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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)

MAJOR TRANSACTION ACQUISITION OF TARGET BUSINESS

The Board is pleased to announce that, on August 23, 2019 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Company conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the Target Business at the consideration of RMB1.0 billion.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transaction exceed 25%, but are all less than 100%, the Transaction constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

An extraordinary general meeting will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the Transaction contemplated thereunder. A circular containing, among other things, further details about the Sale and Purchase Agreement and the Transaction contemplated thereunder as well as other information required to be disclosed under the Listing Rules, will be dispatched by the Company to Shareholders within 15 business days, after the publication of this announcement.

The Transaction is subject to the fulfilment of several conditions which are detailed in the section headed “Major Terms of The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Transaction may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that, on August 23, 2019 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Company conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the Target Business at the consideration of RMB1.0 billion, which shall be payable in cash. The consideration shall be settled by the internal resources of the Company.

MAJOR TERMS OF THE SALE AND PURCHASE AGREEMENT

Date

August 23, 2019

Parties

- (i) The purchaser: the Company
- (ii) The Vendors: Maple Vale Limited, a company incorporated under the laws of the BVI with limited liability and wholly-owned by Ms. Huang Le (黃樂), and Ms. Huang Le (黃樂), a Hong Kong permanent resident
- (iii) The Target Company: Osmanthus Vale Holdings Limited, a company incorporated under the laws of the BVI with limited liability and wholly-owned by Maple Vale Limited, one of the Vendors

To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, the Vendors, namely Maple Vale Limited and Ms. Huang Le (黃樂) are Independent Third Parties.

Assets to be acquired

The Target Business, represented by the entire share capital of the Target Company.

Consideration

The consideration payable by the Company to the Vendors is RMB1.0 billion and shall be payable in cash. The consideration shall be settled by the internal resources of the Company.

The consideration is determined after arm's length negotiations between the Company and the Vendors on normal commercial terms after taking into account of, among others, (i) the prospects of the Target Business and the online game industry; (ii) the valuation report prepared by an independent professional valuer on the Target Business; (iii) the audited combined net asset value of the Target Business of approximately RMB539.17 million as at March 31, 2019; (iv) Profit Compensation and Goodwill Impairment Compensation as set out below; (v) the relatively low liquidity of the share capital of the Target Company as it is not a listed company itself; and (vi) other reasons and benefits of the Transaction as stated under the section headed "Reasons and Benefits of the Transaction" below.

Payment terms

Subject to the adjusting mechanism set out in "Profit Compensation" and "Goodwill Impairment Compensation" below, the consideration shall be payable by the Company to the Vendors in the following manner:

- (i) The Down Payment shall be considered as partial payment of the Consideration and set off an amount of RMB371.55 million against the total Consideration upon the issuance of completion certificate by the Company pursuant to the Sale and Purchase Agreement to the Vendors.
- (ii) RMB128.45 million shall be paid within 90 days after the Completion.
- (iii) RMB200.0 million ("**Partial Payment of 2019**") shall be paid within 30 business days after the issuance of the standard unqualified audit report on the Target Business for the financial year of 2019 (after deducting the aggregate amount of the Profit Compensation and Goodwill Impairment Compensation for the financial year of 2019 (collectively, the "**Aggregate Compensation for 2019**")). In the event that the Aggregate Compensation for 2019 exceeds the Partial Payment of 2019 payable by the Company, the Company will not be required to pay the Partial Payment of 2019, and the Vendors shall pay the surplus of the Aggregate Compensation for 2019 over the Partial Payment of 2019 to the Company.

- (iv) RMB200.0 million (“**Partial Payment of 2020**”) shall be paid to the Vendors within 30 business days after the issuance of the standard unqualified audit report on the Target Business for the financial year of 2020 (after deducting the aggregate amount of the Profit Compensation and the Goodwill Impairment Compensation for the financial year of 2020 (collectively, the “**Aggregate Compensation for 2020**”)). In the event that the Aggregate Compensation for 2020 exceeds the Partial Payment of 2020 payable by the Company, the Company will not be required to pay the Partial Payment of 2020, and the Vendors shall pay the surplus of the Aggregate Compensation for 2020 over the Partial Payment of 2020 to the Company..
- (v) the remaining 100.0 million (“**Partial Payment of 2021**”) shall be paid to the Vendors within 30 business days after the issuance of the standard unqualified audit report on the Target Business for the financial year of 2021 (after deducting the aggregate amount of the Profit Compensation and Goodwill Impairment Compensation for the financial year of 2021 (collectively, the “**Aggregate Compensation for 2021**”)). In the event that the Aggregate Compensation for 2021 exceeds the Partial Payment of 2021 payable by the Company, the Company will not be required to pay the Partial Payment of 2021, and the Vendors shall pay the surplus of the Aggregate Compensation for 2021 over the Partial Payment of 2021 to the Company.

Conditions Precedent

The Completion is conditional upon the satisfaction (or, as the case may be, waived by the Company) of the following:

- (i) the Company being satisfied with the results of the due diligence review on the Target Business;
- (ii) the issue and delivery of a PRC legal opinion to the Company from the Vendors in the form to the satisfaction of the Company;
- (iii) the Target Business having obtained the licenses to use the intellectual property rights of certain games or implemented such other measures as is satisfactory to the Company;
- (iv) the Software Enterprise Licence (軟件企業證書) held by the Target Business remains legal and valid as at the Completion Date;
- (v) each of the Target Company and its subsidiaries is duly incorporated and validly existing under the applicable laws, and there are no situations which the Target Company or its subsidiaries are required to be dissolved or deregistered;

- (vi) there being no action, proceedings, suit or public investigation of any government agencies, or judiciaries which restricts, stops, prohibits, invalidates or otherwise prevents or seeks to prevent the completion of the Transaction;
- (vii) the approval of the Shareholders of the Company having been obtained at an extraordinary general meeting of the Company by way of a poll for the entering into of the Sale and Purchase Agreement and the performance of the Transaction contemplated under the Sale and Purchase Agreement being in accordance and in compliance with the Listing Rules;
- (viii) the approval having been obtained from the directors and shareholders of the Target Company for the entering into of the Sale and Purchase Agreement and the performance of the Transaction under the Sale and Purchase Agreement;
- (ix) no material adverse change of the Target Business having occurred between the date of the Share Purchase Agreement and the Completion Date;
- (x) the Vendors' representations and warranties under the Sale and Purchase Agreement remaining true and accurate in all respects and not misleading in any respect as at the Completion Date; and
- (xi) each of the Vendors and the Company having complied with all the warranties and undertakings under the Sale and Purchase Agreement as at the Completion Date.

The Company has the discretion to waive all or any part of such conditions precedent as mentioned above by way of notice in writing to the Vendors at any time, except for items (vii) and (xi) above.

If the conditions precedent set out above are not satisfied or waived (except the conditions precedent which cannot be waived) upon the expiration of the Long Stop Date, the Company may, at its sole discretion, terminate the Sale and Purchase Agreement, or extend the Long Stop Date.

Completion

The Completion will take place on the Completion Date.

Profit Compensation

As a protection for the Company, in the event that the actual net profit of the Target Business (the “**Actual Net Profit**”, before or after the deduction of the non-recurring profit or loss, whichever is lower) for the three financial years ending December 31, 2019, 2020 and 2021 (the “**Profit Guaranteed Years**”) fall below a certain benchmarked level as set out below (the “**Net Profit Benchmark**”).

	For the year ending December 31, 2019	For the year ending December 31, 2020	For the year ending December 31, 2021	Total
Net Profit Benchmark	RMB117.00 million	RMB134.00 million	RMB151.00 million	RMB402.00 million

the Vendors shall then pay profit compensation (the “**Profit Compensation**”) to the Company determined in accordance with the formula below:

For the year ending December 31, 2019 (“financial year of 2019”)

Profit compensation for the financial year of 2019 =

$$\frac{\text{Consideration} \times (\text{Net Profit Benchmark for the financial year of 2019} - \text{Actual Net Profit for the financial year of 2019})}{\text{Total Net Profit Benchmark}}$$

For the year ending December 31, 2020 (“financial year of 2020”)

Profit compensation for the financial year of 2020 =

$$\frac{\text{Consideration} \times (\text{Net Profit Benchmark for the financial year of 2020} - \text{Actual Net Profit for the financial year of 2020})}{\text{Total Net Profit Benchmark}}$$

For the year ending December 31, 2021 (“financial year of 2021”)

Profit compensation for the financial year of 2021 =

$$\frac{\text{Consideration} \times (\text{Net Profit Benchmark for the financial year of 2021} - \text{Actual Net Profit for the financial year of 2021})}{\text{Total Net Profit Benchmark}}$$

In the event that the Actual Net Profit for the financial year of 2019 exceeds the Total Net Profit Benchmark, the Vendors will not be required to pay the Profit Compensation for the Target Business' failure in satisfying the Net Profit Benchmarks for the financial years of 2020 and 2021. In the event that aggregate amount of the Actual Net Profits for the financial years of 2019 and 2020 exceeds the Total Net Profit Benchmarks, and the Actual Net Profit for each of the financial years of 2019 and 2020 exceeds the Profit Benchmark for the corresponding financial years within the Profit Guaranteed Years, the Vendors will not be required to pay the Profit Compensation for the Target Business' failure in satisfying the Net Profit Benchmark for the financial year of 2021.

Satisfaction of the Net Profit Benchmark does not exempt the Vendors' obligation to pay the Goodwill Impairment Compensation in accordance with the requirements as specified in the "Goodwill Impairment Compensation" below.

The Net Profit Benchmark for the Profit Guaranteed Years and the formula to determinate the Profit Compensation were determined after arm's length negotiations between the Company and the Vendors with reference to the prospects and development of the Target Business.

Goodwill Impairment Compensation

When performing the annual audit for the Profit Guaranteed Years, the Company shall be entitled to conduct impairment test on the goodwill of the Target Business. In the event that the test result indicates any existence of impairment, the Vendors shall pay the goodwill impairment compensation (the "**Goodwill Impairment Compensation**") to the Company in accordance with the formula below:

The financial year of 2019

Goodwill Impairment Compensation for the financial year of 2019 = impairment amount of goodwill for the financial year of 2019 – the Profit Compensation for the financial year of 2019 (if any)

The financial year of 2020

Goodwill Impairment Compensation for the financial year of 2020 = impairment amount of goodwill for the financial year of 2020 – Profit Compensation for the financial year of 2020 (if any)

The financial year of 2021

Goodwill Impairment Compensation for the financial year of 2021 = impairment amount of goodwill for the financial year of 2021 – Profit Compensation for the financial year of 2021 (if any)

For the avoidance of doubt, in the event that the amounts of Goodwill Impairment Compensation for any of the Profit Guaranteed Years calculated in accordance with the formula above are less than zero, the Vendors will not be required to pay Goodwill Impairment Compensation to the Company during the relevant financial years.

Additional Consideration

In the event that the aggregate amount of the Actual Net Profit for the Profit Guaranteed Years exceeds the Total Net Profit Benchmark, and the Actual Net Profit for each of the Profit Guaranteed Years exceeds the Net Profit Benchmark for the corresponding Profit Guaranteed Years, the Company shall pay an additional consideration (the “**Additional Consideration**”) to the Vendors in the manner set out as below:

- (i) in the event that the aggregate amount of the Actual Net Profit for the Profit Guaranteed Years exceeds RMB402.00 million but less than RMB510.00 million, the Additional Consideration shall be determined in accordance with formula below:

Additional Consideration =

(Aggregate amount of the Actual Net Profit for the Profit Guaranteed Years – RMB402.00 million) x 60%

- (ii) in the event that the aggregate amount of the Actual Net Profit for the Profit Guaranteed Years equals to RMB510.00 million, the Additional Consideration shall be RMB200.00 million;
- (iii) in the event that the aggregate amount of the Actual Net Profit for the Profit Guaranteed Years exceeds RMB510.00 million but less than (or equals to) RMB600.00 million, the Additional Consideration shall be RMB200.00 million plus the additional shares issued by the Company to the Vendors (the “**Additional Shares**”). The number of Additional Shares shall be determined in accordance with the formula below (but in any event, shall not exceed 4.5% of the total issued share capital of the Company at the time):

number of Additional Shares =

(Aggregate amount of the Actual Net Profit for the Profit Guaranteed Years – RMB510.00 million) x 2.35

issue price

the issue price shall be the higher of:

- (a) the closing price of the Shares on the date of the Sale and Purchase Agreement;
or
 - (b) the average closing price of the Shares in the five trading days immediately prior to the date of announcement of the Transaction.
- (iv) in the event that the aggregate amount of the Actual Net Profit for the Profit Guaranteed Years exceeds RMB600.00 million, the Additional Consideration shall be RMB200.00 plus the Additional Shares. The number of Additional Shares shall be determined in accordance with the formula below (but in any event, shall not exceed 4.5% of the total issued share capital of the Company at the time):

number of Additional Shares =

$$\frac{(\text{RMB600.00 million} - \text{RMB510.00 million}) \times 2.35}{\text{issue price}}$$

the issue price shall be the higher of:

- (a) the closing price on the date of the Sale and Purchase Agreement; or
- (b) the average closing price in the five trading days immediately prior to the date of announcement of the Transaction.

the Additional Consideration (including the Additional Shares) shall be paid/issued to the Vendors within 90 business days after the issuance of the standard unqualified audit report for the financial year of 2021 on the Target Business.

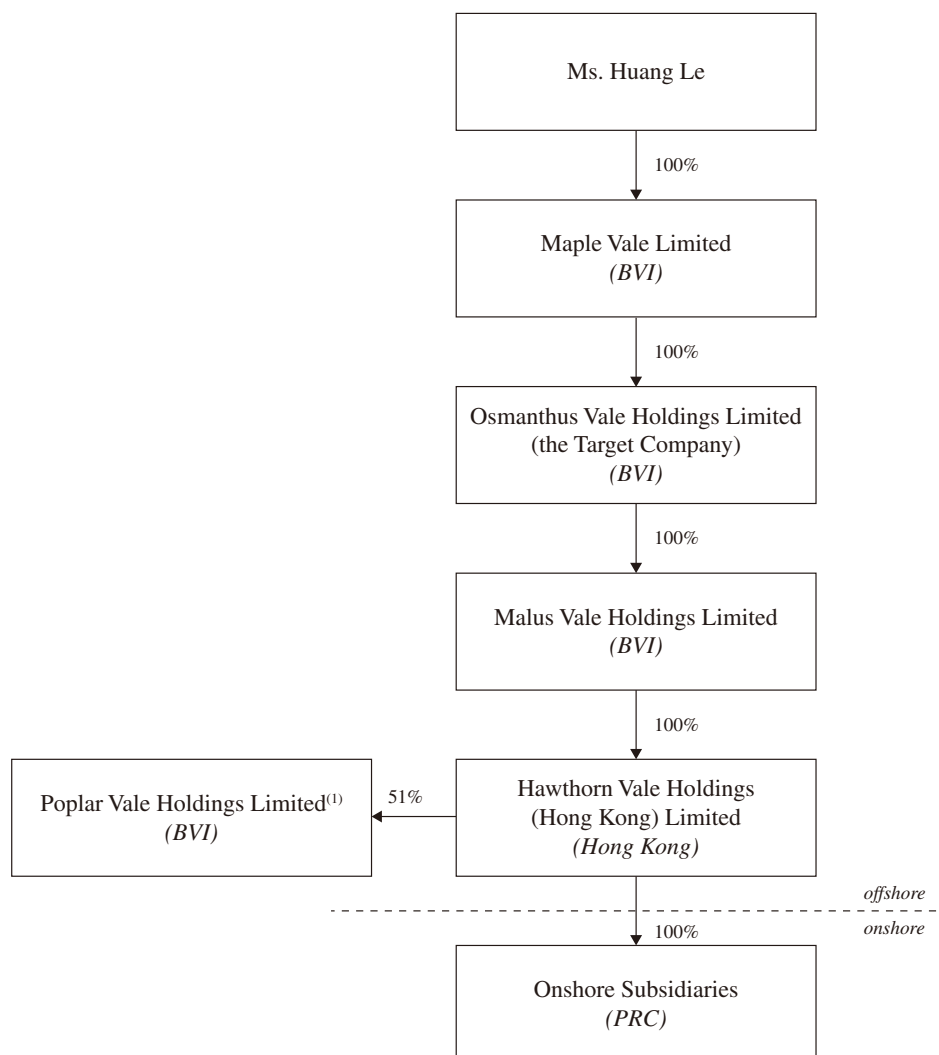
The allotment and issuance of the Additional Shares will be subject to further approvals of the Board and Shareholders (if applicable). The Additional Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and the permission to deal in, the Additional Shares.

INFORMATION ABOUT THE TARGET BUSINESS

The Target Business is owned by and operated through the Target Company and its subsidiaries. Its principal business activities include the development, publishing and operation of online games. The Target Business has a track record in producing several premium online games, including *The Legendary Prosperity Series* (《傳奇盛世》系列), *The Dragon Slayer* (《屠龍戰記》), *The Dragon Slaughter* (《屠龍殺》), *The Legendary Prosperity: Little Dragon Slayer* (《傳奇盛世之小小屠龍》) and *God of War in Sandcastle* (《沙城戰神》), and also has several different types of game reserves in its development pipeline.

Shareholding structure prior to Completion

Set out below is the shareholding structure of the Target Company and its subsidiaries immediately prior to Completion:

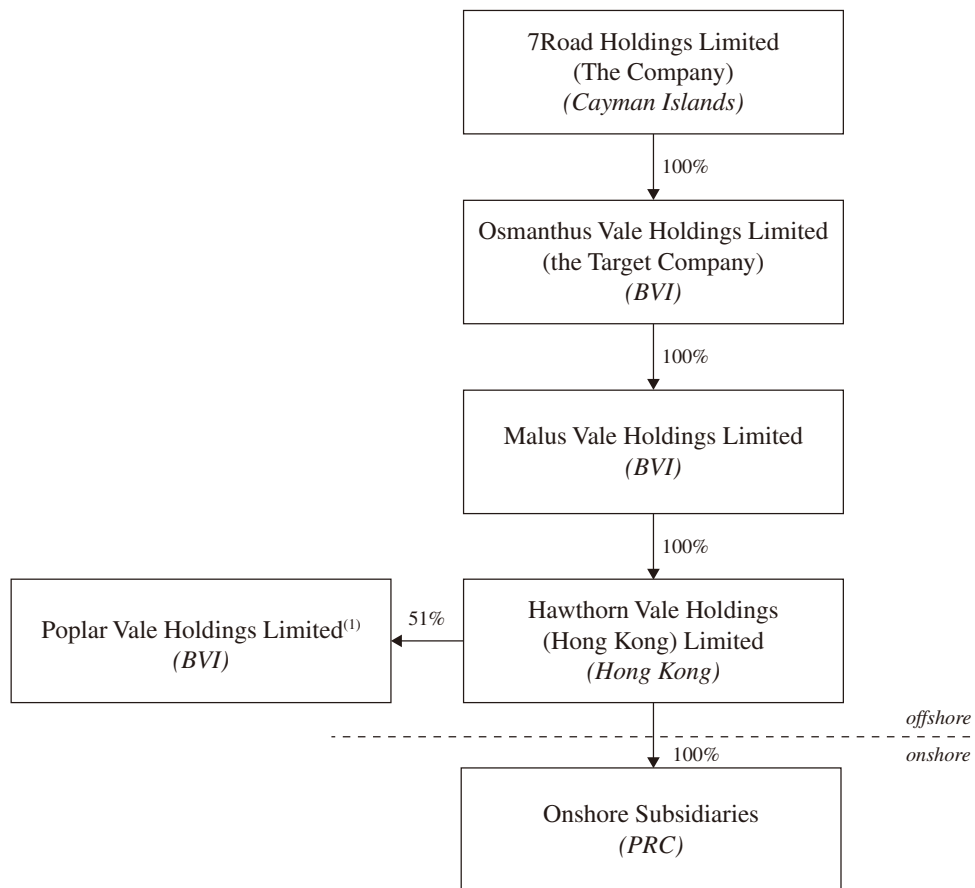


Note:

- (1) 49% of the equity interests of Poplar Vale Holdings Limited is owned by Sensate Tech Inc, an Independent Third Party.

Shareholding structure upon Completion

Set out below is the shareholding structure of the Target Company and its subsidiaries upon Completion:



Note:

- (1) 49% of the equity interests of Poplar Vale Holdings Limited is owned by Sensate Tech Inc, an Independent Third Party.

Financial Information of the Target Business

Based on the information provided by the Target Company, the following table sets out the summary of the audited combined financial information of the Target Business for the period from January 6, 2016 (date of incorporation) to December 31, 2016, each of years ended December 31, 2017 and 2018 and three months ended March 31, 2019:

	Period from January 6, 2016 (date of incorporation) to December 31, 2016 (RMB'000)	For the years ended December 31, 2017 2018 (RMB'000) (RMB'000)		For the three months ended March 31, 2019 (RMB'000)
Revenue	235	60,419	240,923	82,622
Gross profit	40	40,036	137,940	56,285
(Loss)/profit before income tax	(1,743)	20,245	101,375	37,484
(Loss)/profit and total comprehensive (loss)/income for the period/year attributable to owners of the Target Business	(1,307)	15,955	99,383	34,749
	As at December 31 2016 2017 2018 (RMB'000) (RMB'000) (RMB'000)			As at March 31 2019 (RMB'000)
Total assets	2,005	677,481	605,060	645,832
Total liabilities	2,312	171,333	98,479	106,662
Net assets	(307)	506,148	506,581	539,170

INFORMATION ABOUT THE VENDORS

Maple Vale Limited, being one of the Vendors, is a limited company incorporated under the laws of the BVI and is principally engaged in investment holding and wholly-owned by Ms. Huang Le. Ms. Huang Le, being another Vendor, is a Hong Kong permanent resident, who holds the entire interests in Maple Vale Limited. To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, the Vendors are Independent Third Parties.

INFORMATION ABOUT THE COMPANY

The Company is a limited company incorporated under the laws of the Cayman Islands and listed on the Stock Exchange on July 18, 2018. The headquarters of the Group is located in Shenzhen, the PRC. The Company, through its subsidiaries, principally engaged in online game development, publishing and operation in the PRC and overseas markets.

REASONS FOR AND BENEFITS OF THE TRANSACTION

In recent years, the online game industry has maintained a stable growth. The market scale of the online game industry and the number of players has continuously increased. In addition, over the past few years, the Chinese government had issued a series of policies to support the development of the online game and cultural and entertainment industries. The Directors believe that, in the foreseeable future, companies with strong research and development capacities in the online game industry is more competent in seizing business opportunities and secure further market shares.

The Target Business is owned by and operated through the Target Company and its subsidiaries. Its principal business activities include the development, publishing and operation of online games. The Target Business has a track record in producing a number of premium online games. The Directors believe that the Transaction is in line with the principal business activities of the Group and the Company's strategy to selectively acquire and invest in game developers and studios with strong research and development capabilities so as to expand the Company's game portfolio and strengthen the Company's game research and development capacities. After the Completion, the Target Company will be wholly-owned by the Company and the Target Business' financial results will be consolidated into the financial statements of the Group.

As the consideration of the Transaction was determined after arm's length negotiations on normal commercial terms after taking into account of a number of factors, the Directors believe that the terms (including the consideration) of the Transaction have been made on normal commercial terms and are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transaction exceed 25%, but are all less than 100%, the Transaction constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An extraordinary general meeting will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the Transaction contemplated thereunder. A circular containing, among other things, further details about the Sale and Purchase Agreement and the Transaction contemplated thereunder as well as other information required to be disclosed under the Listing Rules, will be dispatched by the Company to the Shareholders within 15 business days after the publication of this announcement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of its close associates has any material interest in the Sale and Purchase Agreement and the Transaction contemplated thereunder, and no Shareholder is required to abstain from voting on the resolution(s) in respect of the Sale and Purchase Agreement at the extraordinary general meeting.

The Transaction is subject to the fulfilment of a number of conditions which are detailed in the section headed “Major Terms of The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Transaction may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITION

In this announcement, unless the context requires otherwise, the following terms shall have the same following meanings as set out below:

“Board”	the board of directors of the Company
“BVI”	the British Virgin Islands
“Company”	7Road Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 797)
“Completion”	the completion of the Transaction in accordance with the terms of the Sale and Purchase Agreement, which shall occur no later than the Long Stop Date
“Completion Date”	the date on which the Transaction is completed
“Director(s)”	the director(s) of the Company

“Down Payment”	the refundable down payment payable by the Group equals to approximately RMB371.55 million pursuant to a letter of intent dated December 12, 2018 entered into between the Group and the then shareholder of Onshore Subsidiaries
“Group”	the Company and all its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of the Company
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“Independent Third Party(ies)”	any person or entity who is not considered as a connected person of the Company or an associate of such person within the meaning under the Listing Rules
“Listing Date”	18 July 2018, the date on which dealings in the Shares commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means the long stop date for satisfaction of the conditions precedent, being September 30, 2019 or such other date as may be agreed among the parties in writing

“Onshore Subsidiaries”	onshore subsidiaries of the Target Company, include Shanghai Xinla Networks Technology Co., Ltd. (上海辛辣網絡科技有限公司), Shanghai Chao Zi Network Technology Co., Ltd (上海巢淄網絡科技有限公司), Shanghai Nong You Network Technology Co., Ltd. (上海農游網絡科技有限公司), Hangzhou Sheng Feng Network Technology Co., Ltd. (杭州盛峰網絡科技有限公司), Shanghai Ying Ling Network Technology Co., Ltd. (上海螢鈴網絡科技有限公司), Shanghai Sheng Pi Network Technology Co., Ltd. (上海聖辟網絡科技有限公司), Shanghai Qi Zhou Network Technology Co., Ltd. (上海奇驟網絡科技有限公司), Shanghai Tian Xun Network Technology Co., Ltd. (上海天勛網絡科技有限公司), Shanghai Weng Feng Network Technology Co., Ltd. (上海翕風網絡科技有限公司), Wuxi Zhong Yao Network Technology Co., Ltd. (無錫中堯網絡科技有限公司), Shanghai Ling Su Network Technology Co., Ltd. (上海凌素網絡科技有限公司) and Huoerguosi 39 Mutual Entertainment Network Technology Co., Ltd. (霍爾果斯三九互娛網路科技有限公司)
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	The sale and purchase agreement dated August 23, 2019, among the Company, the Vendors and the Target Company, in relation to the Transaction
“Share(s)”	ordinary share(s) of US\$0.000005 each in the issued share capital of the Company
“Shareholder(s)”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Business”	online game business owned by the Target Company
“Target Company”	Osmanthus Vale Holdings Limited, a company incorporated under the laws of the BVI with limited on June 27, 2019

“Transaction”	the acquisition of the Target Business
“Vendors”	Maple Vale Limited, a company incorporated in the BVI; and Ms. Huang Le (黃樂), a Hong Kong permanent resident
“%”	per cent

By Order of the Board
7Road Holdings Limited
Meng Shuqi
Chairman

Shenzhen, the PRC, August 23, 2019

As at the date of this announcement, the executive directors of the Company are Mr. Meng Shuqi, Mr. Li Zhengquan and Mr. Yang Cheng; the non-executive directors of the Company are Mr. Li Shimeng and Mr. Yan Kaidan; and the independent non-executive directors of the Company are Mr. Xue Jun, Mr. Liu Yunli and Ms. Wang Ying.