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华夏动漫集团

China Animation Characters Company Limited

華夏動漫形象有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01566)

MAJOR TRANSACTION IN RELATION TO THE CONDITIONAL ACQUISITION OF 85.1% INTEREST IN SEGA LIVE CREATION INC. AND RESUMPTION OF TRADING

THE ACQUISITION

On 31 October 2016, the Share Purchase Agreement has been entered into whereby CTP has conditionally agreed to acquire from SEGA SAMMY the Acquired Shares (representing 85.1% of the number of the SLC Shares in issue as at the date of this announcement) for the Consideration. Completion is conditionally upon the satisfaction (or where applicable, waiver) of the Conditions.

Upon Completion, CTP will own 85.1% of the number of the SLC Shares in issue and SEGA SAMMY will own the remaining 14.9% of the number of the SLC Shares in issue. SLC will become a non-wholly owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

CTP is a wholly-owned subsidiary of the Company. As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 25% but is less than 75%, the Acquisition constitutes a major transaction for the Company, and is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

As no Shareholder is required to abstain from voting at a general meeting of the Company to be convened for the approval of the Acquisition, the Company is exploring the possibility to obtain written shareholder's approval from a closely allied group of Shareholders, namely Bright Rise Limited, Dragon Year Group Limited, Fortress Strength Limited, Bonville Glory Limited, Mr. Shinichiro IKEDA and East Jumbo Development Limited, which holds 365,382,000 shares of the Company in issue, 50,280,000 shares of the Company in issue, 16,092,000 shares of the Company in issue, 12,900,000 shares of the Company in issue, 12,000,000 shares of the Company in issue and 29,658,000 shares of the Company in issue as of the date of this announcement respectively (representing in aggregate 486,312,000 shares of the Company in issue and approximately 55.69% of the total number of shares of the Company in issue) for the Acquisition in lieu of holding the general meeting of the Company, pursuant to Rule 14.44 of the Listing Rules. If no such written approval from the closely allied group of Shareholders can be obtained, the Company will issue a further announcement and an extraordinary general meeting will be convened for the purpose of approving the Acquisition.

The Company will despatch a circular containing, among other things, (i) further information on the SLC Group, the Sales and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the SLC Group after completion of the Restructuring; and (iii) the unaudited pro forma financial information of the Enlarged Group, in accordance with the requirements under the Listing Rules. As the Company requires additional time for compiling the relevant information for inclusion in the circular pursuant to the requirements under the Listing Rules, the circular is expected to be despatched to the Shareholders on or before 31 December 2016. Completion is expected to be taken place on 1 January 2017 (or such other date as the Company, CTP and SEGA SAMMY agree in writing).

GENERAL INFORMATION

Shareholders and potential investors of the Company should note that the Acquisition may or may not proceed as they are subject to the Conditions, which may or may not be satisfied (or, where applicable, may be waived). Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

RESUMPTION OF TRADING

At the request of the Company, trading in the securities of the Company has been halted from 10:31 a.m. on 31 October 2016 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the securities of the Company from 9:00 a.m. on 2 November 2016.

INTRODUCTION

On 31 October 2016, the Share Purchase Agreement has been entered into whereby CTP has conditionally agreed to acquire from SEGA SAMMY the Acquired Shares (representing 85.1% of the SLC Shares in issue as at the date of this announcement) for the Consideration. Completion is conditionally upon the satisfaction (or where applicable, waiver) of the Conditions.

Upon Completion, CTP will own 85.1% of the number of the SLC Shares in issue and SEGA SAMMY will own the remaining 14.9% of the number of the SLC Shares in issue. SLC will become a non-wholly owned subsidiary of the Company.

PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

Date	:	31 October 2016
Seller	:	SEGA SAMMY
Purchaser	:	CTP
Guarantor	:	the Company as the guarantor of CTP for its payment obligations under the Share Purchase Agreement

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, SEGA SAMMY and its ultimate beneficial owner are third parties independent of the Company and their respective connected persons.

Subject matter of the Sale and Purchase Agreement

851 SLC Shares, representing 85.1% of the number of the SLC Shares in issue as at the date of this announcement

Consideration

The consideration for the Acquisition is JPY600.00 million (equivalent to HK\$44.51 million) to be payable by CTP to SEGA SAMMY on the Completion Date. The Consideration was determined after arm's length negotiations between CTP and SEGA SAMMY and is on normal commercial terms with reference to the unaudited net asset value of the Remaining Business as at 31 August 2016 and the business development of the Enlarged Group as a result of the synergy brought by the Acquisition, further information on which is set forth in the paragraphs under "Information about the Group and reasons for and benefits of the Acquisition". CTP will settle the Consideration by internal resources.

Completion

Completion of the Acquisition will take place on the Completion Date. Upon Completion, the Company will own 85.1% of the number of SLC Shares in issue. SEGA SAMMY will own the remaining 14.9% of the number of SLC Shares in issue.

Conditions Precedent

The obligation of CTP is conditional upon, among others, the satisfaction (or where applicable, waiver by CTP (other than item (h)) of the following conditions (the “**Purchaser’s Conditions**”):

- (a) Representations and warranties of SEGA SAMMY provided in the Share Purchase Agreement are true and accurate in material respects;
- (b) SEGA SAMMY has performed and complied with its obligations as set forth in the Share Purchase Agreement which shall continue until Completion in all material respects;
- (c) The approval of the board of directors of SLC has been obtained with respect to the transfer of the Acquired Shares;
- (d) The Seller-Side Officers have submitted resignation letters to SLC to the effect that they will resign from a director or a statutory auditor of SLC as of the Completion Date;
- (e) Relevant agreements in relation to various post-completion arrangements to the business of SLC have been fully executed by SEGA SAMMY or its Affiliates;
- (f) The lessors to certain proprietary lease agreements have consented to the Acquisition and consented to continue the contractual relationship with SLC after Completion;
- (g) SLC has completed the Restructuring;
- (h) All necessary approvals by the Shareholders in respect of the transactions contemplated under the Share Purchase Agreement having been obtained by way of either a majority vote at a general meeting of the Company, or (if acceptable to the Stock Exchange) in lieu of holding such general meeting, a written shareholders’ approval from a closely allied group of Shareholders who together hold more than 50% in nominal value of the shares of the Company in a manner as required under the Listing Rules;
- (i) At any time on or after the date of the Share Purchase Agreement, no material adverse effect which has resulted or would reasonably be expected to result in any liability to SLC of JPY150.00 million or more in the aggregate, for avoidance of doubt, CTP will substantiate its claim with evidence; and
- (j) No approval, no-action letter or waiting period is outstanding in connection with any competition authority to which CTP owes a duty to notify or seek approval in respect of the Acquisition.

The obligation of SEGA SAMMY is conditional upon, among others, the satisfaction (or, where applicable, waiver by SEGA SAMMY (other than item (e)) of the following conditions (the “**Seller’s Conditions**”):

- (a) Representations and warranties of CTP provided in the Share Purchase Agreement are true and accurate in all material respects;
- (b) CTP has performed and complied with its obligations as set forth in the Share Purchase Agreement which shall continue until Completion in all material respects;
- (c) Relevant agreements in relation to various post-completion arrangements to the business of SLC have been fully executed by CTP (where applicable);
- (d) SLC has completed the Restructuring;
- (e) All necessary approvals by the Shareholders in respect of the transactions contemplated under the Share Purchase Agreement having been obtained by way of either a majority vote at a general meeting of the Company, or (if acceptable to the Stock Exchange) in lieu of holding such general meeting, a written shareholders’ approval from a closely allied group of Shareholders who together hold more than 50% in nominal value of the shares of the Company in a manner as required under the Listing Rules; and
- (f) No approval, no-action letter or waiting period is outstanding in connection with any competition authority to which CTP owes a duty to notify or seek approval in respect of the Acquisition.

Restructuring and Non-competition undertaking

Before Completion, the Excluded Business will be transferred from SLC to SEGA SAMMY for such amount of consideration to be agreed by the parties. The Excluded Business will be operated under the “Orbi” brand only.

There are non-competition undertakings set forth in the Sale and Purchase Agreement. SEGA SAMMY has agreed that it and its Affiliates will not, with certain exceptions, open or operate other interactive entertainment park with attractions and indoor arcade center modeled upon the Tokyo Joypolis business operated by SLC in DECKS Tokyo Beach for a certain period of time in various places. This restriction does not apply to any acquisition and merger of any business concern which is operating interactive entertainment park and does not use the name of “SEGA” or “JOYPOLIS”.

Termination

If any Condition that has not been waived (as applicable) cannot be fulfilled, or when a petition for winding up has been filed against CTP or SEGA SAMMY or when Completion has not taken place on or before 28 February 2017, the Share Purchase Agreement may be terminated with immediate effect.

POST-COMPLETION ARRANGEMENTS

CTP and SEGA SAMMY will agree on various arrangements for the business operations of SLC following Completion. CTP and SEGA SAMMY are in discussions on the details of these arrangements, and the Company will issue a separate announcement following finalisation of these arrangements. The Directors expect that negotiation of these arrangements could be finalised before the Completion Date.

INFORMATION ABOUT SEGA SAMMY AND THE SLC GROUP

SEGA SAMMY

SEGA SAMMY is a company (*kabushiki kaisha*) incorporated in Japan with limited liability, the shares of which are listed on the Tokyo Stock Exchange (stock code: 6460).

The principal business activity of SEGA SAMMY is management of SEGA SAMMY Group as the holding company. The principal business activities of its major subsidiaries are Pachislot and Pachinko machine business, entertainment contents business and resort business.

The SLC Group

SLC is a company (*kabushiki kaisha*) incorporated in Japan on 1 April 2015 with limited liability and a wholly-owned subsidiary of SEGA SAMMY as at the date of this announcement. The principal business activity of SLC is planning, development and operation of entertainment facilities. SEGA Qingdao, a subsidiary of SLC, is a limited company established in the PRC on 25 September 2013 with the principal business activity of planning, development and operation of amusement parks in the PRC.

Based on the information provided by SEGA SAMMY, the following is a summary of the unaudited combined financial information of the Remaining Business for the two financial years ended 31 March 2015 and 2016:

	For the year ended 31 March 2015 (Note 1) JPY ('000)	For the year ended 31 March 2016 JPY ('000)
Loss before/after taxation (Note 2)	704,649	780,025

Note 1: As SLC was incorporated on 1 April 2015, the above unaudited financial information represented the financial information of the Remaining Business, which is the subject of the Acquisition. The Completion will be subject to, among other Conditions, the completion of the Restructuring.

Note 2: Based on the information provided by SEGA SAMMY, it was assumed that there was no taxation attributable to the Remaining Business, taking into account its loss making position.

The above unaudited combined financial information of the Remaining Business is provided for information purpose only and is principally based on the unaudited management accounts of SLC and SEGA Qingdao, respectively. In addition, the above unaudited information is prepared based on certain assumptions which include, among other things, the exclusion of the profit or loss of the Excluded Business and the income or expenses earned from or paid to the Excluded Business as extracted from the unaudited financial information of the SLC Group for the years ended 31 March 2015 and 2016.

Based on the information provided by SEGA SAMMY, as of 31 August 2016, the unaudited net asset value of the Remaining Business amounted to approximately JPY2,892.55 million (including the investment costs of SEGA Qingdao of approximately JPY1,821.37 million). As of 31 May 2016, the unaudited net asset value of SEGA Qingdao amounted to JPY1,398.68 million.

INFORMATION ABOUT THE GROUP AND REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company. The Group is engaged in multi-line business in the animation-related industry, with primary focus on the trading of animation derivative products (mainly toys) featuring renowned third-party owned animation characters for the Japanese market with the provision of value-added services.

It is the business objective of the Group to build a multimedia animation business in China. In this connection, the Group has been actively expanding its business and seeking for potential opportunities that can fulfill its future development needs.

The Group is currently operating an amusement park in Shanghai, i.e. Shanghai JOYPOLIS, under the trademark of “JOYPOLIS”. The grand opening of Shanghai JOYPOLIS on 6 February 2016 remarked the Group’s first project in the indoor theme park business in China, and constitutes a core revenue stream of the Group. As disclosed in the Company’s annual report for the year ended 31 March 2016, with the grand opening of the Shanghai JOYPOLIS, the Group realized an increase of 17.2% in revenue generated from establishment of indoor theme park, from HK\$28.50 million for the year ended 31 March 2015 to HK\$33.40 million for the year ended 31 March 2016.

The Group is the first licensed operator of JOYPOLIS in China, whereas the relevant right to operate JOYPOLIS granted under the corresponding licence agreement as at the date of this announcement is only limited to Shanghai. Upon Completion, the Group will be able to broaden its participation in operating indoor amusement parks in additional cities on a global basis, namely Tokyo and Osaka in Japan respectively, Dubai in the United Arab Emirates and Qingdao in the PRC.

The Directors are therefore of the view that the Acquisition presents an excellent opportunity for the Group to (i) bring in a much stronger revenue force; (ii) leverage on the expertise and resources of the SLC Group to broaden its participation in the amusement parks operation business; and (iii) establish an all-around strategic planning for its amusement parks operation business. Upon Completion, SEGA SAMMY will retain 14.9% of the equity interest in SLC. The Directors consider that the partnership with SEGA SAMMY will also strengthen the position of the Company as a leader of amusement park operation business. With reference

to the profitable trading records of the Group's existing JOYPOLIS operation in Shanghai, the Directors are optimistic to the future operation of the Remaining Business, especially the future expansion of the Enlarged Group's theme park operation in the PRC.

In view of the above, the Board is of the view that the terms of the Share Purchase Agreement are on normal commercial terms and the Acquisition is fair and reasonable, and in the interests of the Company and its Shareholders taken as a whole.

IMPLICATIONS UNDER THE LISTING RULES

CTP is a wholly-owned subsidiary of the Company. As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 25% but is less than 75%, the Acquisition constitutes a major transaction for the Company, and is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

As no Shareholder is required to abstain from voting at a general meeting of the Company to be convened for the approval of the Acquisition, the Company is exploring the possibility to obtain written shareholder's approval from a closely allied group of Shareholders, namely Bright Rise Limited, Dragon Year Group Limited, Fortress Strength Limited, Bonville Glory Limited, Mr. Shinichiro IKEDA and East Jumbo Development Limited, which holds 365,382,000 shares of the Company in issue, 50,280,000 shares of the Company in issue, 16,092,000 shares of the Company in issue, 12,900,000 shares of the Company in issue, 12,000,000 shares of the Company in issue and 29,658,000 shares of the Company in issue as of the date of this announcement respectively (representing in aggregate 486,312,000 shares of the Company in issue and approximately 55.69% of the total number of shares of the Company in issue) for the Acquisition in lieu of holding the general meeting of the Company, pursuant to Rule 14.44 of the Listing Rules. If no such written approval from the closely allied group of Shareholders can be obtained, the Company will issue a further announcement and an extraordinary general meeting will be convened for the purpose of approving the Acquisition.

The Company will despatch a circular containing, among other things, (i) further information on the SLC Group, the Sales and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the SLC Group after completion of the Restructuring; and (iii) the unaudited pro forma financial information of the Enlarged Group, in accordance with the requirements under the Listing Rules. As the Company requires additional time for compiling the relevant information for inclusion in the circular pursuant to the requirements under the Listing Rules, the circular is expected to be despatched to the Shareholders on or before 31 December 2016. Completion is expected to take place on 1 January 2017 (or such other date as CTP, the Company and SEGA SAMMY agree in writing).

Upon Completion, as SLC will become a non-wholly owned subsidiary of the Company and SEGA SAMMY will become a connected person of the Company at the subsidiary level of the Company pursuant to Rule 14A.07 of the Listing Rules. As such, all post-completion transactions that may be entered into between SLC and SEGA SAMMY may constitute continuing connected transactions for the Company following Completion. The Directors expect that these terms of arrangements could be finalised before the Completion Date. The Company will comply with the applicable disclosure or Shareholders' approval requirements in full compliance with the Listing Rules.

GENERAL INFORMATION

Shareholders and potential investors of the Company should note that the Acquisition may or may not proceed as it is subject to the Conditions, which may or may not be satisfied (or, where applicable, may be waived). Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

RESUMPTION OF TRADING

At the request of the Company, trading in the securities of the Company has been halted from 10:31 a.m. on 31 October 2016 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the securities of the Company from 9:00 a.m. on 2 November 2016.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquired Shares”	851 SLC Shares, representing 85.1% of the entire issued shares of SLC as at the date of this announcement;
“Acquisition”	the acquisition of the Acquired Shares by CTP pursuant to the Share Purchase Agreement;
“Affiliates”	with respect to any entity, any other entity directly or indirectly controlling, controlled by, or under common control with such entity. For the purposes of this definition, “control”, “controlled by” and “under common control with” means the ownership of a majority of the voting share capital of an entity or the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of an entity, whether through the ownership of voting securities, by agreement or otherwise;
“Board”	the board of Directors;
“Company”	China Animation Characters Company Limited (華夏動漫形象有限公司), a company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange (stock code: 01566);
“Completion”	completion of the sale and purchase of the Acquired Shares in accordance with the Share Purchase Agreement;
“Completion Date”	1 January 2017 or such other date as CTP, the Company and SEGA SAMMY agree in writing;

“Conditions”	the Purchaser’s Conditions and the Seller’s Conditions;
“Consideration”	the cash consideration for the Acquisition, being JPY600.00 million (equivalent to HK\$44.51 million);
“CTP”	China Theme Park Limited, a wholly-owned subsidiary of the Company;
“Directors”	directors of the Company;
“Enlarged Group”	The Company and its subsidiaries following the Completion;
“Excluded Business”	the business operations and activities conducted as of the date of the Share Purchase Agreement by SLC using the trademark of “Orbi”;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;
“JPY”	Japanese yen, the lawful currency of Japan;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	The People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China;
“Remaining Business”	the remaining business operations and activities conducted by SLC and SEGA Qingdao as if the Restructuring is completed and the Excluded Business is excluded;
“Restructuring”	the proposed restructuring of the SLC which includes, amongst others, the disposal of the Excluded Business prior to Completion;
“SEGA Qingdao”	SEGA (Qingdao) Entertainment Park Co., Ltd., a company established in the PRC with limited liability owned as to 99% by SLC;
“SEGA SAMMY”	Sega Sammy Holdings Inc., a company (<i>kabushiki kaisha</i>) incorporated in Japan with limited liability, the shares of which are listed on the Tokyo Stock Exchange (stock code: 6460);

“SEGA SAMMY Group”	Sega Sammy Holdings Inc. and its subsidiaries;
“Shareholders”	holder of shares of the Company;
“SLC”	Sega Live Creation Inc., which will be renamed to “CA Sega Joypolis Limited” after Completion. SLC is a company (<i>kabushiki kaisha</i>) incorporated in Japan with limited liability and a wholly-owned subsidiary of SEGA SAMMY as at the date of this announcement;
“SLC Group”	SLC and SEGA Qingdao;
“SLC Shares”	share of common stock of SLC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

By order of the Board
China Animation Characters Company Limited
ZHUANG Xiangsong
Executive Director and Chief Executive Officer

Hong Kong, 1 November 2016

For the purpose of this announcement, the exchange rates of HK\$1.00 = JPY13.48 has been used, where applicable, for illustrative purposes only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.

As at the date of this announcement, the executive directors of the Company are Mr. ZHUANG Xiangsong, Mr. TING Ka Fai Jeffrey and Ms. LIU Moxiang, and the independent non-executive directors of the Company are Mr. NI Zhenliang, Mr. TSANG Wah Kwong and Mr. HUNG Muk Ming.