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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 enclosed 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.

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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)**

## CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EGM

### INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS



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A letter from the Independent Board Committee containing the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the continuing connected transactions of the Company is set out on pages 21 to 22 of this circular. A letter from Optima Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions of the Company is set out on pages 23 to 37 of this circular.

A notice convening the EGM to be held at Beijing Suite III, 3/F., Prince Hotel, Harbour City, 23 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on 18 May 2010 at 12:00 noon (or sooner immediately after the conclusion of the annual general meeting of the Company held at the same place and on the same date) is set out on pages 43 to 45 of this circular. A form of proxy for EGM is also enclosed.

Whether or not you are able to attend the EGM, you are requested to complete the relevant form of proxy in accordance with the instruction printed thereon and return it to the share registrars 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 the holding of 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 its adjourned meetings should they so wish.

3 May 2010

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## DEFINITIONS

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

“Articles of Association”	means the articles of association of the Company;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	means the board of Directors;
“CBRC”	means 中國銀行業監督管理委員會 (China Banking Regulatory Commission);
“Company”	means Welling Holding Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 382);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Core Financial Services”	means the deposit, loan, bills discounting, foreign exchange and guarantee services to be provided by the Finance Company to GD Welling Group under the Financial Services Framework Agreement;
“Directors”	means the directors of the Company;
“EGM”	means the extraordinary general meeting of the Company to be held at Beijing Suite III, 3/F., Prince Hotel, Harbour City, 23 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on 18 May 2010 at 12:00 noon (or sooner immediately after the conclusion of the annual general meeting of the Company held at the same place and on the same date) to consider and, if thought fit, approve, among other things, the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder;
“Finance Company”	means 美的集團財務有限公司 (Midea Group Finance Co., Ltd.*) a limited company incorporated in the PRC which is owned as to 5% by GD Welling, 55% by Midea and 40% by GD Midea;
“Financial Services Framework Agreement”	means the financial services framework agreement entered into between GD Welling and the Finance Company on 13 April 2010 in respect of the provision of Core Financial Services and Other Financial Services;

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## DEFINITIONS

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“GD Midea”	means 廣東美的電器股份有限公司 (GD Midea Holding Co., Ltd.*), a limited company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange, in which Midea has approximately 42.49% interest as at the Latest Practicable Date;
“GD Welling”	means 廣東威靈電機製造有限公司 (Guangdong Welling Motor Manufacturing Co., Ltd.*), a limited company incorporated in the PRC and a wholly-owned subsidiary of the Company;
“GD Welling Group”	means GD Welling and its subsidiaries;
“Group”	means the Company and its subsidiaries;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Chen Chunhua;
“Independent Shareholders”	means the Shareholders other than Mr. He Xiangjian and his associates;
“Latest Practicable Date”	means 27 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange;
“Midea”	means 美的集團有限公司 (Midea Group Co., Ltd.*), a limited company incorporated in the PRC and the controlling shareholder of the Company holding approximately 67.49% of the issued share capital of the Company as at the Latest Practicable Date;
“Midea Framework Agreement”	means the Midea framework agreement entered into between the Company and Midea on 22 February 2008 in respect of (i) the sale of motors and electronic and electric components for electrical household appliances by the Group to Midea Group; and (ii) the purchase of raw materials by the Group from Midea Group;
“Midea Group”	means Midea, its subsidiaries and associates;

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## DEFINITIONS

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“Optima Capital”	means Optima Capital Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO;
“Other Financial Services”	means the financial services other than the Core Financial Services to be provided by the Finance Company to GD Welling 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, bills acceptance, intra-group transfer and settlement services, liquidation planning and other business as may be approved by the CBRC;
“PBOC”	means 中國人民銀行 (People’s Bank of China);
“PRC”	means the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan;
“Renewed Midea Framework Agreement”	means the sales and purchase framework agreement entered into between the Company and Midea on 13 April 2010 for the renewal of the Midea Framework Agreement;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	means share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	means the holder(s) of the ordinary shares of the Company with a nominal value of HK\$0.10 each;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it in sections 2 and 2B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Wellkey”	means 佛山市威奇電工材料有限公司 (Foshan City Wellkey Electrical Material Co., Ltd.*), a company controlled by Mr. He Jianfeng who is the son of Mr. He Xiangjian, the controlling shareholder of Midea and the ultimate controlling shareholder of the Company;
“Wellkey Framework Agreement”	means the purchase framework agreement entered into between the Company and Wellkey on 13 April 2010 in respect of the purchase of raw materials by the Group from Wellkey;
“HK\$”	means Hong Kong Dollars, the lawful currency of Hong Kong;

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## DEFINITIONS

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“RMB” means Renminbi, the lawful currency of the PRC; and

“%” means per cent.

*For illustration purposes in this circular, the amounts in RMB are translated to HK\$ at the rate of RMB0.8797 = HK\$1.00. No representation is made that any amount in RMB has been or could be converted at the above rate or at any other rates or at all.*

*\* For reference purposes only, the Chinese names of the PRC entities have been translated into English in this circular. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.*

# 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. Cai Qiwu (*Chairman*)  
Mr. Jiang Deqing (*Chief Executive Officer*)  
Mr. Qu Fei  
Mr. Gao Fazhong  
Ms. Yuan Liquan  
Mr. Li Jianwei  
Mr. Zheng Weikang

*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. Chen Chunhua

3 May 2010

*To the Shareholders and, for information only,  
the Option Holders*

Dear Sir/Madam

## **CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EGM**

### **1. INTRODUCTION**

On 13 April 2010, the Company announced that, among other things, (i) the Company entered into the Renewed Midea Framework Agreement with Midea to set out the terms and proposed annual caps for the sale of motors and electronic and electric components for electrical household appliances and raw materials by the Group to Midea Group and the purchase of raw materials and processed raw materials and motor samples by the Group from Midea Group for the three years ending 31 December 2012; (ii) the Company entered into the Wellkey Framework Agreement with Wellkey to set out the terms and proposed annual caps for the purchase of raw materials by the Group from Wellkey for the three years ending 31 December 2012; and (iii) GD Welling, a wholly-owned subsidiary of the

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## LETTER FROM THE BOARD

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Company, entered into the Financial Services Framework Agreement with the Finance Company to set out the terms and proposed annual caps for the provision of Core Financial Services and Other Financial Services by the Finance Company to the GD Welling Group for the three years ending 31 December 2012.

The transactions contemplated under each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the proposed annual caps for the transactions contemplated under each of the Renewed Midea Framework Agreement and Wellkey Framework Agreement and the Core Financial Services under the Financial Services Framework Agreement exceed 2.5% and such proposed annual caps exceed HK\$10,000,000, the transactions contemplated under the Renewed Midea Framework Agreement, Wellkey Framework Agreement and the Financial Services Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules by way of poll at the EGM pursuant to the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors, who do not have material interests in the transaction contemplated under each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement, has been established to advise the Independent Shareholders in respect of the terms of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement. Optima Capital has been appointed as the independent financial adviser by the Board to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purposes of this circular are to (i) provide the Shareholders with further information on the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement; (ii) set out the recommendations of the Independent Board Committee; (iii) set out the recommendations of Optima Capital; and (iv) set out the notice of EGM.

## **2. RENEWAL OF MIDEA FRAMEWORK AGREEMENT**

### **Background**

Reference is made to the announcements of the Company dated 23 November 2007 and 22 February 2008 and the circular of the Company dated 25 February 2008 in respect of the Midea Framework Agreement entered into between the Company and Midea for a term commencing on 31 March 2008 and ending on 31 December 2010. The Midea Framework Agreement sets out the basis upon which the Group would sell products manufactured by the Group to Midea Group and purchase raw materials from Midea Group during the term of the Midea Framework Agreement.

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## LETTER FROM THE BOARD

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In anticipation of the increase in demand of motors and electronic and electric components as a result of the strong growth in sales of electrical household appliances in the PRC coupled with the factor of upward trend of raw materials prices, the Directors expect that the existing annual cap for the transactions in respect of the sale of motors and electronic and electric components by the Group to Midea Group under the Midea Framework Agreement will not be sufficient to satisfy the requirements in 2010. In addition, the Midea Framework Agreement will expire on 31 December 2010 and the continuing connected transactions thereunder are expected to continue after the expiration of the Midea Framework Agreement.

On 13 April 2010, the Company and Midea entered into the Renewed Midea Framework Agreement which sets out the basis upon which (i) the Group will sell motors and electronic and electric components for electrical household appliances and raw materials to Midea Group; and (ii) the Group will purchase raw materials and processed raw materials and motor samples from Midea Group. The Renewed Midea Framework Agreement shall supercede the Midea Framework Agreement upon approval by the Independent Shareholders at the EGM.

### **Renewed Midea Framework Agreement**

**Date:** 13 April 2010

**Term:** From 1 January 2010 to 31 December 2012

**Parties:** The Company; and  
Midea

**Nature of transactions:** (i) sale of motors and electronic and electric components for electrical household appliances and raw materials by the Group to Midea Group; and  
  
(ii) purchase of raw materials and processed raw materials and motor samples by the Group from Midea Group

**Pricing basis:** The sale and purchase of products/raw materials are to be based on normal commercial terms, the prices payable for the products/raw materials are to be agreed between the relevant parties by reference to the prevailing market prices of comparable products and the terms and conditions of the sale and purchase shall not be less favourable than those available to the Group to or from independent third parties from time to time.

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## LETTER FROM THE BOARD

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### Proposed annual caps:

Pursuant to the Renewed Midea Framework Agreement, the value of the transactions contemplated thereunder shall not exceed the proposed annual caps below:

	Year ending 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Sale of motors and electronic and electric components for electrical household appliances and raw materials	3,523,000 (Note 1)	4,337,000	5,335,000
Purchase of raw materials and processed raw materials and motor samples	320,000 (Note 2)	320,000	400,000

*Notes:*

1. Approved annual cap under the Midea Framework Agreement was RMB2,930,000,000.
2. Approved annual cap under the Midea Framework Agreement was RMB320,000,000.

For each of the two years ended 31 December 2009, the sale of motors and electronic and electric components by the Group to Midea Group amounted to RMB1,862,209,000 and RMB2,270,276,000 respectively (both within the approved annual caps under the Midea Framework Agreement of RMB2,170,000,000 and RMB2,500,000,000) and the purchase of raw materials by the Group from Midea Group amounted to RMB757,624,000 (inclusive of an amount of RMB121,202,000, representing purchase of varnished wires indirectly from Wellkey) and RMB144,773,000 (inclusive of an amount of RMB123,335,000, representing purchase of varnished wires indirectly from Wellkey) respectively (both within the approved annual caps under the Midea Framework Agreement of RMB1,500,000,000 and RMB310,000,000).

After taking into account the increase in cost of raw materials and the anticipated growth in market demand of electrical household appliances in the PRC, the sales of motors and electronic and electric components to Midea Group for the year ending 31 December 2010 are expected to exceed the approved annual cap for that year.

The proposed annual caps for the three years ending 31 December 2012 for the sale of motors and electronic and electric components and raw materials by the Group to Midea Group under the Renewed Midea Framework Agreement have been determined primarily based on (i) the historical values of the sales transactions between the Group and Midea Group; (ii) anticipated growth in PRC market demand for appliances principally air-conditioners, washing machines, microwave ovens which

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## LETTER FROM THE BOARD

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comprise products using the motors manufactured by the Group, as a result of the Home Appliances Subsidy Program for Rural Areas (家電下鄉) and Home Appliances Replacement Subsidy Policy (家電以舊換新) introduced by the PRC Government; (iii) the estimated increase in selling prices of the relevant products for the next three years due to the introduction of newly developed high-end products; and (iv) the estimated increase in volume of motors and electronic and electric components to be sold to Midea Group in line with Midea's anticipated increase in market share of electrical household appliance industry in the PRC and the additional portion of new high-end products included in the next three years.

The proposed annual caps for the three years ending 31 December 2012 for the purchase of raw materials and processed raw materials and motor samples from Midea Group by the Group under the Renewed Midea Framework Agreement have been determined primarily based on (i) the historical values of the purchase transactions between the Group and Midea Group; (ii) the estimated increase in purchase price due to the upward trend of raw materials prices; and (iii) the anticipated increase in demand of raw materials in line with the business expansion and development plan of the Group for the next three years including establishment of new production facilities.

### **Reasons for, and benefits of, the Renewed Midea Framework Agreement**

Midea Group has been the largest customer of the Group, and sales to Midea Group accounted for approximately 52% of the Group's annual revenue in 2009. In addition, Midea Group, being one of the dominant participants in the electrical household appliances industry has been achieving an increase in market share in the PRC. Any further increase in the market share of Midea Group is expected to result in an increase in the demand for the Group's products. The continuation of the sale of finished goods to Midea Group is beneficial to and in the interest of the Group.

In respect of the purchase of raw materials by the Group from Midea Group, the Group has been purchasing raw materials for manufacturing motors and electronic and electric components of electrical household appliances from Midea Group which would place the orders with suppliers in bulk. As such, Midea Group can leverage on its close relationship with suppliers to obtain better terms for the purchase of raw materials than the Group could be able to obtain on its own.

The continued trading relationship between the Company and Midea Group is expected to provide a competitive advantage for the Group.

The Directors (including the independent non-executive Directors, being members of the Independent Board Committee, whose views are set out in the Letter from the Independent Board Committee set out on pages 21 to 22 of this circular) are of the view that the entering into of the Renewed Midea Framework Agreement is in the ordinary and usual course of business of the Group, and the terms (including the proposed annual caps) of the Renewed Midea Framework Agreement which were agreed after arm's length negotiations on normal commercial terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Information about Midea

Midea is an investment holding company. The business of Midea and its subsidiaries (excluding the Group) includes investments in manufacturing and commercial sectors, domestic commerce, supply and marketing of goods and materials, provision of information and technology consultancy services, provision of investment advisory and consultancy services to enterprises, development of software and hardware of computers, installation, maintenance and after-sale services of electrical household appliances, and design of industrial products.

### Listing Rules Implications

As Midea is the controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules, the transactions contemplated under the Renewed Midea Framework Agreement constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the proposed annual caps exceed 2.5% and such proposed annual caps exceed HK\$10,000,000, the transactions contemplated under the Renewed Midea Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

## 3. WELLKEY FRAMEWORK AGREEMENT

### Background

On 13 April 2010, the Company and Wellkey entered into the Wellkey Framework Agreement which sets out the basis upon which the Group would purchase raw materials from Wellkey. The Wellkey Framework Agreement shall be effective upon approval by the Independent Shareholders at the EGM.

### Wellkey Framework Agreement

<b>Date:</b>	13 April 2010
<b>Term:</b>	From 1 January 2010 to 31 December 2012
<b>Parties:</b>	The Company; and Wellkey
<b>Nature of transactions:</b>	Purchase of raw materials by the Group from Wellkey

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## LETTER FROM THE BOARD

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**Pricing basis:** The purchase of raw materials are to be based on normal commercial terms, the prices payable for the raw materials are to be agreed between the relevant parties by reference to the prevailing market prices of the relevant products and the terms and conditions of the sale and purchase shall be no less favourable than those available to the Group from independent third parties from time to time.

**Proposed annual caps:**

Pursuant to the Wellkey Framework Agreement, the value of the transactions contemplated thereunder shall not exceed the proposed annual caps below:

	Year ending 31 December		
	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of raw materials from Wellkey	215,000	266,000	338,000

For each of the two years ended 31 December 2009, the purchase of varnished wires by the Group from Wellkey indirectly through Midea Group under the Midea Framework Agreement amounted to RMB121,202,000 and RMB123,335,000 respectively.

The proposed annual caps set out in the above table have been determined primarily based on (i) the historical purchases of raw materials from Wellkey; (ii) the estimated increase in purchase price of raw materials; and (iii) the anticipated increase in demand of raw materials in line with the business expansion and development plan of the Group for the next three years.

**Reasons for, and benefits of, the Wellkey Framework Agreement**

The Group has been purchasing varnished wires indirectly from Wellkey through Midea Group under the Midea Framework Agreement in order to enjoy the bulk purchase discount available to Midea Group. After negotiation with Wellkey, Wellkey verbally agreed that the Group could place orders with them directly in respect of the purchase of varnished wires on the same terms as those they currently offered to Midea Group.

Wellkey is primarily engaged in the sale and distribution of varnished wires. Over the past years, Wellkey had consistently been able to provide quality goods to the Group with reliable and timely delivery services due to its close proximity to the principal manufacturing base of the Group in Shunde, the PRC. The Group has built a trusted and long-term business relationship with Wellkey.

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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors, being members of the Independent Board Committee, whose views are set out in the Letter from the Independent Board Committee set out on pages 21 to 22 of this circular) are of the view that the entering into of the Wellkey Framework Agreement is in the ordinary and usual course of business of the Group, and the terms (including the proposed annual caps) of the Wellkey Framework Agreement which were agreed after arm's length negotiations on normal commercial terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Information about Wellkey**

Wellkey is primarily engaged in the sale and distribution of varnished wires. It is a subsidiary of Zhejiang Shangfeng Industrial Holding Co., Ltd. ("Zhejiang Shangfeng"), a company listed on the Shenzhen Stock Exchange. Mr. He Jianfeng (the son of Mr. He Xiangjian who is the controlling shareholder of Midea) is the ultimate controller of Zhejiang Shangfeng by virtue of his controlling interest in Guangdong Yingfeng Group Company Limited, which in turn is the single largest shareholder of Zhejiang Shangfeng.

### **Listing Rules Implications**

As Wellkey is a company controlled by Mr. He Jianfeng (the son of Mr. He Xiangjian who is the controlling shareholder of Midea) and therefore a connected person of the Company under the Listing Rules, the transactions contemplated under the Wellkey Framework Agreement constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the proposed annual caps exceed 2.5% and such proposed annual caps exceed HK\$10,000,000, the transactions contemplated under the Wellkey Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

## **4. FINANCIAL SERVICES FRAMEWORK AGREEMENT**

### **Background**

Reference is made to the announcements of the Company dated 23 April 2009 and 10 July 2009 respectively in respect of the capital contribution agreement dated 23 April 2009 entered into between GD Welling (a wholly owned subsidiary of the Company), Midea and GD Midea for the formation of the Finance Company in the PRC. Approval had been granted by the CBRC for the incorporation of the Finance Company. All the required documents in connection with the application for commencement of business of the Finance Company have been submitted to the relevant regulatory authorities.

On 13 April 2010, GD Welling entered into the Financial Services Framework Agreement with the Finance Company, pursuant to which, the Finance Company shall, from time to time during the term of the Financial Services Framework

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## LETTER FROM THE BOARD

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Agreement, upon request of GD Welling Group provide the Core Financial Services and Other Financial Services. The Financial Services Framework Agreement shall be effective upon approval by the Independent Shareholders at the EGM.

### **Financial Services Framework Agreement**

<b>Date:</b>	13 April 2010
<b>Term:</b>	From the date of approval of the Financial Services Framework Agreement by the Independent Shareholders at the EGM to 31 December 2012
<b>Parties:</b>	GD Welling; and Finance Company
<b>Nature of transactions:</b>	Pursuant to the Financial Services Framework Agreement, the Finance Company shall, upon request, from time to time provide GD Welling Group with the Core Financial Services and Other Financial Services as available in the Finance Company.

### **Principal terms:**

Pursuant to the Financial Services Framework Agreement, the Finance Company shall provide financial services to GD Welling Group on normal commercial terms not less favourable than those available to GD Welling Group from independent third parties in accordance with the following principles:

#### ***(a) Deposit***

GD Welling Group may from time to time deposit money with the Finance Company. The Finance Company shall accept deposits from GD Welling 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 other PRC commercial banks.

#### ***(b) Loan***

GD Welling Group may from time to time request the Finance Company to provide loans to them. The Finance Company shall provide such loan services to GD Welling Group 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 other PRC commercial banks. If security over the assets of GD Welling Group is required for the loan granted by the Finance Company, the maximum fair value of the security assets shall not exceed 150% of the total loan amount.

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## LETTER FROM THE BOARD

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*(c) Bills Discounting*

GD Welling Group may from time to time request the Finance Company to provide bills discounting services to them. The Finance Company shall pay the face value of bills presented by GD Welling Group net of the discount interests with the discount rate (i) not higher than the benchmark discount rate set by the PBOC; and (ii) not higher than the discount rate offered by other PRC commercial banks.

*(d) Foreign Exchange*

Subject to the Finance Company being authorized by the relevant regulatory authority to deal in foreign currencies, GD Welling Group may from time to time request the Finance Company to provide foreign exchange services to them. The Finance Company shall buy or sell foreign currencies from or to GD Welling Group at the relevant exchange rates not less favourable than (i) the relevant foreign exchange rates set by the PBOC (if applicable); and (ii) the relevant foreign exchange rates available in other PRC commercial banks.

*(e) Guarantee*

GD Welling Group may from time to time request the Finance Company to provide performance guarantee or credit guarantee for bank loans and other liabilities of GD Welling Group with a one-off service charge at a rate to be determined by reference to the relevant charging rates set by the PBOC (if applicable) but not higher than the rates charged by other PRC commercial banks for the same type of services.

*(f) Other Financial Services*

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

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## LETTER FROM THE BOARD

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### Proposed annual caps:

Pursuant to the Financial Services Framework Agreement, the value of the transactions contemplated thereunder shall not exceed the proposed annual caps below:

	Year ending 31 December		
	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit (daily maximum outstanding balance including accrued interest and handling fees)	461,000	512,000	561,000
Loan (daily maximum outstanding balance including accrued interest and handling fees)	609,000	911,000	1,253,000
Bills discounting (face value of the bills discounted)	1,590,000	1,939,000	2,308,000
Foreign exchange (US\$)	164,000	200,000	238,000
Guarantee	500,000	500,000	500,000

In arriving at the above proposed annual caps set out in the above table, the following factors have been considered:

- (i) the historical amounts of the respective Core Financial Services transactions between GD Welling Group and PRC commercial banks in the past three years;
- (ii) it is expected that the business growth and expansion of the Company in the following years will result in a substantial increase in the future management of the cash resources generated from business operations of the Group; and
- (iii) additional borrowings are required to satisfy the needs of forecast capital expenditures to be incurred in the business development and expansion of production capacity of the Group to fulfill the growing market demand of electrical household appliances in the PRC.

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## LETTER FROM THE BOARD

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For the three years ended 31 December 2009, the maximum outstanding balances of the transactions in respect of each type of the Core Financial Services between GD Welling Group and PRC commercial banks are set out below:

	<b>Historical figures</b>		
	<b>for year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit (daily maximum outstanding balance including accrued interest and handling fees)	457,712	411,744	415,119
Loan (daily maximum outstanding balance including accrued interest and handling fees)	1,083,142	428,635	318,866
Bills discounting (face value of the bills discounted)	699,063	845,113	1,302,608
Foreign exchange (US\$)	86,615	155,717	134,322
Guarantee	—	—	—

### **Internal Controls and Risk Management**

The following procedures are for internal control and risk management purposes of the Finance Company:

- (i) The Finance Company is a regulated non-bank financial institution which is required to establish its own systems of internal controls and risk management in accordance with the stringent regulations imposed on a finance company incorporated in the PRC and ensure the implementation of the corporate governance guidelines set by the CBRC. The Company will request the Finance Company to provide with it a copy of every regulatory report submitted by the Finance Company to the CBRC for the purpose of monitoring the continuous regulatory compliance of the Finance Company;
- (ii) The Finance Company shall provide the following reports on a regular and timely basis to the senior management of the Company for their monitoring of the updated financial status of the Finance Company:
  - (a) a copy of the monthly management accounts of the Finance Company on the tenth business day after the end of each month; and
  - (b) a copy of the annual financial statements of the Finance Company audited by external auditors upon its issue;

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## LETTER FROM THE BOARD

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- (iii) The Finance Company shall be in strict compliance with the following risk monitoring indicators in respect of assets and liabilities ratios for financial institution issued by the CBRC in the operations of its business:
  - (a) the capital adequacy ratio is not less than 10%;
  - (b) the balance of inter-bank borrowings shall not exceed the total equity;
  - (c) the total guarantee provided shall not exceed the total equity;
  - (d) the short-term securities investment to total equity ratio is not more than 40%;
  - (e) the long-term investment to total equity ratio is not more than 30%;
  - (f) the self-owned fixed asset to total equity ratio is not more than 20%;
  - (g) other risk monitoring indicators as specified by the CBRC; and
- (iv) Midea has undertaken to the Finance Company that in the event of financial difficulties of the Finance Company in discharging its payment obligations, Midea will inject additional capital to the Finance Company as required to fulfill its payment obligations in full.

### **Reasons for, and benefits of, the Financial Services Framework Agreement**

The Directors (including the independent non-executive Directors, being members of the Independent Board Committee, whose views are set out in the Letter from the Independent Board Committee set out on pages 21 to 22 of this circular) having considered the following factors, are of the view that the Financial Services Framework Agreement was entered into in the ordinary and usual course of business of the Group after arm's length negotiations on normal commercial terms and the terms of which (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole:

1. The Finance Company is a non-bank financial institution approved and regulated by PBOC and CBRC and is engaged in providing various financial services in compliance with the rules and other operational requirements set by these regulatory authorities. The Finance Company will establish its system of internal control and risk management and implement the corporate governance guidelines in accordance with the requirements of the CBRC;
2. The use of financial services to be provided by Finance Company provides one more option of financing channels to the Group. The Group can centrally control the funding arrangement through the Finance Company, and therefore can enhance efficiency of employment of funds between members of the Group. Centralization of cash resources can allow better and easier management;

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## LETTER FROM THE BOARD

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3. The Finance Company is entitled to inter-bank interest rates for commercial banks in the PRC. Given that the interest rates and other terms of the Core Financial Services and the Other Financial Services available for GD Welling Group provided by the Finance Company will be no less favourable than those offered by other PRC commercial banks, the Group can benefit from the lower cost of funding and other financial service charges and thereby enhancing the profitability of the Group;
4. It is expected that the Finance Company, being an affiliated company of the Company controlled by Midea, will be placed in a better position to serve the financial needs of the Group as Midea is the controlling shareholder of the Company which has a thorough understanding of the operations and development needs of the Group. Accordingly, it is envisaged that the Finance Company will be more efficient in terms of processing transactions for the Group than other financial institutions;
5. The Finance Company will only provide financial services to entities related to Midea and therefore will be exposed to a lower level of potential risk than other PRC commercial banks which customers include unrelated entities. The capital risks of the Finance Company are further reduced through the introduction of risk control measures as required under the direction of the CBRC;
6. The arrangements between GD Welling Group and the Finance Company under the Financial Services Framework Agreement do not preclude GD Welling Group from using other PRC commercial banks. GD Welling Group still has its own discretion in selecting other PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefits of the Group; and
7. The Company through GD Welling indirectly holds a 5% equity interest in the Finance Company and will share the profits of the Finance Company accordingly.

### **Information about the Finance Company**

The Finance Company is a limited company incorporated in the PRC, owned as to 5% by GD Welling, 55% by Midea and 40% by GD Midea. The Finance Company is a non-bank financial institution regulated by the PBOC and the CBRC carrying on the business of providing deposit services, loan services, finance services and other finance related services to members of the Finance Company in the PRC in accordance with the provisions set out in the “Management of Group Finance Company” promulgated by the CBRC.

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## LETTER FROM THE BOARD

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### **Listing Rules Implications**

As the Finance Company is a subsidiary of Midea and therefore an associate of Midea and a connected person of the Company under the Listing Rules, the transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the proposed annual caps for the Core Financial Services exceed 2.5% and such proposed annual caps exceed HK\$10,000,000, the Core Financial Services under the Financial Services Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As it is expected that each of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual service charges and fees payable for the Other Financial Services will not exceed 0.1%, such transactions are exempt from all reporting, announcement and Independent Shareholders' approval requirements. Should such transactions exceed the exemption threshold in future, the Group will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

### **5. INFORMATION ABOUT THE COMPANY**

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

### **6. EGM AND PROXY ARRANGEMENT**

The Company will convene an EGM at Beijing Suite III, 3/F., Prince Hotel, Harbour City, 23 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on 18 May 2010 at 12:00 noon (or sooner immediately after the conclusion of the annual general meeting of the Company held at the same place and on the same date) to consider and approve the ordinary resolutions in respect of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder respectively (including the proposed annual caps). Pursuant to Rule 13.39(4) of the Listing Rules, the votes of Independent Shareholders in respect of the resolutions approving the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder shall be taken at the EGM by poll.

Midea is the controlling shareholder of the Company holding approximately 67.49% of the issued share capital of the Company as at the Latest Practicable Date and a party interested or taken to be interested in the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder. As such, each of Midea and its associates will abstain from voting on the relevant resolutions at the EGM.

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## LETTER FROM THE BOARD

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A notice of the EGM is set out on pages 43 to 45 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 registrars 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 meeting or any adjournment thereof should you so wish.

### 7. RECOMMENDATION

The Directors (including the independent non-executive Directors whose recommendation is contained in the Letter from the Independent Board Committee on pages 21 to 22 of this circular) are of the view that the transactions contemplated under each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement are on normal commercial terms, in the ordinary course of business of the Group and in the interests of the Shareholders and the Company as a whole, and that the terms of each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement (including the respective proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement and the transactions contemplated thereunder (including the respective proposed annual caps).

### 8. GENERAL

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully  
On Behalf of the Board  
**Welling Holding Limited**  
**Cai Qiwu**  
*Chairman*

# Welling

## WELLING HOLDING LIMITED

威靈控股有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 382)**

3 May 2010

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders dated 3 May 2010 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter 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 Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement (including the proposed annual caps). Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. None of the members of the Independent Board Committee have any direct or indirect interests in the proposed transactions under each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement.

Your attention is drawn to the letter from the Board and the letter from Optima Capital respectively set out on pages 5 to 20 and 23 to 37 of the Circular.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Having considered the principle factors and reasons considered by and the advice of Optima Capital as set out in the Circular, we are of the view that the transactions contemplated under each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement are on normal commercial terms, in the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole, and that the terms of each of the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement (including the respective proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement and the transactions contemplated thereunder (including the respective proposed annual caps).

Yours faithfully  
Independent Board Committee  
of  
**Welling Holding Limited**

**Tan Jinsong**  
*Independent Non-executive  
Director*

**Lam Ming Yung**  
*Independent Non-executive  
Director*

**Chen Chunhua**  
*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

3 May 2010

*To: The Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Renewed Midea Framework Agreement and the transactions contemplated thereunder (the “Midea Transactions”), including the related proposed annual caps (the “Proposed Midea Caps”); (ii) the Wellkey Framework Agreement and the transactions contemplated thereunder (the “Wellkey Transactions”), including the related proposed annual caps (the “Proposed Wellkey Caps”); and (iii) the Financial Services Framework Agreement and the transactions contemplated thereunder (the “Financial Services Transactions”), including the related proposed annual caps (the “Financial Services Caps”). Details of the Midea Transactions, the Wellkey Transactions and the Financial Services Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 3 May 2010 (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.

Midea was the controlling shareholder of the Company indirectly interested in approximately 67.49% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Midea is a connected person of the Company under the Listing Rules and the Midea Transactions therefore constitute continuing connected transactions for the Company. As one or more of the applicable percentage ratios in respect of the Proposed Midea Caps exceed 2.5% and the annual consideration receivable from and payable to the Midea Group in respect of the Midea Transactions are expected to exceed HK\$10,000,000, the Midea Transactions are subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

Wellkey is a company controlled by Mr. He Jianfeng (the son of Mr. He Xiangjiang who is the controlling shareholder of Midea) and therefore a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios in

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## LETTER FROM OPTIMA CAPITAL

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respect of the Proposed Wellkey Caps exceed 2.5% and the annual consideration payable to Wellkey in respect of the Wellkey Transactions is expected to exceed HK\$10,000,000, the Wellkey Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As at the Latest Practicable Date, the Finance Company was owned as to 55% by Midea and therefore is a connected person of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the Financial Services Caps exceed 2.5% and the Financial Services Caps, on an annual basis, exceed HK\$10,000,000, the Financial Services Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

In this connection, the Company will seek the Independent Shareholders' approval for the Midea Transactions, the Wellkey Transactions and the Financial Services Transactions at the EGM by way of poll. Pursuant to the Listing Rules, Midea and its associates, as a party interested or taken to be interested in the aforesaid transactions, will be required to abstain from voting on the ordinary resolutions to be proposed at the EGM for approving the aforesaid transactions and the related caps (if applicable).

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Tan Jinsong, Mr. Lam Ming Yung and Ms. Chen Chunhua, has been established to make a recommendation to the Independent Shareholders as regards the Renewed Midea Framework Agreement, the Wellkey Framework Agreement and the Financial Services Framework Agreement, and the Midea Transactions, the Wellkey Transactions and the Financial Services Transactions (collectively, the "Continuing Connected Transactions"), including the related proposed annual caps. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regards.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of 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 executive 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, we have taken into account the following principal factors and reasons:

### **1. Renewed Midea Framework Agreement and the Midea Transactions**

#### ***1.1 Background to and reasons for the Midea Transactions***

The Group is principally engaged in the manufacture and distribution of motors for electrical household appliances, including motors for air-conditioners, motors for washing machines and other electronic and electric components whilst Midea is an investment holding company engaged in, on its own or through its subsidiaries, investments in manufacturing and commercial sectors, domestic commerce, supply and marketing of goods and materials, provision of information and technology consultancy services, provision of investment advisory and consultancy services to enterprises, development of software and hardware of computers, installation, maintenance and after-sale services of electrical household appliances, and design of industrial products. As advised by the Company, Midea Group has been the largest customer of the Group which sales accounted for approximately 40% of the Group's annual revenue for the year ended 31 December 2008. For the year ended 31 December 2009, the sales of finished goods and raw materials by the Group to the Midea Group reached HK\$2.5 billion, representing approximately 52% of the total revenue of the Group for the same period.

On 22 February 2008, the Company entered into the Midea Framework Agreement with Midea in relation to the sale of finished goods (including raw materials) by members of the Group to members of the Midea Group and purchase of raw materials by members of the Group from or through members of the Midea Group. Details of which are set out in the announcements of the Company dated 23 November 2007 and 22 February 2008 and the circular of the Company dated 25 February 2008. The Midea Framework Agreement and the transactions contemplated thereunder (including the relevant annual caps) have been approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 18 March 2008.

Midea is one of the dominant participants in the electrical household appliances industry in the PRC and has become one of the enterprises with most products qualified to be supplied to the rural household among other qualified suppliers in the first round of tender under the Home Appliances Subsidy Policy for Rural Areas (the "Subsidy Policy") jointly implemented by the Ministry of Commerce and Ministry of Finance in December 2008. According to the Subsidy Policy, every eligible rural household in the specified provinces is entitled to a government subsidy equivalent to 13% of the selling price of the household electrical appliances including television sets, refrigerators, washing machines and mobile phones. Being one of the qualified suppliers for the Subsidy Policy

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## LETTER FROM OPTIMA CAPITAL

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principally engaged in the manufacture of washing machines and refrigerators, Midea has directly benefited from the increase in demand for electrical appliances by the rural households as driven by this favourable policy. In February 2009, the implementation of the Subsidy Policy was extended to cover all provinces in the PRC.

Apart from the Subsidy Policy to boost rural consumption of electrical appliances, the Ministry of Commerce and other relevant authorities also implemented the Home Appliances Replacement Subsidy Policy (the “Replacement Policy”, together with the Subsidy Policy, the “Stimulus Policies”) for the households located in urban cities such as Beijing, Shanghai, Jiangsu and other provinces in June 2009. Pursuant to the Replacement Policy, the PRC government will subsidise 10% of the selling price of five types of home appliances including air-conditioners, computers, television sets, refrigerators and washing machines when a household trades-in their old appliances. With a view to stimulating the domestic demand and revitalising the electrical appliances industry in the country, the PRC government has arranged a budget of approximately RMB2 billion for the Replacement Policy.

Midea Group’s revenue has been substantially derived from domestic sales of a wide range of household appliances including but not limited to washing machines, air-conditioners, microwave oven and refrigerators. Despite the global economy is still recuperating from the financial crisis in 2008, Midea recorded a strong growth in sales in light of the Stimulus Policies. Domestic sales of the aforesaid products, in particular, have achieved remarkable growth in 2009. The Board believed that the Stimulus Policies will continue to have positive effect on the business of Midea in the near term.

In anticipation of the expected increase in demand for Midea’s products as described above and the upward trend of raw material prices, the Board considers that the aggregate value of sales of finished goods and raw materials by the Group to the Midea Group for the year ending 31 December 2010 may exceed the original annual cap for the aforesaid sale transactions (“Original Sales Cap”) under the Midea Framework Agreement. Accordingly, the Board proposes to revise the Original Sales Cap whilst maintaining the original annual cap for the purchase of raw materials from the Midea Group for the year ending 31 December 2010 (the “Original Purchase Cap”).

Having taken into account the need of revising the Original Sales Cap and the forthcoming expiry of the Midea Framework Agreement on 31 December 2010, the Board considers that it is in the interest of the Company to enter into the Renewed Midea Framework Agreement with Midea to regulate the ongoing transactions between the Group and the Midea Group. On 13 April 2010, the Company and Midea entered into the Renewed Midea Framework Agreement with a view to setting out the master plan for the Midea Transactions for the three years ending 31 December 2012. The Renewed Midea Framework Agreement sets out the Proposed Midea Caps (comprising the proposed annual caps for the sale of motors and electronic and electrical components for electrical household

appliances/raw materials by the Group to the Midea Group (the “Proposed Sales Caps”) and the proposed annual caps for the purchase of raw materials and processed raw materials and motor samples by the Group from the Midea Group (the “Proposed Purchase Caps”) for the three years ending 31 December 2012 and the principal terms on which the Midea Transactions shall be conducted. In light of the above, we concur with the Board’s view that it is in the interest of the Company to enter the Renewed Midea Framework Agreement such that the Group will be able to continue its business with the Midea Group in full compliance with the Listing Rules and benefit from the expected increase in sales to the Midea Group and consider that the Midea Transactions are in the ordinary and usual course of business of the Group.

***1.2 Principal terms of the Renewed Midea Framework Agreement***

The Renewed Midea Framework Agreement, with a term of three years commencing from 1 January 2010 and ending on 31 December 2012, will be conditional upon (i) the approval by the Independent Shareholders at the EGM; and (ii) other applicable requirements of Chapter 14A of the Listing Rules.

Pursuant to the Renewed Midea Framework Agreement, relevant members of the Group and relevant members of the Midea Group from time to time will enter into specific formal agreements which will set out the particulars and terms of the Midea Transactions. The relevant members of the Group and the relevant members of the Midea Group have no obligation to purchase or to accept purchase orders until a formal agreement is reached.

The terms of the Midea Transactions will be negotiated based on the following principles:

- (i) the sale and purchase of products will be based on normal commercial terms;
- (ii) the prices payable for the products/raw materials will be determined by reference to the prevailing market prices of the relevant products and the actual prices will be subject to the entering of a formal agreement between the relevant members of the Group and the relevant members of the Midea Group; and
- (iii) the terms and conditions of the Midea Transactions shall be no less favourable than those available to or from independent third parties from time to time.

On the basis that the terms of the formal agreements will be based on normal commercial terms and will be no less favourable than those available to or from the independent third parties of the Group, we are of the view that the terms of the formal agreements, and thus the Renewed Midea Framework Agreement, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM OPTIMA CAPITAL**

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**1.3 The Proposed Midea Caps**

*Review of past transactions with the Midea Group*

Set out below are the total transaction values of the sales and purchase of finished goods/raw materials between the Midea Group and the Group and the corresponding approved annual caps for each of the two years ended 31 December 2009:

	<b>For the year ended 31 December</b>			
	<b>2008</b>		<b>2009</b>	
	<b>Actual amount</b>	<b>Approved cap</b>	<b>Actual amount</b>	<b>Approved cap</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Sale of finished goods and raw materials by the Group to the Midea Group</b>	1,862,209	2,170,000	2,270,276	2,500,000
<i>Percentage change over corresponding year</i>	<i>N/A</i>		<i>21.9%</i>	
<i>Actual sales as a percentage to approved cap</i>	<i>85.8%</i>		<i>90.8%</i>	
<b>Purchase of raw materials by the Group from the Midea Group</b>	757,624	1,500,000	144,773	310,000
<i>Percentage change over corresponding year</i>	<i>N/A</i>		<i>-80.9%</i>	
<i>Actual purchase as a percentage of approved cap</i>	<i>50.5%</i>		<i>46.7%</i>	

As shown in the above table, sales of products/raw materials by the Group to the Midea Group increased by 21.9% to approximately RMB2,270.3 million in 2009 from approximately RMB1,862.2 million in 2008. The Directors believe that such increase was largely attributable to the positive impact of the Stimulus Policies implemented by the PRC government on the product sales of the Midea Group. Purchase of raw materials by the Group from the Midea Group decreased by 80.8% to approximately RMB144.8 million 2009 from approximately RMB757.6 million in 2008. Such decrease was primarily consequential to the change in procurement arrangement adopted by the Group in 2008 which has taken full effect in 2009. Since the adoption of the aforesaid procurement arrangement, the Group has gradually purchased more materials directly from third party suppliers rather than from the Midea Group.

We have reviewed the annual reports of the Company for each of the two years ended 31 December 2009 and noted that the auditors of the Company, PricewaterhouseCoopers, has confirmed to the Directors that the sales and purchases with the Midea Group for the respective financial years are conducted in accordance with the pricing policies of the Group, these transactions have been entered into in accordance with the Midea Framework Agreement and the transaction values have not exceeded the

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## LETTER FROM OPTIMA CAPITAL

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relevant approved annual caps. We have also reviewed sample copies of invoices issued by the Group to the Midea Group and vice versa in respect of sale and purchase of products under the Midea Framework Agreement and have compared them with those issued to or by independent third parties for the sale or purchase of similar types of products by the Group in the past. Based on our review, we noted that the products and raw materials were sold or purchased at market prices comparable to those sold to or purchased from independent third parties under normal commercial terms. In view of the above, we are of the view that the past sale and purchase transactions with the Midea Group during the two years ended 31 December 2009 were conducted on arm's length basis and on normal commercial terms.

### *Basis of determining the Proposed Midea Caps*

The table below sets out (i) the Original Sales Cap; (ii) the Original Purchase Cap; (iii) the Proposed Sales Caps; and (iv) the Proposed Purchase Caps:

	<b>Original Sales Cap for the year ending 31 December 2010 RMB'000</b>	<b>Proposed Sales Caps for the year ending 31 December</b>		
	<b>2010 RMB'000</b>	<b>2011 RMB'000</b>	<b>2012 RMB'000</b>	
Sale of motors and electronic and electric components for electrical household appliances and raw materials by the Group to the Midea Group	2,930,000	3,523,000	4,337,000	5,335,000
	<b>Original Purchase Cap for the year ending 31 December 2010 RMB'000</b>	<b>Proposed Purchase Caps for the year ending 31 December</b>		
	<b>2010 RMB'000</b>	<b>2011 RMB'000</b>	<b>2012 RMB'000</b>	
Purchase of raw materials, processed raw materials and motor samples by the Group from the Midea Group	320,000	320,000	320,000	400,000

To assess the fairness and reasonableness of the Proposed Sales Caps, we have discussed with the management of the Company the bases and assumptions underlying the determination of the Proposed Sales Caps. We have been advised that the Proposed Sales Cap for the year ending 31 December 2010 is determined after taking into consideration of (i) the actual sales to the Midea Group of approximately RMB897.0 million for the three

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## LETTER FROM OPTIMA CAPITAL

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months ended 31 March 2010; (ii) the historical growth in transaction value in respect of sales to the Midea Group; (iii) the anticipated increase in selling price of the relevant products for the next three years due to the introduction of newly developed high-end products; and (iv) the expected further growth in the business of the Midea Group with the Stimulus Policies implemented in larger scale. The Proposed Sales Caps for the two years ending 31 December 2012 represented a year-on-year increase of approximately 23% over the proposed annual cap in the preceding year. We note that such percentage increase is close to the percentage increase of actual sales to the Midea Group of 21.9% in 2009.

As advised by the management of the Company, it is expected that the home appliance business will continue to prosper under the Stimulus Policies and therefore it is prudent for the Company to maintain the Proposed Purchase Cap for the year ending 31 December 2010 at the previously approved level to allow the Company flexibility to cater for the potential increase in demand for raw materials. In determining the Proposed Purchase Caps for the two years ending 31 December 2012, the Company has taken into account (i) the historical values of the purchase transactions between the Group and Midea Group; (ii) the estimated increase in purchase price due to the upward trend of raw materials prices; and (iii) the anticipated increase in demand of raw materials in line with the business expansion and development plan of the Group for the next three years including establishment of new production facilities.

We have also reviewed the internal projection of the Proposed Midea Caps and are given to understand that the management of the Company has taken into account the impact of the recovery of the global economy on the selling price of the relevant products and the purchase prices of raw materials, the expected increase in sales volume driven by the further implementation of the Stimulus Policies, the business strategy of the Group to increase its market shares in the motor business and establishment of new washing motor production facilities in Hefei, the PRC, when setting the bases and assumptions of the projection.

In view of the above reasons, we are of the view that the Proposed Midea Caps are fair and reasonable in so far as the Independent Shareholders are concerned.

## **2. Wellkey Framework Agreement and the Wellkey Transactions**

### ***2.1 Background to and reasons for the Wellkey Transaction***

Wellkey is primarily engaged in sale and distribution of varnished wires. The Group has been purchasing varnished wires indirectly from Wellkey through the Midea Group under the Midea Framework Agreement in order to enjoy the bulk purchase discount made available by Wellkey to the Midea Group. As stated in the letter from the Board contained in the Circular, over the past years, Wellkey

had consistently been able to provide quality goods to the Group with reliable and timely delivery services due to its close proximity to the principal manufacturing base of the Group in Shunde, the PRC.

The Company expected a promising prospect of the micro motor market in terms of market scale and development opportunities driven by the further implementation of Stimulus Policies by the PRC government. In particular, the Company considered that the demand for air-conditioners and washing machines will remain robust over the next few years with the improvement on macro economic conditions, rising consumer confidence in the PRC and flourishing property market in the PRC. 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. To this end, the Board believed that it is essential to secure a reliable supply of raw material with good quality and timely delivery services and reduce the production cost by sourcing the raw materials directly from the relevant suppliers. Having considered the above and the trusted and long-term relationship between the Group and Wellkey, the Board considered that the Company is in a position to negotiate terms in respect of purchase of raw materials with Wellkey on its own. After negotiation with Wellkey, Wellkey verbally agreed that the Group could place orders for purchase of varnished wires with them directly on the same terms as those currently made available to the Midea Group. Accordingly, on 13 April 2010, the Company and Wellkey entered into the Wellkey Framework Agreement in relation to purchase of raw materials by the Group from Wellkey for the three years ending 31 December 2012. In view of the Group's principal activities and its existing business relationship with Wellkey, we are of the view that it is in the interest of the Company to enter into the Wellkey Framework Agreement and the Wellkey Transactions are in the ordinary and usual course of business of the Group.

## ***2.2 Principal terms of the Wellkey Framework Agreement***

The Wellkey Framework Agreement, with a term of three years commencing from 1 January 2010 and ending on 31 December 2012, will be conditional upon (i) the approval by the Independent Shareholders at the EGM; and (ii) other applicable requirements of Chapter 14A of the Listing Rules.

Pursuant to the Wellkey Framework Agreement, relevant members of the Group and Wellkey (or its subsidiaries) from time to time will enter into specific formal agreements which will set out the particulars and terms of the Wellkey Transactions.

The terms of the Wellkey Transactions will be negotiated based on the following principles:

- (i) the sale and purchase of products will be based on normal commercial terms;

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## LETTER FROM OPTIMA CAPITAL

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- (ii) the prices payable for the raw materials will be determined by reference to the prevailing market prices of the relevant products and the actual prices will be subject to the entering of a formal agreement between the relevant members of the Group and Wellkey (or its subsidiaries); and
- (iii) the terms and conditions of the Wellkey Transactions shall be no less favourable than those available from independent third parties from time to time.

On the basis that the terms of the formal agreements will be based on normal commercial terms and will be no less favourable than those available from independent third parties to the Group, we are of the view that the terms of the formal agreements, and thus the Wellkey Framework Agreement, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### ***2.3 The Proposed Wellkey Caps***

The table below sets out (i) the historical transaction values of purchases of raw materials by the Group indirectly from Wellkey through the Midea Group for each of the two years ended 31 December 2009; and (ii) the Proposed Wellkey Caps:

Purchase of raw materials by the Group from Wellkey	<b>Indirect purchase through the Midea Group for the year ended 31 December</b>		<b>Proposed Wellkey Caps for the year ending 31 December</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	121,202	123,335	215,000	266,000	338,000

To assess the fairness and reasonableness of the Proposed Wellkey Caps, we have reviewed and discussed the calculation of the Proposed Wellkey Caps with the management of the Company. We have been advised that the Proposed Wellkey Caps are determined based on (i) the historical purchases of raw materials from Wellkey; (ii) the estimated increase in purchase price of raw materials; and (iii) the anticipated increase in demand of raw materials in line with the business expansion and development plan of the Group for the next few years. In this regard, we have also reviewed the internal projection of the Proposed Wellkey Caps and are given to understand that the management of the Company has taken into account the impact of the recovery of the global economy on the purchase prices of raw materials, the expected increase in demand of home appliances which will directly lead to an increase in demand for raw material for the production of motors by the Group and the business strategy of the Group to increase its market shares in the motor business, when setting the bases and

assumptions of the projection. In view of the above reasons, we are of the view that the Proposed Wellkey Caps are fair and reasonable so far as the Independent Shareholders are concerned.

**3. Financial Services Framework Agreement and the Financial Services Transactions**

***3.1 Background to and reasons for the Financial Services Transactions***

The Finance Company is a limited liability company incorporated in the PRC, owned as to 5% by GD Welling, 55% by Midea and 40% by GD Midea. The Finance Company is non-bank financial institution regulated by the PBOC and the CBRC engaging in the provision of deposit services, loan services, finance services and other finance related services to members of the Finance Company in the PRC in accordance with the provisions set out in the “Management of Group Finance Company” promulgated by the CBRC.

With GD Welling Group’s business operations principally located in the PRC, it has been using the financial services provided by PRC commercial banks to support its day-to-day financial requirements. Such financial services include, among others, deposit, loans, bills-discounting and foreign exchange services. With the establishment of the Finance Company, GD Welling Group may, through the Financial Services Framework Agreement, elect to use the financial services provided by the Finance Company as the Finance Company has been approved by the CBRC to provide financial services to its members in the PRC, including GD Welling Group. Being an affiliated company of Midea, the Directors consider that the Finance Company is in a better position to serve the financing needs of the Group as Midea has a thorough understanding of the operation and development needs of the Group. It is envisaged that the Finance Company will be more efficient in terms of processing transactions for the Group than other financial institutions. Furthermore, the Group can centralise its funding arrangement through the Finance Company and therefore can enhance the efficiency of employment of funds between members of the Group. The Group can also benefit from the lower cost of funding and financial services pursuant to the terms of the Financial Services Framework Agreement.

The Directors have also given consideration to the capital risks associated with the Finance Company. The Finance Company will only provide financial services to entities related to Midea and therefore will be exposed to a lower level of potential risk than other PRC commercial banks which customers include unrelated entities. To ensure the capital risks are properly monitored, the Finance Company will adopt certain internal control and risk management measures, including, among other things, submission of regulatory reports to the CBRC for regulatory compliance purpose, submission of reports on a regular and timely basis to the senior management of the Company for monitoring the financial status of the Finance Company, observance of the risk monitoring indicators in respect of assets and liabilities for financial institutions issued by the CBRC, and obtaining of an undertaking from Midea to financially support the Finance

Company in the event of financial difficulties. The aforesaid measures are more particularly described in the letter from the Board contained in the Circular. In view of the above, the Directors consider the Finance Company has introduced proper internal control and risk management measures to mitigate the Group's risks in using the financial services of the Finance Company.

Having taken into account the above potential benefits of using the services provided by the Finance Company and internal control and risk management measures of the Finance Company, we are of the view that the entering into of the Financial Services Framework Agreement is in the interests of the Company and the Shareholders as a whole.

### ***3.2 Principal terms of the Financial Services Framework Agreement***

The Financial Services Framework Agreement, with a term of three years commencing from the date of approval of the Financial Services Framework Agreement by the Independent Shareholders at the EGM and ending on 31 December 2012, will be conditional upon (i) the approval by the Independent Shareholders at the EGM; and (ii) other applicable requirements of Chapter 14A of the Listing Rules.

Pursuant to the Financial Services Framework Agreement, the Finance Company will provide financial services to GD Welling Group on normal commercial terms not less favourable than those available to GD Welling Group from independent third parties in accordance with the following principles:

#### ***3.2.1 Deposit***

GD Welling Group may from time to time deposit money with the Finance Company. The Finance Company shall accept deposits from GD Welling 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 other PRC commercial banks.

#### ***3.2.2 Loan***

GD Welling Group may from time to time request the Finance Company to provide loans to them. The Finance Company shall provide such loan services to GD Welling Group 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 other PRC commercial banks. If security over the assets of GD Welling Group is required for the loan granted by the Finance Company, the maximum fair value of the security assets shall not exceed 150% of the total loan amount.

*3.2.3. Bills Discounting*

GD Welling Group may from time to time request the Finance Company to provide bills discounting services to them. The Finance Company shall pay the face value of bills presented by GD Welling Group net of the discount interests with the discount rate (i) not higher than the benchmark discount rate set by the PBOC; and (ii) not higher than the discount rate offered by other PRC commercial banks.

*3.2.4 Foreign Exchange*

Subject to the Finance Company being authorised by the relevant regulatory authority to deal in foreign currencies, GD Welling Group may from time to time request the Finance Company to provide foreign exchange services to them. The Finance Company shall buy or sell foreign currencies from or to GD Welling Group at the relevant exchange rates not less favourable than (i) the relevant foreign exchange rates set by the PBOC (if applicable); and (ii) the relevant foreign exchange rates available in other PRC commercial banks.

*3.2.5 Guarantee*

GD Welling Group may from time to time request the Finance Company to provide performance guarantee or credit guarantee for bank loans and other liabilities of GD Welling Group with a one-off service charge at a rate to be determined by reference to the relevant charging rates set by the PBOC (if applicable) but not higher than the rates charged by other PRC commercial banks for the same type of services.

*3.2.6 Other Financial Services*

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

Given that (i) the Financial Services Transactions are to be provided by the Finance Company in connection with daily operation requirements of GD Welling Group; (ii) the terms of the relevant services will be no less favourable than those offered by other PRC commercial banks to GD Welling Group; and (iii) the terms of the Financial Services Framework Agreement do not preclude GD Welling Group from using the financial services of other PRC commercial banks, we are of the view that the terms of the Financial Services Framework Agreement are fair and reasonable in so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM OPTIMA CAPITAL**

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**3.3 The Proposed Financial Services Caps**

Set out below are the Proposed Financial Services Caps under the Financial Services Framework Agreement for the three years ending 31 December 2012:

	<b>Proposed Financial Services Caps</b>		
	<b>for the year ending 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit (daily maximum balance including accrued interest and handling fees)	461,000	512,000	561,000
Loan (daily maximum balance including accrued interest and handling fees)	609,000	911,000	1,253,000
Bills discounting (face value of the bills discounted)	1,590,000	1,939,000	2,308,000
Foreign exchange (US\$)	164,000	200,000	238,000
Guarantee	500,000	500,000	500,000

To assess the fairness and reasonableness of the Financial Services Caps, we have reviewed and discussed the calculation of the Financial Services Caps with the management of the Company. We have been advised that the Proposed Financial Services Caps are determined based on (i) the historical amounts of the respective Core Financial Services transactions between GD Welling Group and PRC commercial banks in the past three years; (ii) the expected increase in future management of cash resources generated from business operations as a result of the future business growth and expansion of the Group; and (iii) the financing requirement to satisfy the anticipated capital expenditure in connection with the Group's business development and expansion of the Group's production capacity. We have reviewed the internal projection of the Proposed Financial Services Caps and noted that those for the year ending 31 December 2010 generally represent an increase of approximately 22% from the historical amounts of the respective Core Financial Services (except for guarantee services) for the year ended 31 December 2009, taking into account the operating cash requirement of GD Welling Group and the capital expenditure requirement of the Group in 2010. The Proposed Financial Services Caps (except for guarantee services) for each of the two years ending 31 December 2012 represent an increment of approximately 22% and 19% respectively as compared to that of the preceding year, which is largely in line with the expected increase in sales of the Group. The proposed annual caps for the guarantee services are determined by reference to the guidelines issued by the PBOC, which stipulate that the maximum amount of guarantee provided by a non-bank financial institution shall not exceed its registered capital. In view of the above reasons, we are of the view that the Proposed Financial Services Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM OPTIMA CAPITAL

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### 4. Conduct of the Continuing Connected Transactions

The conduct of the Continuing Connected Transactions is subject to a number of conditions pursuant to the Listing Rules including, among other things:

- (i) the transaction values of the respective Continuing Connected Transactions will not exceed the respective proposed annual caps;
- (ii) each year 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 independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (iii) the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review annually the Continuing Connected Transactions and they will confirm the same in a letter to the Directors (a copy of which letter will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of each relevant financial year, during which the Continuing Connected Transactions have been conducted.

In light of the above conditions, we are of the view that appropriate measures have been put in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

### OPINION

Having taken into account the above principal factors and reasons, we consider that the Continuing Connected Transactions are on normal commercial terms, in the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole, and that the terms of each of the Renewed Midea Framework Agreement (including the Proposed Midea Caps), the Wellkey Framework Agreement (including the Proposed Wellkey Caps) and the Financial Services Framework Agreement (including the Proposed Financial Services Caps) are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Renewed Midea Framework Agreement, the Wellkey Framework Agreement, the Financial Services Framework Agreement and the Continuing Connected Transactions (including the respective proposed annual caps).

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

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors and the chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company as at the Latest Practicable Date in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) contained in the Listing Rules were as follows:

*Interests in outstanding share options granted under the share option scheme of the Company adopted on 27 June 2003 (long position)*

Name	Date of grant	Options held at the Latest Practicable Date	Exercise price per option HK\$	Exercisable period
<b>Directors</b>				
Mr. Cai Qiwu	09/01/2009	68,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )
Mr. Jiang Deqing	09/01/2009	36,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )
Mr. Qu Fei	09/01/2009	22,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )
Mr. Gao Fazhong	09/01/2009	25,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )
Mr. Lam Ming Yung	30/07/2007	2,000,000	0.78	30/07/2007–29/07/2017
	09/01/2009	5,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )
Ms. Chen Chunhua	30/07/2007	2,000,000	0.78	30/07/2007–29/07/2017
	09/01/2009	5,000,000	0.157	01/04/2010–31/03/2017( <i>Note</i> )

*Note:*

The consideration for each of the grants above was HK\$1. The options granted on 9 January 2009 shall be exercisable during the option period subject to a vesting scale in four tranches of 25% each and the achievement of the performance target of the net profit attributable to the owners of the Company of the relevant period as set out below:

1. the first 25% of the options granted to each grantee shall be exercisable within seven years after 31 March 2010 provided that the net profit attributable to the owners of the Company for the financial year ended 31 December 2009 as disclosed in the final results announcement of the Company is not less than 100% of the net profit attributable to the owners of the Company for the financial year ended 31 December 2008 (excluding the results from discontinued business) ("Net Profit of 2008");
2. the second 25% of the options granted to each grantee shall be exercisable within six years after 31 March 2011 provided that the net profit attributable to the owners of the Company for the financial year ended 31 December 2010 as disclosed in the final results announcement of the Company is not less than 150% of the Net Profit of 2008;
3. the third 25% of the options granted to each grantee shall be exercisable within five years after 31 March 2012 provided that the net profit attributable to the owners of the Company for the financial year ended 31 December 2011 as disclosed in the final results announcement of the Company is not less than 200% of the Net Profit of 2008; and
4. the remaining 25% of the options granted to each grantee shall be exercisable within four years after 31 March 2013 provided that the net profit attributable to the owners of the Company for the financial year ended 31 December 2012 as disclosed in the final results announcement of the Company is not less than 280% of the Net Profit of 2008.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are requested to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial shareholders of the Company**

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director or chief executive of the Company, had an interest in the Shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Approximate Number of shares held</b>	<b>percentage of shareholding</b>
Midea Holding (Cayman Islands) Limited (“Midea (Cayman Islands)”) <i>(Note 1)</i>	Long position Beneficial owner	9,506,023,897	67.49%
Midea Investment Holding (BVI) Limited (“Midea Holding”) <i>(Note 2)</i>	Long position Interest of controlled corporation	9,506,023,897	67.49%
Midea Group Co., Ltd. (“Midea”) <i>(Note 3)</i>	Long position Interest of controlled corporation	9,506,023,897	67.49%
Foshan Shunde Tiantuo Investment Co., Ltd. (“Shunde Tiantuo”) <i>(Note 4)</i>	Long position Interest of controlled corporation	9,506,023,897	67.49%
Mr. He Xiangjian <i>(Note 5)</i>	Long position Interest of controlled corporation	9,506,023,897	67.49%
Ms. Liang Fengchai <i>(Note 6)</i>	Long position Spouse Interest	9,506,023,897	67.49%

*Notes:*

1. These 9,506,023,897 Shares were registered in the name of and beneficially owned by Midea (Cayman Islands).
2. Midea Holding is deemed to be interested in the 9,506,023,897 Shares in which Midea (Cayman Islands) is interested by virtue of its holding 100% equity interest in Midea (Cayman Islands).
3. Midea is deemed to be interested in the 9,506,023,897 Shares in which Midea Holding is deemed to be interested by virtue of its holding 100% equity interest in Midea Holding.
4. The registered capital of Midea is owned as to 75% by Shunde Tiantuo. Accordingly, Shunde Tiantuo is deemed to be interested in the 9,506,023,897 Shares in which Midea is deemed to be interested by virtue of its holding 75% equity interest in Midea.
5. The registered capital of Shunde Tiantuo is owned as to 90% by Mr. He Xiangjian. Accordingly, Mr. He Xiangjian is deemed to be interested in the 9,506,023,897 Shares in which Shunde Tiantuo is deemed to be interested by virtue of his holding 90% equity interest in Shunde Tiantuo.

6. Ms. Liang Fengchai is the spouse of Mr. He Xiangjian and is therefore deemed to be interested in the 9,506,023,897 Shares in which Mr. He Xiangjian is deemed to be interested.

Save as disclosed above, as at the Latest Practicable Date, there were no other person (other than a Director or chief executive of the Company or a member of the Group), who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **3. DIRECTORS' 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 asset which have been since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors 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 determinable by the employer within one year without payment of compensation (other than statutory compensation).

### **6. MATERIAL CHANGES**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Group were made up.

## 7. EXPERTS AND CONSENTS

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 the 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 since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up, have 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.

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.

## 8. MISCELLANEOUS

The English text of this circular and the accompanying form of proxy shall prevail over its Chinese text.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following documents are available for inspection during normal business hours 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 18 May 2010:

1. Midea Framework Agreement dated 22 February 2008;
2. Renewed Midea Framework Agreement dated 13 April 2010;
3. Wellkey Framework Agreement dated 13 April 2010;
4. Financial Services Framework Agreement dated 13 April 2010;
5. Letter from Independent Board Committee dated 3 May 2010; and
6. Letter from Optima Capital dated 3 May 2010.

# Welling

## WELLING HOLDING LIMITED

### 威靈控股有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 382)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Extraordinary General Meeting (“EGM”) of Welling Holding Limited (the “Company”) will be held at Beijing Suite III, 3/F., Prince Hotel, Harbour City, 23 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on 18 May 2010 at 12:00 noon (or sooner immediately after the conclusion of the annual general meeting of the Company held at the same place and on the same date) for the purposes of considering and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. **“THAT** the sales and purchase framework agreement (“Renewed Midea Framework Agreement”) dated 13 April 2010 entered into between the Company and 美的集團有限公司 (“Midea”) in respect of the sale and purchase of products or raw materials by the Company and its subsidiaries to or from Midea and its subsidiaries and associates (a copy of which is produced to this meeting and marked “A” and signed by the Chairman of this meeting for identification purpose) and the transactions contemplated thereunder or incidental thereto subject to the proposed annual caps for the three years ending 31 December 2012 set out therein be and are hereby approved and the directors of the Company (the “Directors”) be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Renewed Midea Framework Agreement and the transactions 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.”
2. **“THAT** the purchase framework agreement (“Wellkey Framework Agreement”) dated 13 April 2010 entered into between the Company and 佛山市威奇電工材料有限公司 (“Wellkey”) in respect of the purchase of raw materials by the Company and its subsidiaries from Wellkey (a copy of which is produced to this meeting and marked “B” and signed by the Chairman of this meeting for identification purpose) and the transactions contemplated thereunder or incidental thereto subject to the proposed annual caps for the three years ending 31 December 2012 set out therein be and are hereby approved and the Directors be and are hereby

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## NOTICE OF EGM

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authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Wellkey Framework Agreement and the transactions 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.”

3. “**THAT** the financial services framework agreement (“Financial Services Framework Agreement”) dated 13 April 2010 entered into between 廣東威靈電機製造有限公司 (“GD Welling”) and 美的集團財務有限公司 (“Finance Company”) in respect of the provision of financial services (including but not limited to deposit, loan, bills discounting, foreign exchange and guarantee services) by the Finance Company to GD Welling and its subsidiaries (a copy of which is produced to this meeting and marked “C” and signed by the Chairman of this meeting for identification purpose) and the transactions contemplated thereunder or incidental thereto subject to the proposed annual caps for the three years ending 31 December 2012 set out therein be and are hereby approved and the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with or to implement and/or give effect to the Financial Services Framework Agreement and the transactions 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**  
**Tang Wai Ying, Tracy**  
*Company Secretary*

Hong Kong, 3 May 2010

*Registered office:*

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

*Notes:*

1. A proxy need not be a member of the Company.
2. 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 at the share registrars 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.

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## NOTICE OF EGM

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3. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the above meeting as for the above meeting. A vote given or poll demanded by proxy or by the duly authorised representative of a corporation shall be valid notwithstanding the previous determination of the authority of the person voting or demanding a poll, unless notice in writing of such determination was received by the Company at the share registrars of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong one hour at least before the commencement of the meeting or adjourned meeting at which the vote is given or the poll demanded or (in the case of a poll not taken on the same day as the meeting or adjourned meeting) the time appointed for taking the poll.
4. 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, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The register of members of the Company will be closed from 13 May 2010 to 18 May 2010, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share certificates with completed transfer forms must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 12 May 2010.

*As at the date of this notice, the Board of directors of the Company comprises seven executive Directors, namely, 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 and three independent non-executive Directors, namely, Mr. TAN Jinsong; Mr. LAM Ming Yung and Ms. CHEN Chunhua.*