 a.m.) is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is also enclosed.

Whether or not a Shareholder is able to attend the EGM, he is requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting of the EGM. Completion and delivery of the form of proxy shall not preclude Shareholders from attending and voting in person at the EGM or any of their adjourned meetings should they so wish.

23 May 2017

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## DEFINITIONS

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

“2014 EGM”	the extraordinary general meeting of the Company held on 30 June 2014 approving, among other things, the 2015 Financial Services Framework Agreement and the existing annual caps in respect of the Core Financial Services contemplated thereunder
“2015 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company dated 17 April 2014 setting out the service charging principle of the Core Financial Services and Other Financial Services and the annual caps for the three years ending 31 December 2017
“2018 Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company dated 28 April 2017 setting out the service charging principle of the Core Financial Services and Other Financial Services and the New Annual Caps for the three years ending 31 December 2020
“Announcements”	the announcements of the Company dated 17 April 2014 and 23 April 2014 in respect of the 2015 Financial Services Framework Agreement
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
“close associate(s)”	has the meaning as ascribed to it under the Listing Rules
“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)

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## DEFINITIONS

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“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning as ascribed to it under the Listing Rules
“Core Financial Services”	the deposit, loan and financing, bills discounting, bills acceptance and foreign exchange services to be provided by the Finance Company to the Group
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on 16 June 2017 at 12:00 noon to consider and approve, among other things, the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder
“Finance Company”	美的集團財務有限公司 (Midea Group Finance Co., Ltd.*), a limited liability company established in the PRC, is owned as to 5% by GD Welling and 95% by Midea
“GD Welling”	廣東威靈電機製造有限公司 (Guangdong Welling Motor Manufacturing Co., Ltd.*), a limited liability company established 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 2016 (excluding 2012 <sup>(note)</sup> ) of approximately 12%

Note: The over-accumulation of inventory of Midea Group for the year ended 31 December 2011 and the termination of the home appliances replacement subsidy policy promulgated by the PRC government in late 2011 had imposed a negative impact on the sales of the Group for the year ended 31 December 2012. Accordingly, the Company had not taken into account the relevant sales figure attributed to the year ended 31 December 2012 when determining the relevant proposed annual caps.

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## DEFINITIONS

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“holding company”	has the meaning as ascribed to it under the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao
“Independent Financial Adviser”/“Optima Capital”	Optima Capital Limited, a licensed 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 Securities and Futures Ordinance (Cap. 571 of laws of Hong Kong), and the Independent Financial Adviser to the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Midea and any of its associates
“Latest Practicable Date”	18 May 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“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 established in the PRC with limited liability (the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000333)) and is the controlling shareholder of the Company holding approximately 68.63% of the issued share capital of the Company as at the Latest Practicable Date
“Midea Group”	Midea and its subsidiaries

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## DEFINITIONS

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“New Annual Caps”	the proposed annual caps in respect of each of the Core Financial Services set out in the 2018 Financial Services Framework Agreement for each of the three years ending 31 December 2020
“Other Financial Services”	the financial services other than the Core Financial Services to be provided by the Finance Company to the Group, 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 )
“percentage ratio(s)”	has the meaning as ascribed to it under the Listing Rules
“PRC”	People’s Republic of China, but for the purposes of this circular and for geographical reference only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed to it under the Listing Rules
“%”	per cent

\* The English names are translations of the respective Chinese names and are included in this circular for identification purposes only.

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LETTER FROM THE BOARD

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

Executive Directors:

Mr. Xiang Weimin (Chairman)  
Mr. Zhang Lifeng (Chief Executive Officer)  
Ms. Pan Xinling  
Mr. Li Li  
Mr. Xiao Mingguang  
Mr. Li Feide

Registered Office:

Suite 3904, 39/F, Tower 6  
The Gateway, Harbour City  
9 Canton Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

Independent non-executive Directors:

Mr. Tan Jinsong  
Mr. Lam Ming Yung  
Ms. Cao Zhoutao

23 May 2017

To the Shareholders

Dear Sir/Madam

**MAJOR AND CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTIONS –  
2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 28 April 2017 in relation to, among other things, the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder which will be considered by the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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The purposes of this circular are to provide you with, among other things, (1) further information in relation to the details of the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder; (2) a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders; (3) the recommendation of the Independent Board Committee to the Independent Shareholders; and (4) a notice of the EGM.

### **RENEWAL OF THE 2015 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

Given that the 2015 Financial Services Framework Agreement will expire on 31 December 2017, on 28 April 2017, the Company and the Finance Company entered into the 2018 Financial Services Framework 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 2020. The 2018 Financial Services Framework Agreement shall, conditional upon approval by the Independent Shareholders at the EGM, be effective from 1 January 2018.

### **2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

Date: 28 April 2017

Parties: The Company and the Finance Company

Term: Subject to the approval from the Independent Shareholders being obtained at the EGM, the 2018 Financial Services Framework Agreement shall be for a term of three years commencing from 1 January 2018 and ending 31 December 2020.

#### **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 (the benchmark interest rate for savings deposit set by the PBOC is 0.35% per annum as at the date of the announcement of the Company dated 28 April 2017); and (ii) not lower than the interest rate offered by other major and independent PRC commercial banks for such types of deposit.



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## LETTER FROM THE BOARD

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**(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 (the benchmark interest rate for short-term loan set by the PBOC is 4.35% per annum as at the date of the announcement of the Company dated 28 April 2017); 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 fair value of the security interest shall not be higher than that of the other major and independent PRC commercial banks.

**(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 the bills presented by the Group net of the interests calculated by the discount rate not higher than that 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, which in return shall pay a service fee at a rate not higher than the 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 those rates available in other major and independent PRC commercial banks for such types of services.

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## LETTER FROM THE BOARD

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### (f) 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 the 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 2015 Financial Services Framework Agreement for the three years ending 31 December 2017 as approved by the then independent Shareholders at the 2014 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 2016 and the period ended 31 March 2017:

	Existing annual caps			Historical figures		
	for the year ended		for the year ending	for the year ended		for the period ended
	31 December		31 December	31 December		31 March
	2015	2016	2017	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Deposit (daily maximum outstanding balances including accrued interest and handling fee)	2,762,600	3,581,110	4,479,340	1,659,676	1,238,351	1,160,372
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	1,049,434	300,315	263,473
Bills acceptance (aggregate face value of the bills accepted)	3,979,910	4,775,890	5,731,060	2,672,717	1,798,181	530,689
Foreign exchange	3,046,540	3,655,840	4,387,010	417,815	255,775	218,327

As at the Latest Practicable Date, the annual caps under the 2015 Financial Services Framework Agreement for the three financial years ending 31 December 2017 have not been exceeded.

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 2015 Financial Services Framework Agreement for each of the two years ended 31 December 2016 did not exceed 0.1%.

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## LETTER FROM THE BOARD

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### 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 2020:

	New Annual Caps for the year ending 31 December		
	2018 (RMB'000)	2019 (RMB'000)	2020 (RMB'000)
Deposit (daily maximum outstanding balances including accrued interest and handling fee)	3,882,430	4,702,660	5,622,550
Loan (daily maximum outstanding balances including accrued interest and handling fee)	606,040	709,070	829,610
Bills discounting (aggregate face value of the bills discounted)	1,443,610	1,689,030	1,976,160
Bills acceptance (aggregate face value of the bills accepted)	3,453,350	4,040,420	4,727,290
Foreign exchange	3,110,150	2,853,540	3,338,650

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 services were determined by reference to (i) the highest historical deposit amount of the Group (including the Finance Company and other major and independent PRC commercial banks) for the year ended 31 December 2016 of approximately RMB1,519,123,000 and the amount of cash deposits having been invested in the wealth management products for the year ended 31 December 2016 of approximately RMB1,000,000,000. The Group has taken into account the deposit of possible cash proceeds from the realisation of the wealth management products with the Finance Company if the Finance Company offers no less favorable terms than other major and independent PRC commercial banks; (ii) the expected increase in the deposit amount for the four years ending 31 December 2020 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

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## LETTER FROM THE BOARD

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31 December 2020, derived from the net profit of the Group for the year ended 31 December 2016 net of the dividend payout in the same year, with an estimated annual growth rate of approximately 17%. The Group expects that such estimated undistributed profits would be deposited in the Finance Company for the benefits of economies of scale resulting from the centralisation of management of funds, and thus it has taken into account the amount of undistributed profits when determining the proposed New Annual Caps for the deposit service.

**(b) Loan**

The proposed New Annual Caps for loan services were determined by reference to (i) the average of the highest historical loan amount for the seven years ended 31 December 2016 of approximately RMB442,721,000 (including those provided by the Finance Company and other major and independent PRC commercial banks, and having considered that the Group would like to obtain a buffer for the coming years notwithstanding that it had not obtained any loan from the Finance Company in the past two financial years). The Group has taken into account the highest possible loan amount to be obtained from the Finance Company if the Finance Company offers no less favorable terms than other major and independent PRC commercial banks. Therefore, there may be a significant increase in the New Annual Caps as compared to the annualised loan amount of the Group with Finance Company for the year ending 31 December 2017; (ii) the expected increase in the loan amount for the four years ending 31 December 2020 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 at the moment.

**(c) Bills Discounting**

The proposed New Annual Caps for bills discounting services were determined by reference to (i) the average of the proportion of the Group's annual bills discounting amount (including those provided by the Finance Company and other major and independent PRC commercial banks) to the domestic sales of the Group for the seven years ended 31 December 2016 of approximately 17%. Based on the past experience, normally the higher the domestic sales of the Group, the more the bills received by the Group from its customers in the PRC, which may require bills discounting services to be provided by the Finance Company or other major and independent PRC commercial banks. The average of the proportion of the Group's annual bills discounting amount to the domestic sales is a fair indication of the general level of the bills discounting amount of the Group for the previous seven years ended 31 December 2016, and is an appropriate reference for determining the

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## LETTER FROM THE BOARD

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New Annual Caps. Therefore, there may be a significant increase in the New Annual Caps as compared to the annualised bills discounting amount of the Group with Finance Company for the year ending 31 December 2017; (ii) the expected increase in the bills discounting amount for the four years ending 31 December 2020 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 expected increase in demand for the bills discounting services for funding the investments in wealth management products as a result of the change in treasury policy of the Group.

**(d) Bills Acceptance**

The proposed New Annual Caps for bills acceptance services were determined by reference to (i) the average of the proportion of the Group's annual bills acceptance amount (including those provided by the Finance Company and other major and independent PRC commercial banks) to the total sales of the Group for the seven years ended 31 December 2016 of approximately 37%. Based on the past experience, the higher the sales of the Group, the more the purchases from the suppliers in the PRC that may require bills acceptance services to be obtained from the Finance Company or other major and independent PRC commercial banks. The average of the proportion of the Group's annual bills acceptance amount to the total sales is a fair indication of the general level of the bills acceptance amount of the Group for the previous seven years ended 31 December 2016, and is an appropriate reference for determining the New Annual Caps. Therefore, there may be a significant increase in the New Annual Caps as compared to the annualised bills acceptance amount of the Group with Finance Company for the year ending 31 December 2017; and (ii) the expected increase in the bills acceptance amount for the four years ending 31 December 2020 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.

**(e) Foreign Exchange**

The proposed New Annual Caps for foreign exchange services were determined by reference to (i) the average of the proportion of the Group's annual foreign exchange transaction amount (including those provided by the Finance Company and other major and independent PRC commercial banks) to the overseas sales of the Group for the six years ended 31 December 2015 <sup>(note)</sup> of approximately 88%; (ii) the expected increase in the foreign exchange transaction amount for the four years ending 31 December 2020 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; (iii) the expected high

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## LETTER FROM THE BOARD

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demand for the foreign exchange services for the year ending 31 December 2018 resulting from the Group's accumulation of foreign currencies in the amount of approximately RMB958,885,000 (which had not been translated for the year ended 31 December 2016) due to the depreciation of RMB, as the Group intends to translate 30% for the year ending 31 December 2017 and 70% for the year ending 31 December 2018 and expects that the average of the proportion of the Group's foreign exchange transaction amount to the overseas sales will become normal of approximately 88% for the two years ending 31 December 2020; and (iv) 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.

Note: The annual transaction amount of the foreign exchange services for the year ended 31 December 2016 was excluded because of the volatility and depreciation of the value of RMB in that year. Given the overseas sales of the Group were mainly denominated in other foreign currencies, the Group kept the foreign currencies in its reserves for value appreciation rather than exchanging into RMB, resulting in an exceptionally lower transaction volume in foreign exchange services for the year ended 31 December 2016. The historical settlement amount of foreign exchange of the Group with the Finance Company and other major and independent PRC commercial banks slumped from RMB1,841,835,000 for the year ended 31 December 2015 to RMB822,784,000 for the year ended 31 December 2016.

### PRICING POLICY AND INTERNAL CONTROL PROCEDURES

The Company takes the following review procedures and approval process against the following assessment criteria when obtaining the Core Financial Services from the Finance Company:

#### Procedures

- (a) Where a need for the Core Financial Services arises, the designated staff(s) of the Group would obtain the rates and terms offered by the Finance Company and not less than two major and independent PRC commercial banks for comparison against the assessment criteria set forth below;
- (b) If after comparison, the designated staff(s) confirmed that the rates and terms provided by the Finance Company are no less favourable than those offered by other major and independent PRC commercial banks, they would submit the application to the Group's Treasury Officer/Accounting Manager (where applicable) for review; and

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## LETTER FROM THE BOARD

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- (c) After review by the Group's Treasury Officer/Accounting Manager (where applicable), the application, if assessed to be in compliance with the terms set out in the 2018 Financial Services Framework Agreement, would be further submitted to the Group's Chief Financial Officer for final approval.

### **Assessment Criteria**

Deposit: the designated staff(s) would compare the interest rate offered by the Finance Company with those offered by the major commercial banks in the PRC, and the Group would only obtain deposit services from the Finance Company if the interest rate offered by the Finance Company is higher than those offered by the major commercial banks in the PRC.

Loan: the designated staff(s) would compare the interest rate offered by the Finance Company with those offered by the major commercial banks in the PRC, and the Group would only obtain loan services from the Finance Company if the interest rate offered by the Finance Company is lower than those offered by the major commercial banks in the PRC.

Bills discounting: the designated staff(s) would compare the bill discount rate offered by the Finance Company with those offered by the major commercial banks in the PRC, and the Group would only obtain bills discounting services from the Finance Company if the bill discount rate offered by the Finance Company is lower than those offered by the major commercial banks in the PRC.

Bills acceptance: the designated staff(s) would compare the service fee to be required by the Finance Company with those offered by the major commercial banks in the PRC, and the Group would only obtain bills acceptance services from the Finance Company if the service fee offered by the Finance Company is lower than those offered by the major commercial banks in the PRC.

Foreign exchange: the designated staff(s) would compare the foreign exchange rate offered by the Finance Company with those offered by the major commercial banks in the PRC, and the Group would only obtain foreign exchange services from the Finance Company if the foreign exchange rate offered by the Finance Company is more favourable than those offered by the major commercial banks in the PRC.

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## **LETTER FROM THE BOARD**

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The relevant personnel and management of the Group will also conduct regular checks at least once a year to review and assess whether the transactions contemplated under the relevant Core Financial Services from the Finance Company are conducted in accordance with the terms of the 2018 Financial Services Framework Agreement and will also regularly update the applicable market rate for the purpose of considering if the relevant rate charged for a specific Core Financial Service is fair and reasonable and in accordance with the aforesaid pricing policy. Further, the independent non-executive Directors would continue to review the transactions contemplated under the 2018 Financial Services Framework Agreement and its auditor would also conduct an annual review on the pricing terms and annual caps thereof. Since the Company has established adequate and appropriate internal control procedures to review the transactions, the Directors consider that such methods and procedures can ensure and safeguard the transactions contemplated under the 2018 Financial Services Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE 2018 FINANCIAL SERVICES FRAMEWORK 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 and the dealers who have continuing business relationship with Midea Group 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.



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## LETTER FROM THE BOARD

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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 2018 Financial Services Framework 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.

Taking into account that (i) the Finance Company will provide financial services to entities related to Midea and 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; and (ii) Midea has undertaken to financially support the Finance Company in the event of financial difficulties, the Group will be exposed to a lower level of credit risk than other PRC commercial banks with customers of other unrelated entities, the measures in particular the undertaking given by Midea are adequate to control the credit risks of the deposits placed with the Finance Company.

The Directors are of the opinion that the provision of deposit services contemplated under the 2018 Financial Services Framework Agreement will not increase the indebtedness of the Group and will not have a material adverse effect on the sufficiency of the working capital of the Group.

### LISTING RULES IMPLICATIONS

#### **Continuing Connected Transactions – the 2018 Financial Services Framework Agreement**

The Finance Company is a subsidiary of Midea (the controlling shareholder of the Company) and is owned as to 5% by GD Welling and 95% by Midea. The Finance Company is therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the New Annual Caps as set out in the 2018 Financial Services Framework Agreement, on an annual basis, exceed 5%, the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder constitute continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Major and connected transaction – deposit services under the 2018 Financial Services Framework Agreement**

Further, the provision of deposit services by the Finance Company to the Group under the 2018 Financial Services Framework Agreement also constitutes a transaction under Rule 14.04(1)(e) of the Listing Rules and as one of the applicable percentage ratios in respect thereof is more than 100%, the provision of deposit services by the Finance Company to the Group under the 2018 Financial Services Framework Agreement is not a very substantial acquisition but constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, it would be subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Finance Company is a subsidiary of Midea (the controlling shareholder of the Company) and is owned as to 5% by GD Welling and 95% by Midea, the Finance Company is therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules, and the provision of deposit services by the Finance Company to the Group under the 2018 Financial Services Framework Agreement also constitutes a connected transaction for the Company, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Exempted continuing connected transactions – Other Financial Services under the 2018 Financial Services Framework Agreement**

Taking into account of the relevant historical figures, it is also expected that all the applicable percentage ratios calculated in respect of the annual fees and charges payable for the Other Financial Services by the Group to the Finance Company under the 2018 Financial Services Framework Agreement will not exceed 0.1%. Accordingly, 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 the 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, distribution and selling of motors and electronic and electric components for electrical household appliances in the PRC and overseas.

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## LETTER FROM THE BOARD

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### INFORMATION ABOUT THE FINANCE COMPANY

The Finance Company, a limited liability company established 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 in accordance with the provisions set out in the 企業集團財務公司管理辦法 (Administrative Measures for Enterprise Group Finance Companies\*) promulgated by the CBRC.

### INFORMATION ABOUT MIDEA

Midea is a company established in the PRC with limited liability. Midea is principally engaged in the production of home appliances, motors and parts; import and export of home appliances, home appliances raw materials and parts; installation, maintenance and after-sales service of home appliances.

### EGM, PROXY ARRANGEMENT AND BOOK CLOSURE

The Company will convene the EGM for the purpose of, among other things, seeking the approval of the Independent Shareholders on the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps). In compliance with Rule 13.39(4) of the Listing Rules, all the resolutions to be proposed at the EGM will be voted by poll. The voting results of the EGM will be announced in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As Midea is the controlling shareholder of the Company holding approximately 68.63% of the issued share capital of the Company as at the Latest Practicable Date and is a party interested in the 2018 Financial Services Framework Agreement, Midea and its associates will abstain from voting on the resolution in relation to the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder at the EGM.

A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular and a form of proxy is also enclosed. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not less than 48 hours before the time of the meeting or any adjournment thereof to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof should you so wish.

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## LETTER FROM THE BOARD

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

### RECOMMENDATIONS

Given Mr. Xiao Mingguang is a director of the Company and the Finance Company and Mr. Li Feide is a director of the Company and Midea, they may be regarded as having a material interest in the transactions contemplated under the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder, and had abstained from voting in respect of the relevant Board resolutions passed at a Directors' meeting held for considering and approving the terms of the 2018 Financial Services Framework Agreement including the New Annual Caps contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the 2018 Financial Services Framework Agreement and the New Annual Caps contemplated thereunder.

The Directors (including the independent non-executive Directors whose recommendation is contained in the Letter from the Independent Board Committee on pages 20 to 21 of this circular) are of the view that the 2018 Financial Services Framework Agreement was entered into on normal commercial terms and the terms of the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the proposed ordinary resolution regarding the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps), as set out in the notice of the EGM.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its views and recommendation to the Independent Shareholders; and (ii) the letter from Optima Capital set out on pages 22 to 40 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders, in relation to the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) and the principal factors and reasons considered by it in arriving at its opinions.

Your attention is drawn to the additional information as set out in the appendixes to this circular.

Yours faithfully  
On behalf of the Board  
**Welling Holding Limited**  
**Xiang Weimin**  
Chairman

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

23 May 2017

To the Independent Shareholders

Dear Sir/Madam

**MAJOR AND CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTIONS –  
2018 FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated 23 May 2017 (the “Circular”), in which this letter forms part. Capitalised terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you in respect of the terms of the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps). Optima Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. None of the members of the Independent Board Committee has any direct or indirect interest in the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps).

Your attention is drawn to the letter from the Board and the letter from Optima Capital respectively set out on pages 5 to 19 and 22 to 40 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the principal factors and reasons considered by and the advice of Optima Capital as set out in the Circular, we are of the view that (i) the terms of the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) are in the ordinary and usual course of business of the Company, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the transactions contemplated under the 2018 Financial Services Framework Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2018 Financial Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps).

Yours faithfully

The Independent Board Committee

of

**Welling Holding Limited**

**Lam Ming Yung**

Independent non-executive

Director

**Cao Zhoutao**

Independent non-executive

Director

**Tan Jinsong**

Independent non-executive

Director

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## LETTER FROM OPTIMA CAPITAL

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The following is the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



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

23 May 2017

To: The Independent Board Committee and  
the Independent Shareholders

Dear Sirs,

### MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the 2018 Financial Services Framework Agreement and the New Annual Caps (the “**Continuing Connected Transactions**”) and the provision of deposit services (the “**Connected Transaction**”). Details of the Continuing Connected Transactions and the Connected Transaction are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 23 May 2017 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

As set out in the letter from the Board, on 28 April 2017, the Company and the Finance Company entered into the 2018 Financial Services Framework Agreement in relation to, among others, the provision of the Core Financial Services by the Finance Company to the Group. The Core Financial Services include deposit, loan and financing, bills discounting, bills acceptance and foreign exchange.



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## LETTER FROM OPTIMA CAPITAL

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As the Finance Company is a connected person of the Company under the Listing Rules given Midea, being the controlling Shareholder, holds 95% equity interest in the Finance Company, the provision of the Core Financial Services constitutes continuing connected transactions under Chapter 14A of the Listing Rules and the provision of deposit services at the same time constitutes a connected transaction under Chapter 14 of the Listing Rules.

Based on the calculations of the percentage ratios as defined under the Listing Rules and the reasons set out in the letter from the Board, the Continuing Connected Transactions are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, and the Connected Transaction is therefore subject to the reporting, announcement and approval by the Independent Shareholders.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao, has been established to make recommendation to the Independent Shareholders on the Continuing Connected Transactions (including the New Annual Caps) and the Connected Transaction. We, Optima Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

In April 2016, we were engaged by the Company as the independent financial adviser in connection with the continuing connected transactions of the purchases of raw materials, processed raw material and motor samples from Midea Group and sale of motors and electronic and electric components to Midea Group, details of which are set out in the circular of the Company dated 10 May 2016. Having considered that our advice and recommendation given in respect of each transaction are based on our independent assessment of the terms and rationale behind, and apart from normal professional fees payable to us in connection with our engagements, no arrangement exists whereby we will receive any fees or benefits from the Company and the Finance Company or the parties in previous engagements, we consider that previous engagement would not affect our independence and the services we provided. Given we are not associated with the Company and the Finance Company or their respective core connected persons, close associates or associates, we are considered to be eligible to give independent advice on the Continuing Connected Transactions (including the New Annual Caps) and the Connected Transaction.

In formulating our opinion, we have reviewed, amongst others, the announcement of the Company dated 28 April 2017 in relation to the Continuing Connected Transactions and the Connected Transaction, the annual report of the Company for the financial year ended 31 December 2016, the estimation of the New Annual Caps together with the relevant supporting documents, and other information contained in the Circular. We have also discussed with the Company in respect of the reasons for and rationale of entering into the Continuing Connected Transactions and the Connected Transaction as well as the relevant internal control procedures in place for safeguarding the interests of the Shareholders.

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## LETTER FROM OPTIMA CAPITAL

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We have relied on the information and facts supplied, and the opinions expressed to us, by the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor 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.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Continuing Connected Transactions and the Connected Transaction, we have taken into account the following principal factors and reasons:

#### 1. Information on the Group

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.

#### 2. Information on the Finance Company

The Finance Company is a limited liability company established in the PRC. It is owned as to 5% by GD Welling and 95% by Midea. As a licensed non-bank financial institution in the PRC, the Finance Company is supervised by the CBRC under 企業集團財務公司管理辦法 (the Administrative Measures for Enterprise Group Finance Companies\*). With reference to the business scope of the Finance Company approved by the CBRC and the State Administration of Foreign Exchange, the Finance Company is allowed to engage in (i) acceptance of cash deposits; (ii) provision of loans; (iii) bills discounting and acceptance for member companies of Midea; (iv) provision of foreign exchange services; and (v) other financial services. It is noted that all the Core Financial Services to be provided by the Finance Company under the 2018 Financial Services Framework Agreement fall within the approved scope of business of the Finance Company.

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## LETTER FROM OPTIMA CAPITAL

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As set out in the letter from the Board, the Finance Company has established a system of internal control and risk management and continued to implement the corporate governance guidelines in accordance with the requirements of the CBRC. Given it only provides financing services to its member companies and the dealers who have continuing business relationship with Midea Group, and Midea, as the largest shareholder of the Finance Company, has undertaken to financially support the Finance Company in the event of financial difficulties, the Board considers that the measures in place are adequate to control the credit risks of the deposits placed with the Finance Company.

### **3. Information on Midea**

Midea is a limited liability company established in the PRC, and is principally engaged in (i) production of home appliances, motors and parts; (ii) import and export of home appliances and raw materials and parts for home appliances; and (iii) installation, maintenance and after-sale service of home appliances.

### **4. Reasons for and benefits of entering into the 2018 Financial Services Framework Agreement**

As set out in the letter from the Board, there are a number of reasons and benefits for entering into the 2018 Financial Services Framework Agreement with the Finance Company. With the 2018 Financial Services Framework Agreement, the Group is allowed to choose between the Core Financial Services provided by the Finance Company and the major and independent commercial banks in the PRC (the “**Independent Third Parties**”).

Further, as the Finance Company has a thorough understanding of the funding requirements and business needs of the member companies of Midea (including the Group), it is able to respond swiftly to the needs of the Group arising from its business development or corporate exercises including but not limited to mergers and acquisitions, and provide a tailor-made solution to the Group within the regulatory framework.

As mentioned in the section headed “Information on the Finance Company” above, given an established internal control and risk management system is in place for covering the risk exposure of the Finance Company, the capital risk of the Finance Company is cautiously monitored.

In view of the above, it is commercially justified to enter into the 2018 Financial Services Framework Agreement with a view to benefiting from the flexibility, efficiency and risk aversion in respect of the Core Financial Services provided by the Finance Company.

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## LETTER FROM OPTIMA CAPITAL

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### 5. Principal terms of the 2018 Financial Services Framework Agreement

The 2018 Financial Services Framework Agreement, with a term of three years commencing from 1 January 2018 and ending on 31 December 2020, is conditional upon (i) the approval by the Independent Shareholders at the EGM; and (ii) other applicable requirements of Chapter 14A of the Listing Rules. It has stipulated that the Core Financial Services shall be provided by the Finance Company on normal commercial terms, which are not less favourable than those available to the Group from the Independent Third Parties. The specific principle applicable to each of the Core Financial Services is set out below:

#### **Deposit**

The Group may from time to time deposit money with the Finance Company, which shall accept deposits from the Group at an interest rate (i) not lower than the benchmark interest rate set by the PBOC; and (ii) not lower than the interest rate offered by the Independent Third Parties.

#### **Loan**

The Group may from time to time request the Finance Company to provide loan and financing services at an interest rate (i) not higher than the benchmark interest rate set by the PBOC; and (ii) not higher than the interest rate offered by the Independent Third Parties for same types of loan and financing services. In the event that the Group is required to provide security interest over its assets for the loan and financing services to be granted, the fair value of the security interest shall not be higher than that of the Independent Third Parties.

#### **Bills Discounting**

The Group may from time to time request the Finance Company to provide bills discounting services. The Group can present the bills on hand at a discount rate not higher than that offered by the Independent Third Parties for same type of services.

#### **Bills Acceptance**

The Group may from time to time request the Finance Company to provide bills acceptance services. The Finance Company will accept the bills issued by the Group to its suppliers, and the Group will in return pay a service fee at a rate not higher than the rate charged by the Independent Third Parties for same types of services.

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## LETTER FROM OPTIMA CAPITAL

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### **Foreign Exchange**

The Group may from time to time buy or sell foreign currencies from or to the Finance Company at the relevant exchange rates not less favourable than those available in the Independent Third Parties for same types of services.

### **Other Financial Services**

The Group may from time to time obtain Other Financial Services from the Finance Company. The fees charged by the Finance Company shall be at a rate (i) not higher than the standard charging rate set by the PBOC for same types of services (if applicable); and (ii) not higher than the rate charged by the Independent Third Parties for same types of services.

## **6. Assessment on the terms of the 2018 Financial Services Framework Agreement**

Pursuant to the 2018 Financial Services Framework Agreement, the interest rates for the deposit and loan services, the discount rates for bills discounting services, the service fee for the bills acceptance services and the exchange rates for foreign exchange services (the “**Pricing Terms**”), offered or charged (as the case may be) by the Finance Company should be not less favourable than those available from the Independent Third Parties.

We have reviewed the 2018 Financial Services Framework Agreement and noted that the Pricing Terms are required to be not less favourable than those available from the Independent Third Parties, which means that they are meant to be fair and reasonable.

In addition, we have reviewed the internal control procedure manual of the Group in respect of the Continuing Connected Transactions and other safeguards available under the Listing Rules for ensuring the compliance of the Continuing Connected Transactions according to the Listing Rules. We have summarised the internal control procedures and relevant assessment criteria for each of the Core Financial Services as follows:

### **Internal control procedures**

- (i) Where a need for the Core Finance Services arises, the designated staff(s) by the Group would obtain the rates and terms offered by the Finance Company and at least two Independent Third Parties for comparison against the assessment criteria referred to in paragraph below;

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## LETTER FROM OPTIMA CAPITAL

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- (ii) if after comparison, the designated staff(s) confirmed that the rates and terms provided by the Finance Company are no less favourable than those offered by the Independent Third Parties, they would submit the application to the Treasury Manager/Accounting Manager (where applicable) for review; and
- (iii) after review by the Treasury Manager/Accounting Manager (where applicable), the application, if assessed to be in compliance with the terms set out in the 2018 Financial Services Framework Agreement, would be further submitted to the Group's Chief Financial Officer for final approval.

### **Assessment criteria**

#### Deposit

The designated staff(s) would compare the interest rate offered by the Finance Company with those offered by the Independent Third Parties, and the Group would only obtain deposit services from the Finance Company if the interest rate offered by the Finance Company is not lower than those offered by the Independent Third Parties.

#### Loan

The designated staff(s) would compare the interest rate offered by the Finance Company with those offered by the Independent Third Parties, and the Group would only obtain loan services from the Finance Company if the interest rate offered by the Finance Company is not higher than that available from the Independent Third Parties.

#### Bills Discounting

The designated staff(s) would compare the bill discount rate offered by the Finance Company with those offered by the Independent Third Parties, and the Group would only obtain bills discounting services from the Finance Company if the bill discount rate offered by the Finance Company is lower than those offered by the Independent Third Parties.

#### Bills Acceptance

The designated staff(s) would compare the service fee of bills acceptance offered by the Finance Company with those offered by the Independent Third Parties, and the Group would only obtain bills acceptance services from the Finance Company if the service fee offered by the Finance Company is lower than those offered by the Independent Third Parties.

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## LETTER FROM OPTIMA CAPITAL

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### Foreign Exchange

The designated staff(s) would compare the foreign exchange rate offered by the Finance Company with those offered by the Independent Third Parties, and the Group would only obtain foreign exchange services from the Finance Company if the foreign exchange rate offered by the Finance Company is comparable to those offered by the Independent Third Parties.

The relevant personnel and management of the Group will also conduct regular checks at least once a year to review and assess whether the Continuing Connected Transactions and the Connected Transaction are conducted in accordance with the terms of the 2018 Financial Services Framework Agreement and whether they are in accordance with the aforesaid pricing policy.

### Other safeguards

Under Rule 14A.55 of the Listing Rules, in each of the financial year from 2018 to 2020:

- (i) the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) the Independent Third Parties; and (c) in accordance with the 2018 Financial Services Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (ii) the auditor of the Company will provide a letter to the Board confirming that the Continuing Connected Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company; (c) have been entered into in accordance with the 2018 Financial Services Framework Agreement; and (d) have not exceeded the caps disclosed in previous announcements.

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## LETTER FROM OPTIMA CAPITAL

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Taking into account that (i) the variety of the Core Financial Services to be offered by the Finance Company is capable of catering for different financing needs that may arise from the Group's business operations and provides flexibility for the capital management of the Group; (ii) the Pricing Terms are set to be fair and reasonable under the 2018 Financial Services Framework Agreement and thus the Continuing Connected Transactions will be conducted on normal commercial terms; (iii) the 2018 Financial Services Framework Agreement do not preclude the Group from obtaining the relevant services from the Independent Third Parties in the event that they offer better terms; and (iv) there are internal control procedures and other safeguards in place to govern the conduct of the Continuing Connected Transactions, we concur with the Directors' view that the entering into of the 2018 Financial Services Framework Agreement is in the interests of the Company and the Shareholders as a whole.

### 7. Utilisation of the approved caps

Set out below are (i) the approved annual caps of each of the Core Financial Services for the three financial years ended 31 December 2015 ("FY2015"), 31 December 2016 ("FY2016") and 31 December 2017 ("FY2017"); (ii) the historical transaction amounts of each of the Core Financial Services for FY2015, FY2016 and for the three months ended 31 March 2017 ("1Q2017"); and (iii) the utilisation rate of the approved caps for each of the Core Financial Services:

(RMB'000)	Approved caps	FY2015			Approved caps	FY2016			Approved caps	FY2017			1Q2017	Actual amount	% of utilisation (Note 6)
		Actual amount	% of utilisation	% of utilisation		Actual amount	% of utilisation	% of utilisation		Actual amount	% of utilisation				
Deposit (Note 1)	2,762,600	1,659,676	60.1	3,581,110	1,238,351	34.6	4,479,340	1,160,372	25.9						
Loan (Note 2)	1,286,380	-	-	1,543,650	-	-	1,852,380	-	-						
Bills discounting (Note 3)	1,406,410	1,049,434	74.6	1,687,690	300,315	17.8	2,025,230	263,473	13.0						
Bills acceptance (Note 4)	3,979,910	2,672,717	67.2	4,775,890	1,798,181	37.7	5,731,060	530,689	9.3						
Foreign exchange (Note 5)	3,046,540	417,815	13.7	3,655,840	255,775	7.0	4,387,010	218,327	5.0						

Notes:

- The amount in respect of deposit represents daily maximum outstanding balances including accrued interest and handling fee.
- The amount in respect of loan represents daily maximum outstanding balances including accrued interest and handling fee.
- The amount in respect of bills discounting represents aggregate face value of the bills discounted.
- The amount in respect of bills acceptance represents aggregate face value of the bills accepted.
- The amount in respect of foreign exchange represents aggregate value of the translation of foreign currencies.
- The latest figures in respect of the transaction amounts of the Core Financial Services are up to 31 March 2017 only. Accordingly, the utilisation rate of the approved caps for FY2017 calculated by the actual transaction amount for 1Q2017 is for illustration purpose only.



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## LETTER FROM OPTIMA CAPITAL

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### **Deposit**

As shown in the table above, the deposit amount in terms of daily maximum outstanding balances including the accrued interest and handling fee for FY2016 amounted to approximately RMB1,238,351,000, representing a decrease of approximately 25.4% as compared with FY2015. The utilisation rate of the approved caps for FY2016 also dropped from approximately 60.1% to 34.6%.

Having discussed with the management of the Company, we understand that the slump in the maximum daily outstanding balance of the deposits for FY2016 was mainly due to the fact that the Group had deployed its idle cash for the investments in high yield wealth management products with a view to looking for higher return as compared to the deposit interests in FY2016 whilst in previous years, the Group had normally managed the idle cash as deposits in the Finance Company or the Independent Third Parties only. This was resulted from the change in the direction of treasury policy of the Group.

### **Loan**

As shown in the table above, the Company did not obtain any loans from the Finance Company for FY2015, FY2016 and 1Q2017 (the “**Historical Period**”).

Having discussed with the management of Company, we understand that the low demand for loans was mainly attributable to the fact that there was no material capital expenditure or acquisition had been required or conducted by the Group for the Historical Period. The Group therefore had no demand on cash to borrow loans from the Finance Company.

### **Bills Discounting**

For FY2016, the aggregate face value of the bills discounted was approximately RMB300,315,000, representing a decrease of approximately 71.4% as compared with FY2015. The utilisation rate of the approved caps for bills discounting services also dropped significantly from approximately 74.6% to 17.8%.

Having discussed with the management of the Company, we understand that the Group did not have strong financing need for the Group’s operation given, as mentioned above, no material capital expenditure or acquisition had been required or conducted during the Historical Period. Accordingly, the Group did not have to replenish its cash by bills discounting for working capital purpose.

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## LETTER FROM OPTIMA CAPITAL

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### Bills Acceptance

For FY2016, the aggregate face value of the bills accepted was approximately RMB1,798,181,000, representing a decrease of approximately 32.7% as compared with the amount for FY2015. The utilisation rate of the approved caps for bills acceptance services decreased from approximately 67.2% to 37.7%.

Having discussed with the management of the Company, we understand that the significant drop of the bills acceptance amount for FY2016 was resulted from the less financing needs for operation as mentioned above.

### Foreign Exchange

The annual transaction amount of the foreign exchange services by the Finance Company for FY2016 was approximately RMB255,775,000, representing a decrease of approximately 38.8% as compared with FY2015. The utilisation rate of the approved caps for foreign exchange services dropped from approximately 13.7% to 7.0%.

Having discussed with the management of the Company, we understand that further drop of the utilisation rate of the foreign exchange services was due to the fact that the Company decided to keep foreign currencies instead of translating into RMB with a view to mitigating the negative impact of the RMB depreciation on the Group for FY2016.

## 8. Assessment on the New Annual Caps

The New Annual Caps for the three years ending 31 December 2018 (“FY2018”), 31 December 2019 (“FY2019”) and 31 December 2020 (“FY2020”) (collectively, the “Coming Period”) as extracted from the letter from the Board are set out as follows:

(RMB'000)	New Annual Caps		
	FY2018	FY2019	FY2020
Deposit	3,882,430	4,702,660	5,622,550
Loan	606,040	709,070	829,610
Bills discounting	1,443,610	1,689,030	1,976,160
Bills acceptance	3,453,350	4,040,420	4,727,290
Foreign exchange	3,110,150	2,853,540	3,338,650

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## LETTER FROM OPTIMA CAPITAL

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To assess the fairness and reasonableness of the New Annual Caps, we have discussed with the management of the Company as to the bases and assumptions for determining each of the New Annual Caps and reviewed the relevant supporting documents accordingly. Our assessment is set out as follows:

### **Deposit**

The New Annual Caps for deposit (the “**Deposit Caps**”) were determined by reference to (i) the aggregate amount of the highest historical deposit amount of the Group with the Finance Company and the Independent Third Parties for FY2016 and the amount of the idle cash which had been invested in the wealth management products for FY2016 and is expected to be realised in the Coming Period; (ii) the expected increase in the deposit amount for the four years ending 31 December 2020 at a 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 2020 which may be deposited in the Finance Company.

In assessing the fairness and reasonableness of the Deposit Caps, we have obtained from the Company the calculations of the estimated Deposit Caps and reviewed each parameter in the calculation accordingly. We noted that there is a significant increase in the Deposit Caps as compared to the annualized deposit amount of the Group with Finance Company for the year ending 31 December 2017 (the “**FY2017**”). We understand from the Company that it is because the Deposit Caps were determined based on the historical highest deposit amount of the Group held with both the Independent Third Parties and the Finance Company for FY2016 of approximately RMB1,519 million (the “**Historical Deposit Amount**”). We consider that the Company’s estimation of the Deposit Caps based on the Historical Deposit Amount rather than that with the Finance Company alone is reasonable given there is a possibility that the Group will make all its deposits with the Finance Company in the Coming Period if the terms offered by the Finance Company are not less favorable than those offered by the Independent Third Parties and the Group has to ensure that the Deposit Caps are sufficient to cover the highest possible amount of deposits with the Finance Company. The Historical Deposit Amount would be a good reference for determining the highest possible amount of deposits with the Finance Company in the Coming Period.

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## LETTER FROM OPTIMA CAPITAL

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In addition, we understand that the Company has also taken into account the possible cash proceeds from the realization of the wealth management products held by the Company when determining the Deposit Caps. It is expected that if the terms of the Finance Company offers no less favorable terms than the Independent Third Parties, the cash proceeds from realization of the wealth management products of the Group of approximately RMB1,000 million may be deposited with the Finance Company. We consider that the Company taking into account such possible cash proceeds when determining the Deposit Caps is sensible. We have also reviewed the disclosure on page 159 of the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”) and noted that the fair value of the wealth management products held by the Group as at 31 December 2016 of HK\$1,124 million is consistent with the estimated cash proceeds to be placed with the Finance Company in the Coming Period.

We have also verified the Historical Sales CAGR based on the audited figures as shown in the annual reports of the Company for the 13 years ended 31 December 2016 (excluding the financial year ended 31 December 2012 due to the anomalous results arising from the termination of a favourable governmental policy in the PRC in 2011), and noted that it is approximately 12%. It is same as the growth rate adopted by the Group in its estimation.

In view of the above, it is noted that the Deposit Caps are determined fairly and reasonably.

### **Loan**

The New Annual Caps for loan (the “**Loan Caps**”) were determined by reference to (i) the average highest historical loan amount of the Group with the Finance Company and the Independent Third Parties as a whole for the seven years ended 31 December 2016; (ii) the expected increase in the loan amount for the four years ending 31 December 2020 at a 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.

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## LETTER FROM OPTIMA CAPITAL

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In assessing the fairness and reasonableness of the Loan Caps, we have obtained from the Company the calculations of the estimated Loan Caps and reviewed each parameter in the calculation accordingly. We have discussed with the management of the Company and understand that the Company did not obtain any loans from the Finance Company for the Historical Period due to the abundant availability of cash resources of the Group. However, the Company considers that it is not commercially sensible to expect that the Group will have no demand for loan services for the Coming Period. The Company therefore decided to obtain the Loan Caps which were determined based on the average of the highest historical loan amount of the Group with the Finance Company and the Independent Third Parties (the “**Historical Loan Amount**”) for the past seven financial years ended 31 December 2016. The Historical Loan Amount was approximately RMB443 million. Despite the fact that the Company did not obtain any loans from the Finance Company, we concur with the Company’s view that the Loan Caps were determined in a fairly and reasonably way given they have made reference to the average of the Historical Loan Amount in a relatively long period of time (i.e. the seven financial years ended 31 December 2016) which can fairly reflect the general level of funding needs of the Group along the years.

We also noted that there is a significant increase in the Loan Caps as compared to the annualized loan amount of the Group with Finance Company for FY2017. We understand from the Company that it is mainly because the Loan Caps were determined based on the average of the Historical Loan Amount which consists of the loans obtained from both the Finance Company and the Independent Third Parties. We consider it reasonable given the Loan Caps have to cater for the possibility that the Group will obtain all the loans from the Finance Company in the Coming Period if the terms offered by the Finance Company are not less favorable than those offered by the Independent Third Parties, and the Historical Loan Amount would be a good reference for estimating the highest possible loan amount with the Finance Company in the Coming Period.

In addition, we have verified the Historical Sales CAGR in the above-mentioned manner which is approximately 12%, and noted that it is same as the growth rate adopted in the estimation of the Loan Caps.

In view of the above, we consider that the Loan Caps are fairly and reasonably determined.

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## LETTER FROM OPTIMA CAPITAL

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### **Bills Discounting**

The New Annual Caps for bills discounting (the “**BD Caps**”) were determined by reference to (i) the average of the ratio of the Group’s historical bills discounting amount with both the Finance Company and the Independent Third Parties (the “**Historical BD Amount**”) to the domestic sales of the Group (the “**BD Ratios**”) for the seven financial years ended 31 December 2016 of approximately 17%; and (ii) the expected increase in the bills discounting amount for the four years ending 31 December 2020 at a 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 expected increase in demand for the bills discounting services for catering the funding need for investments in wealth management products.

In assessing the fairness and reasonableness of the BD Caps, we have obtained from the Company the calculations of the estimated BD Caps and reviewed each parameter in the calculation accordingly. We understand from the Company that there is a positive correlation between the domestic sales of the Group and the needs for bills discounting services from the Group as from the Group’s past experience of operation, normally the higher the domestic sales of the Group, the more the bills received by the Group from its customers in the PRC that may require bills discounting services to be provided by the Finance Company or the Independent Third Parties. Accordingly, the Company consider it reasonable to determine the BD Caps based on the BD Ratios, in particular the average of the BD Ratios. It is noted that there seems to be a significant increase in the BD Caps as compared with the annualized bills discounting amount of the Group for FY2017. But the Company is reasonable to consider that the average of the BD Ratios for the last seven financial years of the Group can fairly reflect the general levels of the bills discounting amount of the Group along the years and therefore would be an appropriate reference for determining the BD Caps as compared to the annualized bills discounting amount of the Group for FY2017. We have also checked the calculation of the average of the BD Ratios for the seven financial years ended 31 December 2016 and noted that it is approximately 17%.

We have also verified the Historical Sales CAGR in the above-mentioned manner, and reviewed the Group’s treasury policy and noted that it directs the Group to accelerate the turnover of the trade receivables by way of applying bills discounting services and so reinvest the proceeds from bills discounting in the high-yield wealth management products in order to gain from the interest spread. We found it fair and reasonable for the Company to ensure the BD Caps can cater for the new demand driven by the change in the treasury policy.

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## LETTER FROM OPTIMA CAPITAL

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### **Bills Acceptance**

The New Annual Caps for bills acceptance (the “**BA Caps**”) were determined by reference to (i) the average of ratio of the Group’s historical bills acceptance amount with the Finance Company and the Independent Third Parties (the “**Historical BA Amount**”) to the total sales of the Group (the “**BA Ratios**”) for the seven financial years ended 31 December 2016 of approximately 37%; and (ii) the expected increase in the bills acceptance transaction amount for the four years ending 31 December 2020 at a 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.

In assessing the fairness and reasonableness of the BA Caps, we have obtained from the Company the calculations of the estimated BA Caps and reviewed each parameter in the calculation accordingly. We have discussed with the Company and understand that there is a positive correlation between the sales of the Group and the needs for bills acceptance services of the Group as from the Group’s past experience of operation, the higher the sales of the Group, the more the purchases from the suppliers in the PRC that may require bill acceptance services to be obtained from the Finance Company or Independent Third Parties. Accordingly, it is reasonable to determine the BA Caps based on the BA Ratios which were calculated by dividing the Historical BA Amount by the sales of the Group for each of the seven financial years ended 31 December 2016. It is noted that there is a seemingly significant increase in the BA Caps as compared with the annualized bills acceptance amount of the Group for FY2017 but the Company is reasonable to take into account the average of the BA Ratios for the last seven years instead, given it can fairly reflect the general levels of the bills acceptance amount of the Group along the years. We have checked the calculation of the average BA Ratios and noted that it is approximately 37%. We have also verified the Historical Sales CAGR in the above-mentioned manner and noted that the estimation of the BA Caps was prepared based on the aforesaid factors. In light of this, we consider that the BA Caps are fairly and reasonably determined.

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## LETTER FROM OPTIMA CAPITAL

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### Foreign Exchange

The New Annual Caps for foreign exchange services (the “**FX Caps**”) were determined by reference to (i) the average of the ratio of the Group’s forex transaction amount with the Finance Company and the Independent Third Parties to the overseas sales of the Group (the “**FX Ratios**”) for the six years ended 31 December 2015 of approximately 88%; (ii) the additional demand for the foreign exchange services in the Coming Period given the Group had accumulated certain amount of foreign currencies in the past few financial years due to the depreciation of RMB; (iii) the expected increase in the foreign exchange transaction amount for the four years ending 31 December 2020 at a 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.

In assessing the fairness and reasonableness of the FX Caps, we have obtained from the Company the calculations of the estimated FX Caps and reviewed each parameter in the calculation accordingly. We understand from the management of the Company that the historical settlement amount of foreign exchange of the Group with the Finance Company and the Independent Third Parties slumped from RMB1,842 million in FY2015 to RMB823 million in FY2016 with the FX Ratios significantly decreasing from 94% for FY2015 to 41% for FY2016, which was mainly due to the significant depreciation of RMB against USD. In view of this, we have reviewed the trend of the exchange rates for USD/RMB (the “**Applicable Exchange Rate**”) from 1 January 2014 to 31 December 2016 (as shown in Chart 1 below), which was extracted from Bloomberg and noted that the Applicable Exchange Rate had experienced a decreasing trend since 2014 with an accelerated drop in FY2016, which coincided with the Company’s decision to decrease the translation of foreign exchanges of the Group in FY2016.



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## LETTER FROM OPTIMA CAPITAL

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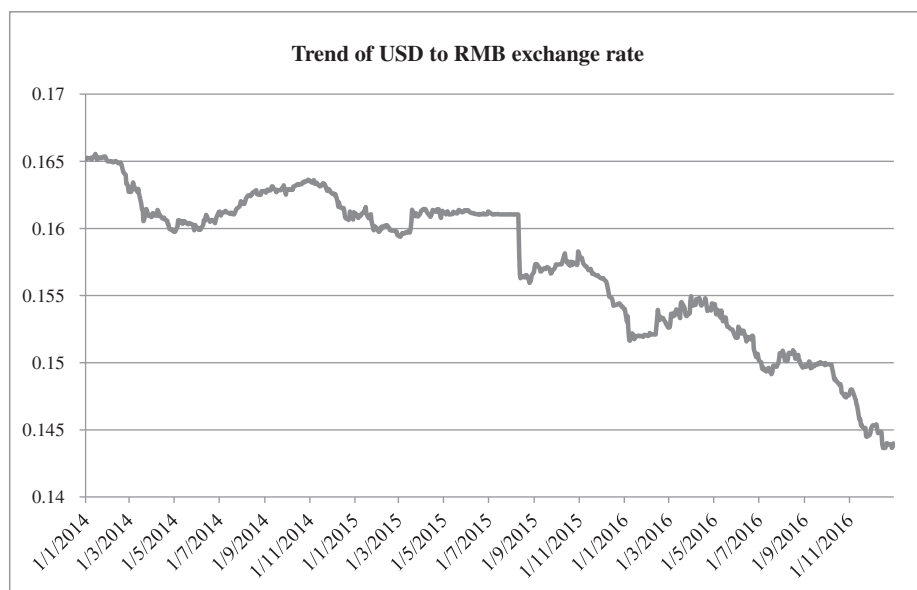


Chart 1: The exchange rate chart of USD/RMB from 1 January 2014 to 31 December 2016

We have checked the average of the FX Ratios for the six years ended 31 December 2015 and confirmed that it is approximately 88%. We noted that the figures for FY2016 had not been taken into account when calculating the average of the FX Ratios as the RMB depreciation in FY2016 had led to a significant decrease in settlement of foreign exchanges, which generated anomalous FX Ratio for FY2016. We concur with the view of the Company that the average of the FX Ratios for the six financial years ended 31 December 2015 would fairly reflect the average level of settlement amount of the foreign exchanges of the Group along the years, and therefore reasonably established the basis for determining the FX Caps for the Coming Period.

Further, we understand from the Company that the FX Caps have also taken into account that the Company intends to translate the accumulated foreign currencies of approximately RMB959 million (which had not been translated in FY2016) as to 30% in FY2017 and 70% in FY2018. It explains why the FX Caps for FY2018 is higher than that of FY2019 as the foreign currencies accumulated in FY2016 are expected to be all digested by FY2018. The settlement amount of the foreign exchanges of the Group is expected to back to normal level estimated based on the FX Ratios in FY2019. We have reviewed the trend of the Applicable Exchange Rate from 1 January 2017 to 31 March 2017 (as shown in Chart 2 below) and noted that after a surge in the first month of 2017, the Applicable Exchange Rate have experienced a relatively stable trend as compared to that in FY2016. In view of this, we consider that the Company's expectation and planning for digesting the accumulated foreign currencies is not ungrounded.

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## LETTER FROM OPTIMA CAPITAL

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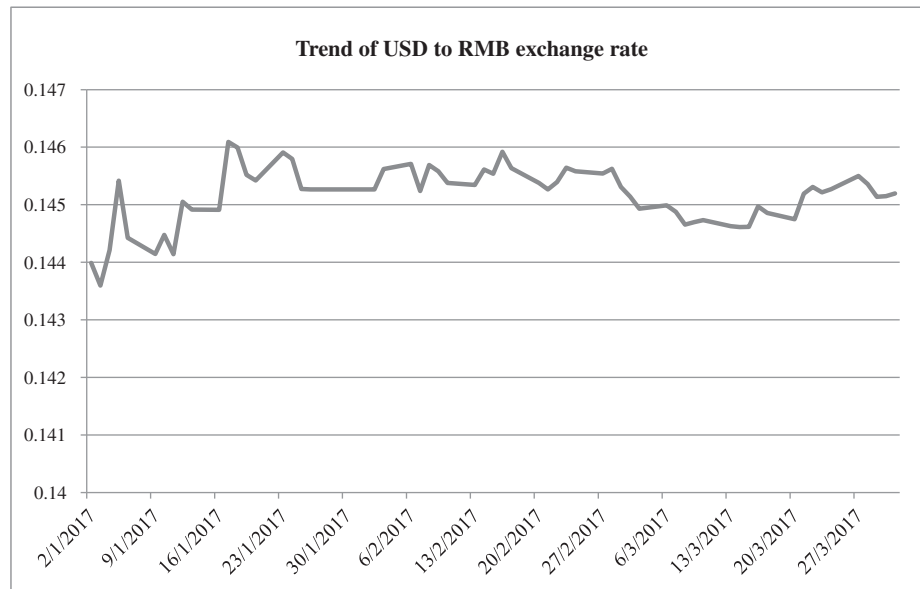


Chart 2: The exchange rate chart of USD/RMB from 1 January 2017 to 31 March 2017

In view of the above assessment, we are of the view that the FX Caps are determined fairly and reasonably.

### OPINION

Having taken into account the commercial rationale for obtaining such services from the Finance Company as set out in sub-paragraph headed “Reasons for and benefits of entering into the 2018 Financial Services Framework Agreement” above, the Pricing Terms are set to be not less favourable than that to be offered by the Independent Third Parties, and each of the New Annual Caps are determined on a fair and reasonable basis, we consider that the terms of the Continuing Connected Transactions (including the New Annual Caps) and the Connected Transaction are fair and reasonable; and the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2018 Financial Services Framework Agreement, and the transactions contemplated thereunder (including the Continuing Connected Transactions and the Connected Transaction).

Yours faithfully,  
for and on behalf of  
**OPTIMA CAPITAL LIMITED**  
**Ng Ka Po**  
Senior Director

Mr. Ng Ka Po is licensed person and responsible officer of Optima Capital Limited registered with the SFC 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 and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.

**1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP**

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2016 have been set out in the Annual Report 2016 of the Company which was posted on 11 April 2017 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the Annual Report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0411/LTN20170411289.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2015 have been set out in the Annual Report 2015 of the Company which was posted on 30 March 2016 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the Annual Report 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0330/LTN20160330385.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2014 have been set out in the Annual Report 2014 of the Company which was posted on 26 March 2015 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the Annual Report 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0326/LTN20150326387.pdf>

The three auditors' reports for the consolidated financial statements of the Group for the years ended 31 December 2014, 2015 and 2016 are unqualified reports.

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group did not have any bank borrowings.

As at the close of business on 31 March 2017, the Group did not have any material contingent liabilities.

Save as aforesaid or otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 31 March 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

**3. WORKING CAPITAL STATEMENT**

The Directors are of the opinion that, after taking into account the financing available to the Group, its internal generated funds and cash flow from operation, the Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

**4. MATERIAL ADVERSE CHANGE**

The Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

**5. FINANCIAL AND TRADING PROSPECTS**

Heading into 2017, the global economy will maintain a “slow” growth and the pace of economic growth will further slowdown. In particular, the growth of the developed economies will slow down and the growth of emerging markets will remain stable, leading to intensified differentiation in growth. Due to the receding effect of stimulating policies while the structural reform has yet to mature, the global economic recovery trend is therefore difficult to improve and the global monetary easing and asset shortage will continue, the potential risks are still widely present in the market. 2017 is the “critical year of reform” of China. The reform is moving gradually towards the maturity stage, while strengthening the supply-side structural reform should be the primary task of economic reform. The economy in China remained stable in 2016 and such trend is expected to continue in 2017. Benefiting from the stabilisation and recovery of China’s economy, it is expected that the market demand for the electrical household appliance industry will demonstrate a moderate growth in 2017. However, due to increasingly high requirements from consumers on products, coupled with the increasing popularity of personalised and customised products, the electrical household appliance manufacturers will focus more on product innovation and upgrade as well as business model transformation. As driven by the overall demand for air-conditioners and washing machines, the motor industry is expected to grow in 2017. The Group will continue to work on operational transformation, integrate resources and enhance management standard to offer high-quality motors so as to consolidate the leading position in the industry. Meanwhile, the Group will continue to focus on customers’ demand, promote product innovation, constantly streamline the models of products and components to improve product structure, integrate the advantageous resources of research and development, production and marketing, speed up the response to customer needs to achieve efficient sales services, strengthen competitive advantage, and consolidate and expand market share to enhance operational quality and bring returns for the Shareholders.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. INTERESTS OF DIRECTORS

### Directors' and chief executive's interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company contained in the Listing Rules:

#### (A) Long Position in the Shares of Midea

Name	Number of shares held			Total	Approximate percentage of shareholding (Note 13)
	Beneficial owner	Family interests	Corporate interest		
Mr. Xiang Weimin	337,900 (Note 1)	–	–	337,900	0.0052%
Mr. Zhang Lifeng	150,000 (Note 2)	–	–	150,000	0.0023%
Ms. Pan Xinling	235,000 (Note 3)	–	–	235,000	0.0036%
Mr. Li Li	180,000 (Note 4)	–	–	180,000	0.0028%
Mr. Li Feide	960,000 (Note 5)	–	–	960,000	0.0148%

**(B) Long Position in the Underlying Shares – Share Options****(i) The Company**

Name	Capacity	Date of grant	Exercise price (HK\$)	Exercise period	Total	Approximate percentage of shareholding (Note 14)
Mr. Lam Ming Yung	Beneficial owner	30/07/2007	3.90	30/07/2007 – 29/07/2017	400,000	0.0140%

**(ii) Midea**

Name	Capacity	Date of grant	Exercise price (RMB)	Exercise period	Total	Approximate percentage of shareholding (Note 13)
Mr. Zhang Lifeng	Beneficial owner	18/02/2014	10.01 (Note 6)	(Note 7)	112,500	0.0075%
		27/05/2015	18.56 (Note 8)	(Note 9)	150,000	
		28/06/2016	20.35 (Note 10)	(Note 11)	225,000	
Ms. Pan Xinling	Beneficial owner	18/02/2014	10.01 (Note 6)	(Note 7)	112,500	0.0071%
		27/05/2015	18.56 (Note 8)	(Note 9)	120,000	
		28/06/2016	20.35 (Note 10)	(Note 11)	225,000	
Mr. Li Li	Beneficial owner	18/02/2014	10.01 (Note 6)	(Note 7)	112,500	0.0087%
		27/05/2015	18.56 (Note 8)	(Note 9)	225,000	
		28/06/2016	20.35 (Note 10)	(Note 11)	225,000	
Mr. Xiao Mingguang	Beneficial owner	28/06/2016	20.35 (Note 10)	(Note 11)	315,000	0.0049%
Mr. Li Feide	Beneficial owner	18/02/2014	10.01 (Note 6)	(Note 7)	375,000	0.0058%

## Notes:

- Mr. Xiang Weimin is interested in 193,500 shares of Midea granted to him on 26 March 2016 and 144,400 shares of Midea granted to him on 29 April 2017 under the share award scheme for the core management team of Midea (the "Share Award Scheme") entitling him to receive an aggregate of 337,900 shares of Midea, which are held by a trustee and subject to the performance target as specified under the Share Award Scheme.

2. Mr. Zhang Lifeng is interested in 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.
3. Ms. Pan Xinling is interested in 235,000 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.
4. 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.
5. Mr. Li Feide is interested in 960,000 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.
6. 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 RMB10.01 on 10 May 2017.
7. 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 was exercisable from 17 February 2015 to 17 February 2017, the second tranche of share options shall be exercisable from 17 February 2016 to 17 February 2018 and the third tranche of share options shall be exercisable from 17 February 2017 to 17 February 2019.
8. 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.
9. 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.
10. 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.



11. 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.
12. No cash consideration was paid by each of the Directors for the grant of share options of Midea.
13. The percentage has been compiled on the basis of 6,465,677,368 shares of Midea in issue as at 30 April 2017.
14. 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.

### Substantial Shareholder's Interests

Save as disclosed below, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

### Long Position in the Shares of the Company

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 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 Midea International Corporation Company Limited (“Midea International”) 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 Midea International 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 34.21% by Midea Holding. 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.

**3. DIRECTOR’S INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

**4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

## 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 6. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

## 7. 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 this circular:

- (a) 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) 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) 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) 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) 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;
- (f) 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;
- (g) the agreement dated 31 August 2015 between an independent bank (“Bank A”) as lender, Shanxi Huaxiang as borrower and GD Welling as guarantor in relation to the provision of guarantee by GD Welling in favour of Bank A in an amount of RMB100,000,000 to secure the repayment obligation of Shanxi Huaxiang under a bank loan agreement dated 31 August 2015 entered into between Bank A as lender and Shanxi Huaxiang as borrower;
- (h) the agreement dated 31 August 2015 between an independent bank (“Bank C”) as lender, Shanxi Huaxiang as borrower and GD Welling as guarantor in relation to the provision of guarantee by GD Welling in favour of Bank C in an amount of RMB104,000,000 to secure the repayment obligation of Shanxi Huaxiang under a bank loan agreement dated 31 August 2015 entered into between Bank C as lender and Shanxi Huaxiang as borrower;

- (i) the agreement dated 30 June 2015 between Minsheng Royal Asset Management Co. Ltd. (民生加銀資產管理有限公司) (“Minsheng Royal”) as asset manager, China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) (“Minsheng”) as custodian bank and GD Welling as subscriber in relation to the subscription by GD Welling in the amount of RMB200,000,000 for wealth management products issued by Minsheng and Minsheng Royal;
- (j) the agreement dated 9 June 2015 between Minsheng Royal as asset manager, Minsheng as custodian bank and GD Welling as subscriber in relation to the subscription by GD Welling in the amount of RMB200,000,000 for wealth management products issued by Minsheng and Minsheng Royal; and
- (k) the agreement dated 29 May 2015 between Minsheng Royal as asset manager, Minsheng as custodian bank and GD Welling as subscriber in relation to the subscription by GD Welling in the amount of RMB100,000,000 for wealth management products issued by Minsheng and Minsheng Royal.

## **8. EXPERT AND CONSENT**

The following are the qualifications of the professional adviser who has given the Company opinions or provided advice referred to or contained in this circular:

Optima Capital      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.

As at the Latest Practicable Date, Optima Capital had no shareholding interest, directly or indirectly, in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, Optima Capital did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of the text of its letter and/or the references to its name in the form and context in which they respectively appear.

**9. MISCELLANEOUS**

- (a) 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.
- (b) The registered office of the Company is situated at Suite 3904, 39/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (c) The English text of this circular and the accompanying form of proxy shall prevail over its Chinese text.

**10. DOCUMENTS AVAILABLE FOR INSPECTIONS**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. on any weekday (except public holidays) at the registered office of the Company at Suite 3904, 39/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM and at the EGM:

- (a) the articles of association of the Company adopted on 29 May 2015;
- (b) the 2015 Financial Services Framework Agreement;
- (c) the 2018 Financial Services Framework Agreement;
- (d) the letter from the Independent Board Committee dated 23 May 2017;
- (e) the letter from Optima Capital dated 23 May 2017;
- (f) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (g) the written consent referred to in the section headed “Expert and Consent” in this appendix; and
- (h) this circular.

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**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

**NOTICE IS HEREBY GIVEN** that the Extraordinary General Meeting of Welling Holding Limited (the “Company”) will be held at Lotus Room, 6/F, Marco Polo Hongkong Hotel, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on 16 June 2017 at 12:00 noon (or immediately after the conclusion or adjournment of the annual general meeting of the Company held at the same place, on the same date and at 11:30 a.m.) for the purposes of considering and, if thought fit, pass with or without amendments the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

1. **“THAT**
  - (a) the financial services framework agreement dated 28 April 2017 (the “2018 Financial Services Framework Agreement”, a copy of which has been produced to the meeting marked “A” and initialled by the Chairman of the meeting for identification purposes) entered into between the Company and 美的集團財務有限公司 (Midea Group Finance Co., Ltd.\*) for the purposes of, among other things, setting the new annual caps in respect of the core financial services, including deposit, loan and financing, bills discounting, bills acceptance and foreign exchange services, for the three years ending 31 December 2020 be and are hereby approved, ratified and confirmed; and
  - (b) any one of the Directors of the Company be and is hereby authorised to do all such acts and things, to sign and execute all documents or agreements under hand (and, where required, under the common seal of the Company together with any other Director or the Company Secretary) for and on behalf of the Company as he/she/they may consider necessary, desirable, appropriate or expedient in connection with and/or to implement and/or give effect to the 2018 Financial Services Framework Agreement including the new annual caps contemplated thereunder and to agree to such verification, announcement or waiver as are, in the opinion of the Directors, in the interests of the Company.”

By order of the Board  
**Welling Holding Limited**  
**Cheung Wai Yu**  
Company Secretary

Hong Kong, 23 May 2017

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Notes:

1. For the purpose of ascertaining the shareholders' rights of attending and voting at the meeting, the register of members of the Company will be closed from 13 June 2017 to 16 June 2017, both days inclusive, during which period no transfer of shares shall be effected. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 12 June 2017.
  2. A shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on behalf of himself/herself. A proxy need not be a shareholder of the Company.
  3. To be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the above meeting or any adjourned meeting.
  4. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting or poll concerned. The instrument of proxy shall be valid as well for any adjournment of the above meeting.
  5. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. 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 joint holding.
  6. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 美的集團股份有限公司 (Midea Group Co., Ltd.\*) and its associates are required to abstain from voting on the above ordinary resolution.
  7. Voting of the ordinary resolution as set out in this notice will be by poll.
- \* The English names are translations of the respective Chinese names and are included in this notice for identification purposes only.

As at the date of this notice, the Board of Directors of the Company comprises six executive Directors, Mr. Xiang Weimin (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, Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Cao Zhoutao.