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# Welling

## WELLING HOLDING LIMITED

## 威靈控股有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 382)**

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

#### INTERIM RESULTS

The board of directors (the “Board”) of Welling Holding Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2009 (the “Period”), which had been reviewed by the audit committee of the Company (the “Audit Committee”), together with the comparative figures for 2008.

#### CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*For the six months ended 30 June 2009*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2009</b>	<b>2008</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>Restated</i>
			<i>(Note 2)</i>
<b>Continuing operations:</b>			
Revenue	4	2,235,210	2,948,449
Cost of goods sold		<u>(1,892,329)</u>	<u>(2,647,529)</u>
<b>Gross profit</b>		<b>342,881</b>	300,920
Other gains — net	5	26,627	1,804
Selling and marketing costs		(40,063)	(51,360)
Administrative expenses		<u>(106,404)</u>	<u>(66,830)</u>
<b>Operating profits</b>		<b>223,041</b>	184,534
Finance costs		(11,580)	(10,472)
Finance income		<u>2,391</u>	<u>5,633</u>
Finance costs — net	7	<u>(9,189)</u>	<u>(4,839)</u>
<b>Profits before income tax</b>		<b>213,852</b>	179,695
Income tax expense	8	<u>(35,655)</u>	<u>(27,080)</u>
<b>Profits for the period from continuing operations</b>		<b>178,197</b>	152,615
<b>Discontinued operations:</b>			
<b>Profit for the period from discontinued operations</b>	9	<u>—</u>	<u>32,575</u>
<b>Profit for the period</b>		<u><b>178,197</b></u>	<u><b>185,190</b></u>

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2009</b>	2008
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			Restated ( <i>Note 2</i> )
<b>Attributable to:</b>			
Equity holders of the Company		<b>178,197</b>	185,888
Minority interests		<u>—</u>	<u>(698)</u>
		<b><u>178,197</u></b>	<b><u>185,190</u></b>
<b>Earnings per share for profit from continuing operations</b>			
<b>attributable to the equity holders of the Company,</b>			
<b>expressed in HK cents per share</b>			
— basic	10	<u><b>1.32</b></u>	<u>1.13</u>
— diluted	10	<u><b>1.31</b></u>	<u>1.13</u>
<b>Earnings per share for profit attributable to the equity</b>			
<b>holders of the Company, expressed in HK cents</b>			
<b>per share</b>			
— basic	10	<u><b>1.32</b></u>	<u>1.38</u>
— diluted	10	<u><b>1.31</b></u>	<u>1.38</u>
<b>Dividends</b>		<u>—</u>	<u>—</u>

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
		Restated (Note 2)
<b>Profit for the period</b>	<b>178,197</b>	185,190
<b>Other comprehensive (loss)/income</b>		
Currency translation differences	<u>(1,046)</u>	<u>5,990</u>
<b>Total comprehensive income for the period, net of tax</b>	<b><u>177,151</u></b>	<b><u>191,180</u></b>
<b>Total comprehensive income attributable to:</b>		
— Equity holders of the Company	<b>177,151</b>	191,878
— Minority interest	<u>—</u>	<u>(698)</u>
	<b><u>177,151</u></b>	<b><u>191,180</u></b>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION***As at 30 June 2009*

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2009</b>	2008
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Leasehold land and land use rights	125,816	127,436
Property, plant and equipment	644,547	571,345
Intangible assets	22,383	22,410
Deferred income tax assets	5,321	7,887
Prepayment for investments in associates	82,360	82,463
Prepayment for property, plant and equipment	<u>5,848</u>	<u>22,392</u>
	<u>886,275</u>	<u>833,933</u>
<b>Current assets</b>		
Inventories	308,576	243,888
Trade and other receivables	892,657	929,579
Due from related companies	1,239,417	1,074,328
Derivative financial assets	4,975	—
Pledged bank deposits	82,605	61,020
Cash and cash equivalents	<u>302,112</u>	<u>217,124</u>
	<u>2,830,342</u>	<u>2,525,939</u>
<b>Total assets</b>	<u><u>3,716,617</u></u>	<u><u>3,359,872</u></u>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	1,347,931	1,347,931
Other reserves	247,574	227,921
Accumulated losses	<u>(642,636)</u>	<u>(805,210)</u>
<b>Total equity</b>	<u>952,869</u>	<u>770,642</u>

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2009</b>	2008
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>60,000</b>	60,000
Deferred income tax liabilities		<u><b>13,632</b></u>	<u>6,305</u>
		<u><b>73,632</b></u>	<u>66,305</u>
<b>Current liabilities</b>			
Trade and other payables	12	<b>1,869,964</b>	1,705,350
Due to related companies		<b>101,649</b>	174,032
Derivative financial liabilities		<b>3,064</b>	30,635
Current income tax liabilities		<b>12,795</b>	1,300
Borrowings		<u><b>702,644</b></u>	<u>611,608</u>
		<u><b>2,690,116</b></u>	<u>2,522,925</u>
<b>Total liabilities</b>		<u><b>2,763,748</b></u>	<u>2,589,230</u>
<b>Total equity and liabilities</b>		<u><b>3,716,617</b></u>	<u>3,359,872</u>
<b>Net current assets</b>		<u><b>140,226</b></u>	<u>3,014</u>
<b>Total assets less current liabilities</b>		<u><b>1,026,501</b></u>	<u>836,947</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

Welling Holding Limited is a limited liability company incorporated in Hong Kong. The address of its registered office is at Suite 3904, 39/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information has been approved by the board of directors of the Company for issue on 31 August 2009.

The Group's condensed consolidated interim financial information for the six months ended 30 June 2009 are presented in Hong Kong dollars ("HK\$"), which is same as the presentation currency of the Group's consolidated financial statements for the year ended 31 December 2008, however, it is different from the presentation currency of the Group's condensed consolidated interim financial information for the six months ended 30 June 2008 of Renminbi ("RMB"). The directors consider this presentation provides more useful and relevant financial information for its current and potential investors. The comparative amounts to these condensed consolidated interim financial information have been adjusted to achieve comparability with the current period.

## 2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

On 31 March 2008, the Company completed a restructuring transaction involving a significant business and assets swap. The Company applied the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") in preparing the financial statements of the Group for the year ended 31 December 2008. There is no gain or loss from the restructuring transaction because the resulting differences are regarded as distribution to the equity holders of the Company and debited to the equity of the Group. As a result, the accumulated losses for the disposed subsidiaries of approximately HK\$1,216,807,000 are not affected by any disposal gain or loss, and are included in the accumulated losses of the Group. The deemed distribution arising from the restructuring transaction of approximately HK\$3,219,525,000 was debited to the equity of the Group.

The condensed consolidated interim financial information for the six months ended 30 June 2008 of the Group originally stated in RMB is retranslated into HK\$ with the following exchange rates:

- assets and liabilities are translated at the closing rate as at 30 June 2008 of HK\$1 = RMB0.8791;
- income and expenses are translated at average exchange rate for the six months ended 30 June 2008 of HK\$1 = RMB0.8957 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- movements of equity are translated at the rate prevailing on the transaction dates.

### 3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The condensed consolidated interim financial information have been prepared under the revised disclosure requirements.

- HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This has no impact on the Group’s financial statements, as the Group has already been using principles, which are consistent with HKFRS 8, in presenting segment information of the Group.

The following new standards, amendments to standards and interpretations which are or have become effective and did not have any material impact on the accounting policies of the Group.

HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based payment — Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments
HK(IFRIC) 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) 13	Customer Loyalty Programmes
HK(IFRIC) 15	Agreements for the Construction of Real Estate
HK(IFRIC) 16	Hedges of a Net Investment in a Foreign Operation

#### 4. SEGMENT INFORMATION

The principal activities of the Group are manufacturing and distribution of micro motors, washing motors, electronic and electric components and trading of raw materials in the People's Republic of China ("PRC") and overseas.

The chief operating decision-maker assesses the performance of the operating segments based on the profit for the period.

The segment results for the six months ended 30 June 2009 and segment assets and liabilities as at 30 June 2009 and capital expenditure and other segment items for the six months ended 30 June 2009 are as follows:

	Micro motors business HK\$'000	Washing motors business HK\$'000	Electronic and electric components business HK\$'000	Raw material business HK\$'000	Unallocated HK\$'000	Total HK\$'000
Gross segment revenue	1,283,109	687,829	262,452	676,542	—	2,909,932
Inter-segment revenue	(544)	(473)	(2,089)	(671,616)	—	(674,722)
Revenue (from external customers)	1,282,565	687,356	260,363	4,926	—	2,235,210
Operating profit/(loss)	118,827	93,261	20,736	1,636	(11,419)	223,041
Finance costs	(2,863)	(2,266)	(117)	(5,328)	(1,006)	(11,580)
Finance income	1,329	957	65	39	1	2,391
Income tax expense	(18,873)	(7,545)	(2,522)	—	(6,715)	(35,655)
Profit for the period	<u>98,420</u>	<u>84,407</u>	<u>18,162</u>	<u>(3,653)</u>	<u>(19,139)</u>	<u>178,197</u>
Segment assets	1,656,059	1,251,660	507,685	211,911	1,621	3,628,936
Deferred income tax assets						5,321
Prepayment for investment in associates						<u>82,360</u>
Total assets						<u>3,716,617</u>
Segment liabilities	1,303,897	924,490	328,465	193,047	217	2,750,116
Deferred income tax liabilities						<u>13,632</u>
Total liabilities						<u>2,763,748</u>
Capital expenditure	76,514	31,378	3,206	—	2	111,100
Depreciation	16,278	13,058	3,722	—	27	33,085
Amortisation	<u>694</u>	<u>657</u>	<u>110</u>	<u>—</u>	<u>—</u>	<u>1,461</u>

The restated segment results for the six months ended 30 June 2008, segment assets and liabilities as at 31 December 2008, capital expenditure and other segment items for the six months ended 30 June 2008 are as follows:

	Micro motors business <i>HK\$'000</i>	Washing motors business <i>HK\$'000</i>	Electronic and electric components business <i>HK\$'000</i>	Raw material business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Continuing operations Total <i>HK\$'000</i>	Discontinued operations <i>HK\$'000</i>
Gross segment revenue	1,845,593	786,356	338,579	840,487	—	3,811,015	1,380,055
Inter-segment revenue	<u>(10,031)</u>	<u>(5,390)</u>	<u>(14,939)</u>	<u>(832,206)</u>	<u>—</u>	<u>(862,566)</u>	<u>—</u>
Revenue (from external customers)	1,835,562	780,966	323,640	8,281	—	2,948,449	1,380,055
Operating profit/(loss)	93,750	79,758	7,817	5,434	(2,225)	184,534	44,628
Finance cost	(9,590)	(2,160)	638	(1,330)	1,970	(10,472)	(13,578)
Finance income	4,353	962	92	41	185	5,633	2,150
Income tax expense	<u>(10,468)</u>	<u>(7,680)</u>	<u>15</u>	<u>(1,036)</u>	<u>(7,911)</u>	<u>(27,080)</u>	<u>(625)</u>
Profit for the period	<u>78,045</u>	<u>70,880</u>	<u>8,562</u>	<u>3,109</u>	<u>(7,981)</u>	<u>152,615</u>	<u>32,575</u>
Segment assets	1,645,625	945,979	292,076	266,088	119,754	3,269,522	—
Deferred income tax assets						7,887	—
Prepayment for investment in associates						<u>82,463</u>	<u>—</u>
Total assets						<u>3,359,872</u>	<u>—</u>
Segment liabilities	1,365,236	710,152	195,199	242,813	69,525	2,582,925	—
Deferred income tax liabilities						<u>6,305</u>	<u>—</u>
Total liabilities						<u>2,589,230</u>	<u>—</u>
Capital expenditure	34,815	30,921	2,975	—	18	68,729	57,286
Depreciation	14,940	7,831	3,804	1	39	26,615	15,011
Amortisation	<u>696</u>	<u>270</u>	<u>112</u>	<u>—</u>	<u>—</u>	<u>1,078</u>	<u>—</u>

Analysis of sales into domestic sales in the PRC and export sales outside the PRC by region is as follows:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		Restated
Domestic sales	<b>1,647,907</b>	2,121,208
Export sales	<u>587,303</u>	<u>827,241</u>
Total	<u><b>2,235,210</b></u>	<u>2,948,449</u>

Revenue is allocated based on the country in which the customer is located.

No geographical segment analysis on total assets and capital expenditure is prepared as over 90% of the Group's total assets and capital expenditures were located/incurred in the PRC.

## 5. OTHER GAINS — NET

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000 Restated
Government grants	2,448	190
Gain on disposal of scrap materials	—	1,545
Loss on disposal of property, plant and equipment	(825)	(488)
Penalty income	1,044	238
Derivative financial instruments:		
— commodity future contracts not qualified for the hedge accounting	25,569	—
— foreign exchange forward contracts not qualified for the hedge accounting	2,775	—
Exchange loss	(4,654)	—
Others	270	319
	<u>26,627</u>	<u>1,804</u>

## 6. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000 Restated
Depreciation	33,085	26,615
Amortisation	1,461	1,078
Employee benefit expense	190,357	141,731
Operating lease rental for land and building	1,076	1,181

## 7. FINANCE COSTS — NET

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000 Restated
Interest expense	(10,955)	(14,062)
Exchange (loss)/gain — net	(625)	3,590
Finance cost	(11,580)	(10,472)
Finance income - interest income on short term bank deposit	2,391	5,633
Net finance cost	<u>(9,189)</u>	<u>(4,839)</u>

## 8. INCOME TAX EXPENSES

PRC corporate income tax is provided for on 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC corporate income tax purpose, except for certain subsidiaries which were entitled to different preferential tax rates of 12.5% or 15% during both periods.

Profits tax for other locations has not been provided as the Group did not have any assessable profits in those locations.

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
		Restated
Current tax		
— PRC corporate income tax	25,568	24,252
— Underprovision in prior years	195	—
	<u>25,763</u>	<u>24,252</u>
Deferred tax	9,892	2,828
	<u>9,892</u>	<u>2,828</u>
Income tax expense	<u>35,655</u>	<u>27,080</u>

## 9. DISCONTINUED OPERATIONS

On 23 November 2007, the Company and Welling Electric Holding (Cayman Islands) Limited (now known as Midea Holding (Cayman Islands) Limited) (the “Vendor”), a wholly-owned subsidiary of Midea Group Co., Ltd. (“Midea”), the Company’s ultimate holding company, entered into a sale and purchase agreement, pursuant to which the Company: (a) acquired the entire issued share capital of Welling Holding (BVI) Limited and its subsidiaries; (b) disposed of the Company’s entire interest in each of China Refrigeration Industry Co., Ltd., Hualing Technology Limited, Hualing (Far East) Limited, and Hualing (Guangzhou) Electrical Appliances Co., Ltd., (collectively the “Disposed Companies”) and their subsidiaries (together, the “Disposed Group”); (c) assigned the Company’s right to net receivables due from the Disposed Group amounted to approximately HK\$876,124,000 to the Vendor; and (d) allotted and issued approximately 8,753,323,000 consideration shares to the Vendor (collectively the “Transaction”).

On 31 March 2008, the Group completed the Transaction. The operating gain for the three months ended 31 March 2008 amounted to approximately HK\$32,575,000 has been included in the profit from discontinued operations of the Group for the six months ended 30 June 2008. Note 4 sets out details of the operating results of the discontinued operations up to the date of disposal.

## 10. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share are calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008 Restated
<b>Continuing operations</b>		
Profit for the period from continuing operations attributable to the equity holders of the Company ( <i>HK\$'000</i> )	<b>178,197</b>	152,615
Weighted average number of ordinary shares in issue ( <i>'000 shares</i> )	<b>13,479,314</b>	13,479,314
Basic earnings per share ( <i>HK cents per share</i> )	<b>1.32</b>	1.13
<b>Discontinued operations</b>		
Profit for the period from discontinued operations attributable to the equity holders of the Company ( <i>HK\$'000</i> )	—	33,273
Weighted average number of ordinary shares in issue ( <i>'000 shares</i> )	—	13,479,314
Basic earnings per share ( <i>HK cents per share</i> )	—	0.25
Profit for the period attributable to the equity holders of the Company ( <i>HK\$'000</i> )	<b>178,197</b>	185,888
Weighted average number of ordinary shares in issue ( <i>'000 shares</i> )	<b>13,479,314</b>	13,479,314
Basic earnings per share ( <i>HK cents per share</i> )	<b>1.32</b>	1.38

### (b) Diluted

For the six months ended 30 June 2009, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are performance-based share options. For the share options, a calculation is done to determine the number of shares that could have been issued based on the attainment of the performance target at the end of the period. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008 Restated
Profit for the period attributable to the equity holders of the Company ( <i>HK\$'000</i> )	<b>178,197</b>	185,888
Weighted average number of ordinary shares in issue ( <i>'000 shares</i> )	<b>13,479,314</b>	13,479,314
Adjustments for share options ( <i>'000 shares</i> ) ( <i>Note i</i> )	<b>86,982</b>	—
	<b>13,566,296</b>	13,479,314
Diluted earnings per share ( <i>HK cents per share</i> )	<b>1.31</b>	1.38

- (i) The outstanding share options granted by the Company has no dilutive effect during the six months ended 30 June 2008.

## 11. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Trade receivables ( <i>Note a</i> )	443,664	407,876
Less: provision for impairment of trade receivables	<u>(27,221)</u>	<u>(18,818)</u>
Trade receivables — net	416,443	389,058
Notes receivable	375,419	394,629
Prepayments and other receivables	148,622	211,794
Less: provision for impairment of other receivables	(294)	(89)
Prepaid value-added tax — net	<u>40,675</u>	<u>39,042</u>
	980,865	1,034,434
Less: non-current portion		
Prepayment for investments in associates	(82,360)	(82,463)
Prepayment for property, plant and equipment	<u>(5,848)</u>	<u>(22,392)</u>
	<u>892,657</u>	<u>929,579</u>

- (a) The majority of the Group's export sales are on letter of credit or documents against payment, or covered by customers' standby letters of credit or bank guarantees. The remaining amounts are with credit terms of 30 days to 90 days. As at 30 June 2009, the ageing analysis of the gross trade receivables is as follows:

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Within 3 months	401,000	355,331
3 to 6 months	39,375	51,713
Over 6 months	<u>3,289</u>	<u>832</u>
	<u>443,664</u>	<u>407,876</u>

## 12. TRADE AND OTHER PAYABLES

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Trade payables ( <i>Note a</i> )	1,338,405	1,202,757
Notes payable ( <i>Note b</i> )	<u>397,178</u>	<u>369,342</u>
	1,735,583	1,572,099
Provision for staff welfare and bonus	43,791	44,824
Accruals	18,263	13,046
Advances from customers	19,459	6,136
Others	<u>52,868</u>	<u>69,245</u>
	<u>1,869,964</u>	<u>1,705,350</u>

(a) As at 30 June 2009, the ageing analysis of the trade payables is as follows:

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Within 3 months	1,025,514	724,240
3 to 6 months	306,143	464,060
Over 6 months	<u>6,748</u>	<u>14,457</u>
	<u><u>1,338,405</u></u>	<u><u>1,202,757</u></u>

(b) The balance represents non-interest bearing bank acceptance notes issued by the Group with original maturity periods of less than nine months. As at 30 June 2009, certain notes payable were pledged by bank deposits of approximately HK\$163,765,000 (31 December 2008: approximately HK\$145,698,000).

### 13. COMMITMENTS

#### (a) Capital commitments

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Contracted but not provided for		
— purchase of property, plant and equipment	80,213	87,455
— investment in associates	<u>119,569</u>	<u>119,718</u>
	<u><u>199,782</u></u>	<u><u>207,173</u></u>

#### (b) Operating lease commitments — Group as the lessee

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

	As at	
	30 June 2009 <i>HK\$'000</i>	31 December 2008 <i>HK\$'000</i>
Not later than one year	1,348	1,419
Later than one year and not later than five years	<u>1,555</u>	<u>2,101</u>
	<u><u>2,903</u></u>	<u><u>3,520</u></u>

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Group's profit attributable to the equity holders of the Company and earnings per share for the six months ended 30 June 2009 amounted to approximately HK\$178,197,000 (first half of 2008: approximately HK\$185,888,000 comprising approximately HK\$152,615,000 from continuing operations and approximately HK\$33,273,000 from discontinued operations) and HK1.32 cents (first half of 2008: HK1.38 cents comprising HK1.13 cents from continuing operations and HK0.25 cents from discontinued operations) respectively.

For the six months ended 30 June 2009, the Group recorded a turnover of approximately HK\$2,235,210,000 (first half of 2008: approximately HK\$2,948,449,000), representing a decrease of approximately 24% as compared to the same period last year. The Group's gross profit margin was approximately 15.3% (first half of 2008: approximately 10.2%). Net asset value per share of the Group was HK7.07 cents as at 30 June 2009 (31 December 2008: HK5.7 cents).

### **Analysis of Major Business Operations**

The world continued to be affected by the global economy slump during the first half of 2009. Countries were still busy to deal with difficulties arising from the financial crisis and confronted with problems of continued contraction in real economy. PRC exporters went through a drastic fall of export sales amidst a worldwide depletion of inventory during the first half of 2009. It is anticipated that to certain extent this severity will be relieved when the adversity is over.

In respect of domestic demand, a gradual pick-up in the domestic economy is expected as the effect of the economic stimulus measures implemented by the PRC government becomes increasingly evident. The positive effects of specific support measures of the PRC government, substantiated by the transformation of value-added tax regime, the rate adjustment of export tax rebate, the realignment of credit policies and the "Home Appliances Subsidy Policy for Rural Areas", were especially evident on the Company's performance in domestic sales and protected the Company from being excessively affected by the economic crisis.

During the first half of 2009, the Group continued to streamline its production process and enhance production efficiency by driving various cost-saving initiatives at all levels, exercising inventory controls and implementing resources integration. In general, the decline in revenue reflected the combined effect of decreased sales volumes for certain business segments and lower selling prices resulted from the decline in raw material costs. Notwithstanding, the Company managed to report a slight increase in gross profit margin and in profit from its continuing operations which was attributable to the merit of effective control of manufacturing costs and expenses coupled with the initial benefits of in-house production of key components in the period.

### *(1) Micro Motors Business*

Demand for household air-conditioners and commercial air-conditioners fell substantially as a result of the global economic crisis. Sales of the household air-conditioners and commercial air-conditioners in PRC for the first half of 2009 decreased by 19.2% and 19.3% respectively as compared to the same period last year (Source: [www.chinaIOL.com](http://www.chinaIOL.com) (產業在線)). The PRC government's ongoing concern for energy conservation combined with the emission reduction in recent years and the upgrading of energy efficiency standards for household air-conditioners provide a major drive for the development of the direct current air-conditioner market, which is expected to report substantial growth in the next three years. As well as the air-conditioner industry, the refrigerator industry also benefited from the "Home Appliances Subsidy Policy for Rural Areas", with overall market demand remaining steady as the negative effect of the financial crisis was partially offset by the rapid growth of the rural market.

For the micro motors business, the Group recorded approximately 23,532,000 units of domestic sales and 4,123,000 units of export sales of micro motors for the six months ended 30 June 2009. The aggregate sales volume decreased by approximately 7% as compared to the same period last year, which was lower than the overall decrease rate of the industry. The micro motors business recorded a turnover of approximately HK\$1,282,565,000 for the first half of 2009, which represented a decrease of approximately 30% as compared to approximately HK\$1,835,562,000 for the same period in 2008.

The Group expanded its household air-conditioning motors business by securing further businesses with existing customers and exploring new customers. The Group also continued to strengthen the marketing of commercial air-conditioning motors and air-conditioning direct current motors with additional investments, with a view to laying solid foundations for future development. Meanwhile, significant increase was reported in the sales volume of refrigerator compressor motors resulting from stronger strategic ties with customers. In terms of management and operation, the competitive strengths of our products were enhanced on the back of cost reductions and improved efficiency, which were achieved through continued efforts in capacity streamlining, motor design optimisation and stringent cost control.

### *(2) Washing Motors Business*

The impact of the sustained global economic downturn on the washing machine market should not be under-estimated. The export sales of tumble-type washing machines for the first half of 2009 fell by 24% as compared to the same period last year. Fortunately, the domestic market fared better with domestic sales volume of washing machines for the first half of 2009 increasing by 11.6% as compared to the same period last year, as driven by economic stimulus measures adopted by the PRC government and the general implementation of the "Home Appliances Subsidy Policy for Rural Areas". (Source: [www.chinaIOL.com](http://www.chinaIOL.com) (產業在線)).

For the first half of 2009, the Group recorded approximately 4,628,000 units of domestic sales and approximately 3,209,000 units of export sales for its washing motors. Total sales volume grew approximately 15% as compared to the same period last year. In response to the change of market demand, an obvious change in product mix of sales of washing motors was reported. For the first half of 2009, the sales volume of wave-wheel washing motors increased by approximately 89% while the sales volume of tumble-type washing

motors decreased by approximately 14%. As part of its efforts to sustain the rapid growth for its washing motors business through vigorous new product development, the Group started to manufacture small series motors for food processing during the first half of 2009, and also developed motors for soybean milk-making machines, of which sales in commercial scale had been completed. Despite substantial growth in the overall sales volume of washing motors for the first half of 2009, the aggregate turnover for the washing motors business decreased by approximately 12% (approximately HK\$780,966,000 for the same period in 2008) to approximately HK\$687,356,000, as a result of the change in product mix of sales and the decline in selling price resulted from the lower cost of bulk purchase of raw materials. During the first half of 2009, the washing motors division focused its efforts in enhancing technology innovations, controlling cost, improving production efficiency, increasing the proportion of self-made key components and tightening control on product quality of washing motors so as to enhance its product competitiveness, gain advantage of economies of scales and sustain stronger profitability.

The Group's leading position in the washing motors business was reinforced with continued growth in the sales of washing motors. The substantial growth in sales volume was attributable to pro-active product development, timely adjustment in product mix to fulfil the market demand and aggressive marketing strategy towards major customers to increase substantial orders.

### *(3) Electronic and Electric Components Business*

In the first half of 2009, there was a marked decline in the microwave oven market underlying considerable contraction in export as a consequent impact of the global financial crisis. During the first half of 2009, microwave oven manufacturers experienced a substantial decline in production, and saw decreases in production and export volumes from the PRC by 16.1% and 22.3%, respectively (Source: [www.chinaIOL.com](http://www.chinaIOL.com) (產業在線)). Against the general decline in sales volume of the industry, however, the Group recorded 10,109,000 units of sales of its electronic and electric components for the first half of 2009, comprising 9,587,000 units in domestic sales and 522,000 units in export sales, representing a 12% decrease as compared to the same period in 2008, which was lower than the overall decrease rate of the industry. Furthermore, the unit prices of products were lower in tandem with the substantial decline in bulk purchase prices for raw materials. Turnover for electronic and electric components amounted to approximately HK\$260,363,000 which was 20% lower as compared to approximately HK\$323,640,000 recorded for the same period in 2008.

To cope with the adverse impact of the financial crisis, the electronic and electric components business adopted measures to strengthen operating risk control, optimise product mix, improve production processes and enhance cost control and product quality during the first half of the year. Cost reductions were achieved through streamlined production process, in-house manufacturing of key components and domestic production of parts and components.

## Financial Review

### *Liquidity and Financial Resources*

The Group has maintained a healthy financial and liquidity position with a current ratio of 105% as at 30 June 2009 (31 December 2008: 100%). As at 30 June 2009, the Group had a cash and cash equivalents of approximately HK\$302,112,000 (31 December 2008: approximately HK\$217,124,000) and the bank borrowings of approximately HK\$762,644,000 (31 December 2008: approximately HK\$671,608,000), of which approximately HK\$702,644,000 would be due within one year and approximately HK\$60,000,000 would be due over one year.

### *Financial Ratios*

The followings are certain financial ratios of the Group as at the balance sheet date:

	<b>30 June 2009 (Unaudited)</b>	31 December 2008
Inventories turnover	<b>26 days</b>	28 days
Current ratio	<b>1.05 times</b>	1.00 times
Gearing ratio (Net borrowings divided by the Company's total equity)	<b>0.48 times</b>	0.59 times

### *Pledge of Assets*

As at 30 June 2009, short-term borrowings of the Group were secured by certain property with net book value of approximately HK\$128,787,000 (31 December 2008: approximately HK\$133,229,000) and certain leasehold land and land use rights with net book value of approximately HK\$84,894,000 (31 December 2008: approximately HK\$85,965,000) of the Group.

### *Contingent Liabilities*

As at 30 June 2009, the Group did not have any material contingent liability.

### *Capital Expenditure*

For the six months ended 30 June 2009, the Group has invested approximately HK\$111,100,000 (31 December 2008: approximately HK\$354,468,000) in the addition of property, plant and equipment, leasehold land and land use rights.

### *Derivative Financial Instruments*

As at 30 June 2009, the Group's outstanding derivative financial assets and liabilities under various copper and aluminium future contracts and foreign exchange forward contracts amounted to approximately HK\$4,975,000 and HK\$3,064,000, respectively (31 December 2008: derivative financial liabilities of approximately HK\$30,635,000).

### *Exposure to Exchange Rate Fluctuations*

Approximately 30% of the Group's turnover was derived from export trading settled in Euros and US dollars. Similarly, the Group also imported raw materials in which the suppliers were paid in Euros and US dollars. Foreign exchange risks associated with these currencies were partially offset as a result. Moreover, the Group has made arrangements to purchase foreign exchange forward contracts to hedge foreign exchange exposure for certain export trading. The Group has strengthened control over risk of the fluctuations in exchange rate, and reviewed from time to time the sufficiency and appropriateness of the financial instruments which were used to hedge significant foreign currency risks.

### *Capital Commitments*

As at 30 June 2009, the Group has contracted capital commitments in respect of the purchase of property, plant and equipment amounting to approximately HK\$80,213,000.

Furthermore, the Group has committed to make a further investment of approximately HK\$119,569,000 for the investments in associates.

### **Human Resources**

As at 30 June 2009, the Group had approximately 9,311 full time employees in Hong Kong and the PRC. While the Company was supported by a team of young and high-calibre staff team, it also places strong emphasis on the development, management and planning of human resources, with a view to enhancing employee contributions to the Group and forging strategic advantages in human resources by adopting an open, fair and equitable policy on staff selection and deployment and implementing proper human resources management.

The Group has adopted a share option scheme to motivate employees by linking their interests to the future development and expansion of the Group.

The Group currently provides staff with competitive remuneration packages (comprising salary, bonus and benefits), insurance (comprising pension, medical insurance, unemployment insurance and insurance for labour injury) and housing fund. In addition, the Group also provides other benefits, including meal subsidies, housing subsidies, cooperative medical services, assistance fund and group activities.

### **Business Prospects**

In view of further implementation of macro stimulus policies (such as the "Home Appliances Subsidy Policy for Rural Areas" and the "Home Appliances Replacement Subsidy Policy") in the near future and China's ongoing urbanisation process in the long run, prospects of the micro motor sector look promising in terms of market scale and development opportunities. The Group will seek to increase the profitability of its household appliance motors business with special emphasis on the development and growth of key strategic products to ensure further market dominance through overall enhancements in product technologies to strive to position itself as an excellent global expert providing systematic solutions in micro motors to customers.

While the household air-conditioner market has been in the mature phase, the commercial and direct current air-conditioner markets are still in a momentum stage with broad prospects. Product obsolescence of refrigerators is anticipated to create huge market potential for the next three to five years. Meanwhile, the raised energy efficiency standards for domestic

refrigerators will compel domestic refrigerator compressor manufacturers to lower the proportion of their self-made motors and increase the proportion of external source. Taking advantage of the industry consolidations and enormous opportunities emerged from modifications in the industry policies, the Group will seek to assure its global market leadership in household air-conditioning alternating current motors through enhanced efforts in product sophistication and specialization, while it will also endeavour to develop commercial air-conditioning motors, refrigerator compressor motors and air-conditioning direct current motors into principal product ranges in the next few years by advancing research and development innovation and process renovation, with additional investments to enhance the competitiveness of these products.

Backing on its leading technology and prime product quality, the washing motors business will contribute to sustainable profit growth. The Group will continue to implement production process streamlining, cost control and resources integration as well as to further expand its wave-wheel motors business. The Group will also increase its investment in the series motors for tumble-type washing machines and endeavour to secure more businesses from major customers. We intend to step up with the development of high-end series motors and the marketing of small series motors for food processing. Furthermore, the Group will maintain and strengthen its market position in the sectors of wave-wheel motors, series motors and dishwasher pumps. Meanwhile, the Group will enhance the marketing of strategic products such as three-phase converter motors, agitator motors and BLDC motors, with particular emphasis on enlarging market shares in Europe and extending our presence to America. In order to ensure medium-to-long-term development, the Group initiated comprehensive survey and research on the opportunities to tap a new motor business for diversification into other business sectors at appropriate time in a prudent manner.

In respect of its electronic and electric components business, while asserting its global leadership in microwave oven converters, the Group will focus on increasing its sales efforts in resistors and shaded pole motors with an aim to grow in scale as well as profitability through in-house development of key components and further streamlining in production process.

The Group will continue to focus on the micro motors business and seek to establish solid foundations for the development in the medium-to-long run by strengthening its efforts in the marketing of strategic products, enhancing groundwork research, extending technology innovations, building up brand name as well as exploring the opportunities in new business areas. The Group will pro-actively continue to enhance its core competitiveness through measures in production process streamlining and cost optimisation. It is the goal of the Company to strive for sustainable growth in return to shareholders, to provide employees with sound career development opportunities and to create greater value and benefits for the society.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its shares during the six months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the code of conduct of the Company for Directors’ securities transactions. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2009.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the six months ended 30 June 2009, the Company had complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Listing Rules except for the deviation from Code Provision E.1.2 of the CG Code which provides that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee failing this his duly appointed delegates, to be available to answer questions at the annual general meeting.

The Chairman of the Board was unable to attend the Company’s 2009 annual general meeting due to another business engagement. The chairman of the Audit Committee and remuneration committee were unable to attend the Company’s 2009 annual general meeting due to other business engagement. In the absence of the Chairman of the Board, the Chief Executive Officer of the Company was elected by the Directors present at the Company’s 2009 annual general meeting to act as the chairman of the meeting and all other executive Directors and non-executive Director of the Company attended the meeting and were available to answer questions from shareholders.

## **AUDIT COMMITTEE**

The Company established its Audit Committee on 5 August 1999 to be responsible for ensuring the integrity of the financial statements of the Group, reviewing the effectiveness of internal control and risk management system of the Group. Mr. Chan Wai Dune resigned as the chairman of the Audit Committee on 31 July 2009 and Mr. Tan Jinsong was appointment as his replacement with effect from 1 August 2009. All members of the Audit Committee are independent non-executive Directors, namely, Mr. Tan Jinsong (chairman), Mr. Lam Ming Yung and Ms. Chen Chunhua. The Audit Committee has reviewed the unaudited interim results of the Company for the six months ended 30 June 2009 and agreed to the accounting policies and practices adopted by the Company.

## **PUBLICATION OF THE RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the Company's website at <http://www.welling.com.cn> and the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk>. The 2009 Interim Report will be despatched to the shareholders of the Company and available on the aforesaid websites in due course.

On behalf of the Board  
**Welling Holding Limited**  
**CAI Qiwu**  
*Chairman*

Hong Kong, 31 August 2009

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

*Executive Directors:* Mr. Cai Qiwu (*Chairman*), Mr. Jiang Deqing (*Chief Executive Officer*), Mr. Qu Fei, Mr. Gao Fazhong, Ms. Yuan Liqun, Mr. Li Jianwei and Mr. Zheng Weikang

*Non-executive Director:* Ms. Tan Xuemei

*Independent Non-executive Directors:* Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Chen Chunhua