Powerlong Commercial Management Holdings Limited
寶龍商業管理控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9909)

CHANGE IN USE OF PROCEEDS

References are made to (i) the section headed "Future Plans and Use of Proceeds" in the prospectus of Powerlong Commercial Management Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") dated 16 December 2019 (the "**Prospectus**"), and (ii) the section headed "Report of the Directors – Use of Net Proceeds" in the annual report of the Company for the year ended 31 December 2022 (the "**Annual Report**").

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING AND OVER-ALLOTMENT

As disclosed in the Annual Report, the Company raised net proceeds of (i) approximately HK$1,380.5 million from the initial public offering (the "**IPO**") of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in December 2019, and (ii) approximately HK$208.0 million from the issuance of over-allotment shares pursuant to an exercise of the over-allotment option in relation to the IPO (collectively, the "**IPO Proceeds**"). As set out in the Prospectus, the Company intended to use the IPO Proceeds for the purposes as follows:

(i) approximately 50% of the IPO Proceeds will be used to pursue strategic acquisitions of and investment in other small to medium-sized commercial operational service providers in order to scale up its commercial operational service business and expand its commercial operational service portfolio;

(ii) approximately 25% of the IPO Proceeds will be used to upgrade the information technology systems for digitization and smart operation and management, aiming to enhance consumers' experience, improve the quality of services provided to the Group's tenants and improve operational efficiency;

(iii) approximately 10% of the IPO Proceeds will be used to make equity investment in certain tenants with an aim of establishing close strategic cooperation with them;

(iv) approximately 5% of the IPO Proceeds will be used for the renovation of retail commercial properties developed or owned by independent third parties under the asset-light business model; and

(v) approximately 10% of the IPO Proceeds will be used for general business purpose and as working capital of the Group.

As at the date of this announcement, the unutilised IPO Proceeds amounted to approximately HK$1,232.7 million (the "**Unutilised IPO Proceeds**").

For the reasons set forth under "Reasons for Change in Use of IPO Proceeds" below, the board of directors of the Company (the "**Board**") has resolved to change the use of the Unutilised IPO Proceeds as follows:

	Original				Revised			
	Intended use of IPO Proceeds as stated in the Prospectus *HK$ million*	**Approximate percentage prior to re-allocation**	**IPO Proceeds utilised as of the date of this announcement** *HK$ million*	**IPO Proceeds unutilised as of the date of this announcement** *HK$ million*	**Intended use of IPO Proceeds subsequent to re-allocation** *HK$ million*	**Approximate percentage subsequent to re-allocation**	**IPO Proceeds unutilised subsequent to re-allocation** *HK$ million*	**Expected timetable for proposed use of the IPO Proceeds**
(i) Pursue strategic acquisition of and investment in other commercial operational service providers	794.3	50%	31.5	762.8	238.3	15%	206.8	On or before 31 December 2026
(ii) Upgrade the information technology systems	397.1	25%	65.0	332.1	238.3	15%	173.3	On or before 31 December 2026
(iii) Make equity investment in certain tenants and suppliers	158.8	10%	73.4	85.4	158.8	10%	85.4	On or before 31 December 2026
(iv) Renovation of retail commercial properties developed or owned by independent third parties	79.5	5%	27.1	52.4	79.5	5%	52.4	On or before 31 December 2026
(v) General business purpose and working capital	158.8	10%	158.8	–	158.8	10%	–	–
(vi) Rental expenses for properties under sub-lease services model	–	–	–	–	714.8	45%	714.8	On or before 31 December 2026
Total	**1,588.5**	**100.00%**	**355.8**	**1,232.7**	**1,588.5**	**100.00%**	**1,232.7**	

The initial expected timeline for using all the IPO Proceeds was on or before 31 December 2023. As a result of the impact of the downturn of the real estate market in the People's Republic of China (the "**PRC**") and the outbreak of the coronavirus disease (COVID-19) pandemic over the past three years, the progress of use of the IPO Proceeds has been further delayed. For these reasons and as further elaborated below, the expected timeline for using all the Unutilised IPO Proceeds as set out above are extended to on or before 31 December 2026.

REASONS FOR CHANGE IN USE OF IPO PROCEEDS

The outbreak of COVID-19 pandemic and its consequential travel restrictions around the globe together with the corresponding lockdown measures which have been strictly enforced by the authorities in the PRC and across different jurisdictions had a significant impact on the operational environment of the entire retail commercial property industry. Faced with the complexity and severity of the external environment and the lingering impacts of the COVID-19 pandemic, together with the unprecedented challenges surrounding the macro-economy, the Board is of the view that the use of the Unutilised IPO Proceeds should be appropriately adjusted to better cope with the economic condition in the post-pandemic era and future challenges.

(i) Re-allocation of the Unutilised IPO Proceeds for pursuing strategic acquisition of and investment in other commercial operational service providers

Since the listing of the Company on the Main Board of the Stock Exchange on 30 December 2019, the Group has been actively seeking targets for strategic merger and acquisition that meet the requirements of the Company, namely small to medium-sized commercial operational service providers. In furtherance of this plan, the Group completed the acquisition of 60% equity interest in Zhejiang Xinghui Commercial Management Company Limited (浙江星匯商業管理有限公司) on 6 July 2020. Nevertheless, due to the dual factors of the outbreak of the COVID-19 pandemic and the dynamic changes in the domestic real estate market in the PRC, the profitability of the targeted companies for merger and acquisition has been affected to a certain extent, which has indirectly led to a significant decrease in the number of strategic acquisition targets that meet the Company's requirements and in turn the idling of the Unutilised IPO Proceeds allocated for such use. The Board has been closely monitoring the market development for possible merger and acquisition targets which meet the Company's requirements. However, in view of the current market conditions, it is uncertain to the Board when the real estate market would recover and more high quality merger and acquisition targets would become available. Therefore, the Company considered that instead of placing the Unutilised IPO Proceeds allocated for pursuing strategic acquisition of and investment in other commercial operational service providers into licensed banks for minimal interest income pending a rebound of the real estate market, it would be more sensible to re-allocate a portion of such Unutilised IPO Proceeds towards the payment of rental expenses for properties under the Group's sub-lease services model, which is one of the important management models for the Group to undertake retail commercial properties developed or owned by independent third parties. Under the sub-lease services model, the Group enters into head leases with independent third-party owners to lease the retail commercial properties as a whole from such owners for sub-leasing to tenants and users, and all income and costs of project operation are borne by the Group. The Group typically charges its tenants and consumers: (i) rental income of projects; (ii) operation and management service fees during project operation; (iii) income from diversified operations; and (iv) parking fees. The Board is of the view that such re-allocation is in line with the business strategy of the Group and would allow the Group to generate more income under this model in order to maximise the return for the Company's shareholders.

(ii) Re-allocation of the Unutilised IPO Proceeds for upgrading the information technology systems

As regards upgrading the information technology systems, the Group has been striving to optimize consumer experience, improve the quality of services provided by the Group to its tenants and enhance operational efficiency. Nevertheless, due to the dynamic changes in the market environment of the real estate industry, the Group's business expansion has slowed down and it is considered that based on the number of projects that are already in operation and expected to become operational in the foreseeable future, the existing information technology systems can cater to the Group's strategic planning and projected management scale and satisfy the Group's daily operational needs. The Board is of the view that by re-allocating some of the Unutilised IPO Proceeds intended for this segment towards the rental expenses for properties under the Group's sub-lease services model, it would allow the Group to take on more projects and generate more income in order to maximise the return for the Company's shareholders.

(iii) Delay in making equity investment in certain tenants and suppliers

The Group's potential tenant investment targets are reputable chain stores, which will help to attract customer traffic, attract other potential tenants and instill confidence in the retail commercial properties under management. However, the profitability of potential investible tenants and suppliers has been affected by the dual factors of the outbreak of the COVID-19 pandemic and the dynamic changes in the domestic real estate market, and at the same time the Company has become more cautious in the selection of targets for investment, which has further delayed the progress of the Company's use of funds thereunder. However, this does not affect the allocation ratio of the use of the IPO Proceeds thereunder, and the Company still hopes to make equity investments in high quality tenants and suppliers in the future to further enhance the investment returns and achieve synergy with the Company's business.

(iv) Delay in renovation of retail commercial properties developed or owned by independent third parties

The Company plans to lease malls with strong renovation potential from third party property owners for repositioning and renovation and subsequent sub-leasing, thereby increasing rental income through this investment. However, due to the dual factors of the outbreak of the COVID-19 pandemic and the dynamic changes of the domestic real estate market, some developers holding commercial retail properties have become less willing to reinvest in renovation and refurbishment, which further delayed the Company's progress in the use of funds thereunder. However, this does not affect the allocation ratio of the use of the IPO Proceeds thereunder, and the Company still hopes to integrate the asset-light business model in the future and prudently estimate the costs and expected returns to ensure profitability.

(v) Re-allocation of the Unutilised IPO Proceeds for payment of rental expenses for properties under the sub-lease services model

It has been the Group's key strategy to seek suitable targets for asset-light market outreach, and the sub-lease services model, as one of the important management models for the Group to undertake retail commercial properties developed or owned by independent third parties, requires the Group to bear the rental expenses of the retail commercial properties under the head leases so as to obtain long-term stable and sustainable income from the project. The Group will, in a prudent manner, select working partners which are independent third party owners, and priorities will be given to state-owned or local enterprises with governmental background, to secure stable rental expenses at relatively reasonable prices. In addition, as a result of the dynamic changes in the domestic real estate market, there have been many opportunities for long-term leased assets which are of high quality and low prices in the market. Therefore, the Board is of the view that the re-allocation of the Unutilised IPO Proceeds to this segment would help enhance the efficiency of the Group's capital utilisation and bring higher returns. As at the date of this announcement, the Company has contracted for more than 10 asset-light projects under the sub-lease services model with a contracted gross floor area ("**GFA**") of approximately 600,000 square meters ("**sq.m.**"). The contractual term of the services is at least 15 years. Based on its current plan, the Company expects to enter into contracts with a total GFA of not less than 500,000 sq.m. for asset-light outreach each year in the foreseeable future. The project expenses are in line with the overall strategic goals of the Company.

The Board considers that the development direction of the Company is still in line with the disclosures in the Prospectus in spite of the change in use of the Unutilised IPO Proceeds as stated above.

CHANGE IN USE OF NET PROCEEDS FROM THE SUBSCRIPTION

Reference is made to the proceeds of approximately HK$273.4 million (the "**Subscription Proceeds**") from the subscription of 11,250,000 new shares of the Company (the "**Subscription**") by Mr. Chen Deli, an executive director and the chief executive officer of the Company, details of which are set out in the Company's announcement dated 10 September 2020 and the Company's circular dated 6 November 2020.

As at the date of this announcement, the unutilised net proceeds from the Subscription amounted to approximately HK$171.6 million (the "**Unutilised Subscription Proceeds**"). The Board has resolved to change the use of the Unutilised Subscription Proceeds as follows:

		Original			Revised		
		Original allocation of Subscription Proceeds *HK$ million*	**Utilised Subscription Proceeds as at the date of this announcement** *HK$ million*	**Unutilised Subscription Proceeds as at the date of this announcement** *HK$ million*	**Planned use of Subscription Proceeds after re-allocation** *HK$ million*	**Unutilised Subscription Proceeds after the re-allocation** *HK$ million*	**Expected timeline**
(i)	Personnel expansion: attract and recruit additional management personnel to the Group's projects and headquarters	82.0	82.0	–	82.0	–	–
(ii)	Property leasing business: develop three leasing projects, namely Shaoxing Keqiao Powerlong Plaza (紹興柯橋寶龍廣場), Hangzhou Qingshan Lake Powerlong Plaza (杭州青山湖寶龍廣場) and Taizhou Duqiao Powerlong Plaza (台州杜橋寶龍廣場)	109.4	19.8	89.6	109.4	89.6	On or before 31 December 2026
(iii)	IT infrastructure enhancement: create the "Precise Consumer Traffic System" which uses face recognition technology instead of traditional sensors to achieve accurate data collection and perform precise analysis on consumer traffic statistics	82.0	–	82.0	–	–	–
(iv)	Upgrade the information technology systems	–	–	–	82.0	82.0	On or before 31 December 2026
Total		**273.4**	**101.8**	**171.6**	**273.4**	**171.6**	

The initial expected timeline for using all the Subscription Proceeds was on or before 30 June 2023. The downturn of the domestic real estate market in the PRC and the outbreak of the COVID-19 pandemic over the past three years have further delayed the progress of use of the Subscription Proceeds. For proceeds originally earmarked for property leasing business: develop three leasing projects, namely Shaoxing Keqiao Powerlong Plaza (紹興柯橋寶龍廣場), Hangzhou Qingshan Lake Powerlong Plaza (杭州青山湖寶龍廣場) and Taizhou Duqiao Powerlong Plaza (台州杜橋寶龍廣場), due to the delayed opening schedule for Taizhou Duqiao Powerlong Plaza (台州杜橋寶龍廣場), the progress of the Company's use of funds thereunder was further delayed. For these reasons and as further elaborated below, the expected timeline for using the Subscription Proceeds as set out above are extended to on or before 31 December 2026.

REASONS FOR CHANGE IN USE OF SUBSCRIPTION PROCEEDS

The Board considers that the scope of use of the approximately HK$82.0 million originally earmarked for IT infrastructure enhancement – create the "Precise Consumer Traffic System" which uses face recognition technology instead of traditional sensors to achieve accurate data collection and perform precise analysis on consumer traffic statistics – shall be further expanded to cover the upgrade of the overall information technology systems of the Group, mainly due to the restrictions on the use of face recognition technology in recent years, which in turn has affected the plans of further use under the project. Therefore, the Board is of the view that in light of the aforementioned restrictions, it would be more efficient to re-allocate such Unutilised Subscription Proceeds to upgrading of the information technology systems, which is in line with the business strategy of the Group to enhance consumer experience, improve the quality of services provided to tenants and enhance the Group's operational efficiency.

The Board considers that the changes are in the best interest of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group. The Board will from time to time assess the plans for the use of the Unutilised IPO Proceeds and the Unutilised Subscription Proceeds and may revise or amend such plans where necessary to cope with the changing market conditions and strive for better business performance for the Group.

By order of the Board
Powerlong Commercial Management Holdings Limited
Hoi Wa Fong
Chairman

Hong Kong, 30 June 2023

As at the date of this announcement, the Board comprises of two executive Directors, namely, Mr. Hoi Wa Fong and Mr. Chen Deli, three non-executive Directors, namely, Mr. Zhang Yunfeng, Ms. Hoi Wa Fan and Ms. Hoi Wa Lam, and three independent non-executive Directors, namely, Dr. Lu Xiongwen, Ms. Ng Yi Kum, Estella and Mr. Chan Wai Yan, Ronald.