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POWERLONG REAL ESTATE HOLDINGS LIMITED

寶龍地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1238)

VOLUNTARY ANNOUNCEMENT

References are made to the Company's announcements dated 24 March 2022 and 29 March 2022 in relation to, among other matters, the change of auditors and the publication of unaudited annual results for the year ended 31 December 2021.

This announcement is made by Powerlong Real Estate Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") on a voluntary basis to provide the shareholders of the Company and potential investors with further information on (1) the matters relating to the resignation letter of PricewaterhouseCoopers ("**PwC**"), the former auditor of the Company; (2) the impact of the coronavirus disease (COVID-19) pandemic on the audit on the Group's financial statements for the year ended 31 December 2021 (the "**FY2021 Audit**"); and (3) expected publication date of the audited annual results of the Company for the year ended 31 December 2021.

(1) MATTERS RELATING TO THE RESIGNATION OF AUDITOR

The Company would like to provide certain clarification in relation to the resignation of PwC as auditor as noted in PwC's resignation letter.

Background

In the course of its audit on the Company's consolidated financial statements for the year ended 31 December 2021, PwC obtained bank confirmations regarding two bank deposits (the "**Bank Deposits**") of two subsidiaries of the Company (the "**Relevant Subsidiaries**") from a bank (the "**Bank**"), pursuant to which the Bank Deposits were confirmed by the Bank as unrestricted deposits. However, upon subsequent telephone enquiry made by PwC with the confirmation letter handling department of the Bank, PwC was informed that such department did not handle the bank confirmations, and the relevant bank account numbers were under the restricted deposit category (the "**Inconsistencies**").

The Bank Deposits are a type of structured deposit product, where the principal of the Bank Deposits is 100% guaranteed by the Bank with the interest rate (the “**Interest Rate**”) comprising a fixed rate plus a variable rate which is linked to the 1-year China Loan Prime Rate authorised by the People’s Bank of China. The Bank Deposits are by nature similar to a fixed deposit, which had a term of not more than 12 months, during which early withdrawal is not allowed prior to the expiry of the term (the “**Restriction**”). This Restriction allows the Group to earn a higher interest rate than a deposit without the Restriction. The Bank Deposits were made for treasury purpose in accordance with the Group’s treasury policy.

The Company’s view and clarification

The Company would like to clarify that the Group was not involved in the audit confirmation process apart from verifying the information in the bank confirmations before they were sent out by PwC, and that PwC received the responses from the Bank in the ordinary and usual course of the audit confirmation workstream. The Company was not in the position to explain the Inconsistencies without obtaining further clarification and response from the Bank, which clarification request had been made by the Group with the Bank and yet response to it has not been received due to the COVID-19 pandemic in Shanghai.

The Company would like to emphasize that the Inconsistencies would only affect the classification of the Bank Deposits as restricted cash or unrestricted cash in the consolidated financial statements of the Company. Regardless of whether the cash deposit account in question is regarded as a restricted or unrestricted account, the Bank Deposits would still be classified as bank deposits in the consolidated financial statements of the Company.

Subject to audit, the Bank Deposits were classified as “restricted cash” in the Company’s consolidated balance sheet as at 31 December 2021 as set out on page 2 of the Company’s 2021 unaudited annual results announcement dated 29 March 2022. As at the date of this announcement, RMB1,650 million of the Bank Deposits had matured, and the remaining RMB1,450 million (the “**Remaining Bank Deposits**”) will mature in November 2022. The Remaining Bank Deposits only accounted for approximately 5.8% of the Group’s cash and cash equivalents and restricted cash as at 31 December 2021 based on the unaudited consolidated management accounts as at 31 December 2021. The Group had sufficient working capital for its ordinary and usual course of business and placing of the Bank Deposits with the Restriction would not affect the overall liquidity of the Group from a cash flow management perspective and would not affect its operation at all.

The Audit Committee’s view

The Company discussed the matters relating to the Inconsistencies with the audit committee of the Company (the “**Audit Committee**”). The Audit Committee agreed with the Company’s view that the underlying matter associated with the Bank Deposits does not amount to an audit issue for the purpose of the audit of the Group’s annual results for the year ended 31 December 2021 and only concerns the classification of the Bank Deposits in the Group’s financial statements as restricted or unrestricted bank deposits, and did not consider an investigation by the Group would be necessary in light of the COVID-19 pandemic situation faced by the Group. It also concurred with the Company’s view that the placing of the Bank Deposits with the Bank would not affect the overall liquidity of the Group from a cash flow management perspective and would not affect its operation at all.

Elite Partners' view

The Company's new auditor, Elite Partners (CPA) Limited ("**Elite Partners**"), has received the information and explanation provided by the management of the Group regarding the Inconsistencies and the Bank Deposits and will perform the designated audit procedures to verify the management's explanation. Based on the discussions between the management of the Group and the Audit Committee with Elite Partners, the Company understands that: (i) Elite Partners will implement appropriate audit procedures to address the classification of the Bank Deposits; and (ii) subject to completion of audit procedures, based on the information and explanation provided by the management of the Group and the initial analysis performed on the terms of the Bank Deposits, Elite Partners considers that the Bank Deposits shall only concern the classification of the Bank Deposits as restricted or unrestricted bank deposits in the Group's financial statements.

(2) IMPACT OF THE COVID-19 PANDEMIC ON THE FY2021 AUDIT

The COVID-19 pandemic had adversely affected the Group's financial reporting and audit progress for the FY2021 Audit. In particular, the Minhang Qibao area (閔行七寶地區) in Shanghai, where the Group's head office is located, had been subject to mandatory quarantine measures imposed by the local authorities, including lockdown and access restriction of residential neighborhoods and office buildings, business suspension and multiple rounds of mandatory COVID-19 testing. In February 2022, over 50 finance and compliance staff members of the financial reporting function of the Group had been subject to quarantine for one week. In early March 2022, approximately 85% of the staff members of the Group's head office in Shanghai had been subject to mandatory quarantine including a quarantine period from 3 to 4 days and up to 20 days, and were unable to perform their duties as normal to varying extents. The Group's office and operations in other locations in China, such as Quanzhou, Zhuhai, Nanjing and Yantai, had also been affected by the pandemic control policy and measures of the local authorities and a number of staff members had been subject to home quarantine. Courier services had also been disrupted due to concern of spreading of COVID-19 in the community.

The foregoing had (i) limited office access by the Group's management and staff and the auditor's staff, (ii) limited access to the onsite accounting records, information and system of the Group; (iii) disrupted or impaired the financial reporting and audit work schedule and efficiency; (iv) disrupted or delayed the provision of information and materials; (v) disrupted or delayed the sending and receipt of documents, including the preparation and dispatch of audit confirmation letters and bank confirmations; and (vi) reduced the manpower resources and total work hours available for financial reporting and audit work. In addition, due to the travel restrictions and quarantine measures and lack of other qualified or experienced staff, the Group had not been able to re-allocate additional manpower resources from other offices or departments to ensure timely completion of the financial reporting and audit related work. As a result, there was unexpected delay to the original audit work plan and schedule, and the Company was not able to complete the necessary procedures in order for the Company to finalize its audited consolidated financial statements for the financial year ended 31 December 2021 by 31 March 2022.

As at the date of this announcement, the Group's head office building is still subject to access restriction due to the recent lockdown policy and measures imposed by the Shanghai government and over 60% of the staff members of the Group's head office in Shanghai (including a majority of the senior management and all financial reporting and compliance staff) remain subject to quarantine.

(3) EXPECTED PUBLICATION DATE OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Based on discussion with Elite Partners, it is expected that the audited consolidated annual results of the Company for the year 31 December 2021 will be published no later than 15 May 2022.

By order of the Board
Powerlong Real Estate Holdings Limited
Hoi Kin Hong
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the executive directors of the Company are Mr. Hoi Kin Hong, Mr. Hoi Wa Fong, Mr. Xiao Qing Ping, Ms. Shih Sze Ni Cecilia and Mr. Zhang Hong Feng; the non-executive director of the Company is Ms. Hoi Wa Fan; and the independent non-executive directors of the Company are Dr. Ngai Wai Fung, Dr. Mei Jian Ping and Dr. Ding Zu Yu.