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**第七大道**  
7ROAD.COM

## **7Road Holdings Limited**

**第七大道控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 797)**

### **CHANGE OF AUDITOR INSIDE INFORMATION**

This announcement is made by 7Road Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.51(4) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement (the “**Announcement**”) of the Company dated 30 March 2020 in relation to, among other things, the delay in publication of the 2019 Annual Results and the possible delay in despatch of 2019 Annual Report, the postponement of Board Meeting and the suspension of trading. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

## RESIGNATION OF AUDITOR

The Auditor (i.e. PricewaterhouseCoopers) has tendered their resignation as the auditor of the Company with effect from 10 April 2020.

### Circumstances leading to the resignation

During the course of audit and preparation of the 2019 Annual Results, the audit committee of the Company (the “**Audit Committee**”) received a letter from the Auditor on 26 March 2020, in which the Auditor requested the Audit Committee to undertake an independent investigation on two unresolved audit issues (the “**Unresolved Issues**”) in respect of (i) the bonus payment made in cash to a number of research and development staff by Shanghai Xinla Network Technology Co., Ltd. (上海辛辣網絡科技有限公司) (“**Shanghai Xinla**”), an indirectly wholly-owned subsidiary acquired by the Company in 2019, in an amount of approximately RMB6.5 million; and (ii) the prepayment of promotion fees made by 7Road International HK Limited (“**7Road Hong Kong**”), an indirectly wholly-owned subsidiary of the Company, in an amount of US\$25.0 million to a counterparty (the “**Counterparty**”) under a game cooperation distribution agreement in relation to the advertising and promotion of certain mobile games in the overseas markets.

Upon receipt of the letter from the Auditor, the Company has taken actions accordingly, including but not limited to searching for suitable independent service providers to assist the Audit Committee in carrying out an independent investigation on the Unresolved Issues.

In the meantime, the Company understands the necessity and intends to publish the 2019 Annual Results to its Shareholders and the market as soon as possible. However, although the Company is taking immediate actions pursuant to the Auditor’s request, such process will inevitably cause further delay in the completion of the audit works for the 2019 Annual Results as the Auditor has informed the Company that they are unable to complete the audit works until the Unresolved Issues are properly investigated and resolved. As such, at the same time of resolving the Unresolved Issues, the Company started considering alternative means, i.e. finding a replacement of the Auditor, to resume and complete the audit works for the 2019 Annual Results as soon as possible.

## Extract of the Resignation Letter

The Unresolved Issues and the Auditor's reason for resignation as outlined in the resignation letter (the "**Resignation Letter**") of the Auditor dated 10 April 2020 are summarised below:

### *Unresolved Issues*

#### *(I) Payment of 2018 research and development staff bonus in cash in June 2019*

Shanghai Xinla paid a total of approximately RMB6.5 million bonus accrued in 2018 in cash to various employees of the research and development department in June 2019. The bonus is an important component of the research and development expenses of Shanghai Xinla. The authenticity of the bonus and the distribution of the bonus will directly affect whether Shanghai Xinla satisfies the criteria for the relevant preferential tax policies, and may result in Shanghai Xinla being required to pay additional taxes, fines and/or late fees. This matter involved significant amounts and significant impact on the Company's accounting treatment for the acquisition of Shanghai Xinla, including but not limited to the contingent consideration and measurement of goodwill.

As of the date of the Resignation Letter, the Auditor did not obtain reasonable explanations and supporting documents and had doubt on the authenticity of the distribution of cash bonus to Shanghai Xinla's research and development staff in June 2019.

#### *(II) Prepayment of distribution and promotion fees to a transaction counterparty*

7Road Hong Kong entered into a cooperation distribution agreement with the Counterparty in January 2019 for the cooperation in publishing of two games proposed to be operated by such party, with a cooperation term from March 2019 to November 2019. 7Road Hong Kong prepaid the promotion fee of US\$25.0 million to the Counterparty in full from January to February 2019. Such prepayment was for the promotion fees and expenses required for the publishing and operation of the relevant games and the Counterparty undertook to provide a guaranteed return of 12% to 25% to 7Road Hong Kong.

The underlying cooperation distribution agreement was terminated in June 2019. However, the Counterparty failed to fully refund the promotion fee paid by 7Road Hong Kong and additional compensation as agreed in the termination agreement within the commitment period. During the period from June to December 2019, 7Road Hong Kong entered into two tripartite repayment agreements with the Counterparty and two other overseas companies to further postpone the repayment deadline, but the relevant parties still failed to repay on time. As of January 2020, a total of US\$14.0 million remained outstanding and some of the amount was overdue again.

The Auditor was unsure as to the commercial substance of the related transactions and requested the Company to provide further information.

### ***Reasons for resignation***

The Company has informed the Auditor of its intention to replace the Auditor and requested the Auditor to consider resigning as auditor of the Company on 7 April 2020. As the Auditor was not able to obtain satisfactory explanations and evidence in connection with the Unresolved Issues and given the fact that the Board has not carried out the independent investigation as of the date of the Resignation Letter, the Auditor is not able to perform the additional audit procedures which they believe are necessary for the audit of the Company's consolidated financial statements for the year ended 31 December 2019. Therefore, they agreed to resign as the auditor of the Company with effect from the date of the Resignation Letter.

### **Other matters that need to be brought to the attention of the Shareholders**

The above-mentioned Unresolved Issues also represent those that the Auditor considers should be brought to the attention of the Company's members and creditors. The Company is incorporated under the laws of the Cayman Islands and to the knowledge of the Board, there is no requirement under the laws of the Cayman Islands for the resigning auditors to confirm whether or not there is any circumstance connected with their resignation which they consider should be brought to the attention of the Company's members and creditors. The Auditor have therefore not issued any such confirmation under Rule 13.51(4) of the Listing Rules. The Board and the Audit Committee confirm that there are no other matters or circumstances in connection with the resignation of the Auditor that need to be brought to the attention of the Shareholders.

### **Update on the Unresolved Issues**

The Board further announces that, as of the date of this announcement, the outstanding amount of US\$14.0 million regarding the above mentioned repayment of distribution and promotion fees from the Counterparty has been repaid in full.

### **APPOINTMENT OF AUDITOR**

The Board hereby announces that, Moore Stephens CPA Limited has been appointed as the new auditor of the Company with effect from 10 April 2020 to fill the casual vacancy following the resignation of the Auditor and to hold office until the conclusion of the next annual general meeting of the Company.

## **FORMATION OF THE INDEPENDENT COMMITTEE**

To address the Unresolved Issues, on 10 April 2020, the Board resolved to form an independent committee (the “**Independent Committee**”), comprising of Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying, all of whom are independent non-executive Directors. The Independent Committee has the power and authority to engage, among others, independent service providers on behalf of the Company to assist in the carrying out of the independent investigation on the Unresolved Issues.

The Independent Committee will search and engage suitable independent service providers to assist in carrying out of the independent investigation on the Unresolved Issues. The Company will publish further announcement(s) to update Shareholders and potential investors on the progress of the independent investigation on the Unresolved Issues as and when necessary.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 31 March 2020 and will continue to be suspended until further notice.

Further announcement(s) will be made by the Company to inform the Shareholders and potential investors of any material development relating to the captioned matters as and when appropriate.

By order of the Board  
**7Road Holdings Limited**  
**Meng Shuqi**  
*Chairman*

Wuxi, the PRC  
10 April 2020

*As at the date of this announcement, the executive Directors are Mr. Meng Shuqi, Mr. Li Zhengquan and Mr. Yang Cheng; and the independent non-executive Directors are Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying.*