

October 31, 2016

(Translation)

Dear Sirs,

Name of Company: SEGA SAMMY HOLDINGS INC.

Name of Representative: Hajime Satomi
Chairman of the Board
and CEO and COO

(Code No. 6460, Tokyo Stock Exchange 1st Section)

Further Inquiry: Yoichi Owaki,
Executive Officer
Division Manager,
Finance & Accounting Division
(TEL: 03-6215-9955)

Notice of Change in Subsidiary (Share transfer) and Recording of Extraordinary Loss

It is hereby notified that a decision was made by SEGA SAMMY HOLDINGS INC. (the “Company”) at its meeting of the Board of Directors held on October 31, 2016, to transfer part of the shares of SEGA LIVE CREATION Inc. (“SEGA LIVE CREATION”) held by the Company to China Theme Park Limited, a subsidiary of China Animation Characters Company Limited (“China Animation”).

This share transfer will result in changing the Company’s holding ratio of voting rights of SEGA LIVE CREATION to 14.9% and SEGA LIVE CREATION and SEGA (QINGDAO) ENTERTAINMENT PARK CO., LTD., a subsidiary of SEGA LIVE CREATION, will be excluded from the Company’s consolidated subsidiaries.

Description

1. Reasons for share transfer

SEGA LIVE CREATION was established through an incorporation-type split of part of the entertainment park business of SEGA CORPORATION (currently SEGA Games Co., Ltd.) on April 1, 2015, and has conducted the development and operation of indoor type theme parks such as “JOYPOLIS” and “Orbi.”

On the other hand, the Company started implementing Group Structure Reform in May 2014 aiming to “improve profitability” and “improve capital efficiency” by drastically reviewing positioning of all businesses, including not only existing businesses but also business fields in which the Company had been promoting prior investment, and then classifying them into “growth,” “stable revenue/maintain” and “withdraw/downsize.”

As a result of discussions carried out on Group Structure Reform, the Company determined this partial share transfer to further enhance its financial structure and improve the turnover ratio of capital. In addition, to ensure the smooth operation and development of its businesses after selling such shares, the Company determined to transfer the shares to China Animation Group, a licensee of “Shanghai JOYPOLIS.” However, the “Orbi” business is to be split from SEGA LIVE CREATION and transferred to the SEGA Group, therefore the business is not subject to this share transfer. The Company intends to strengthen the operation of the “Orbi” business by reinforcing the alliances with each business segment of the SEGA Group.

The Company will continue to aim to enter the Integrated Resort (IR) business and invest its management resources in various resort businesses. In Japan, the Company will invest mainly in “Phoenix Seagaia Resort,” which is operated by PHOENIX RESORT CO., LTD., a subsidiary of the Company. Overseas, the Company will invest mainly in Paradise City in Incheon, South Korea, in alliance with the Paradise Group in South Korea.

2. Overview of the transferred subsidiary

(1) Name	SEGA LIVE CREATION Inc.		
(2) Head office	1-39-9, Higashi-Shinagawa, Shinagawa-ku, Tokyo, Japan		
(3) Title and name of representative	Naoya Tsurumi, Representative Director		
(4) Business description	Planning, development and operation of entertainment theme park		
(5) Capital (As of September 30, 2016)	¥100 million		
(6) Date of establishment	April 1, 2015		
(7) Major shareholders and their shareholding ratio	SEGA SAMMY HOLDINGS INC. 100%		
(8) Relationship with the concerned company	Capital Relationship	The Company holds 100% of the shares in the concerned company.	
	Personnel Relationship	Some of the Company's Directors and Audit & Supervisory Board Members concurrently serve the concerned company as Directors or Audit & Supervisory Board Members. Some employees of the Company have been seconded to the concerned company. Some employees of the concerned company have been seconded to the Company.	
	Business Relationship (As of September 30, 2016)	The Company has loaned capital of ¥720 million to the concerned company. The loaned money is planned to be partially collected by the date of the share transfer, and the remaining balance is to be collected after the share transfer.	
	Relevant Facts Concerning Related Parties	The concerned company is the related party of the Company because it is the consolidated subsidiary of the Company.	
(9) Operating performance and financial condition of the concerned company for the latest three fiscal years (unit: million yen)			
Fiscal year	FY Ended March 2014	FY Ended March 2015	FY Ended March 2016
Net Assets	—	—	1,439
Total assets	—	—	5,873
Net asset per share (yen)	—	—	1,439,542.99
Net sales	—	—	6,012
Operating income	—	—	-344
Ordinary income	—	—	-444
Net income	—	—	52
Net income per share (yen)	—	—	52,508.45
(10) Operating performance and financial condition of the concerned company and its subsidiary for the latest three fiscal years (simple add up of the latest fiscal year) (unit: million yen)			
Net Assets	—	—	2,814
Total assets	—	—	8,177
Net asset per share (yen)	—	—	2,814,416.29
Net sales	—	—	7,165
Operating income	—	—	-657
Ordinary income	—	—	-735
Net income	—	—	-224
Net income per share (yen)	—	—	-224,656.01

3. Overview of the transferred sub-subsidiary

3. Overview of the transferred sub subsidiary

(1) Name	SEGA (QINGDAO) ENTERTAINMENT PARK CO., LTD.		
(2) Head office	No.441, 4F, the MIXc, No.6A Shandong Road, Shinan District, Qingdao, Shandong, P. R. China		
(3) Title and name of representative	Takeshi Yoshimoto, Chairman		
(4) Business description	Planning, development, operation of entertainment theme park and sales of attraction machines		
(5) Capital (As of September 30, 2016)	17 million USD		
(6) Date of establishment	September 25, 2013		
(7) Major shareholders and their shareholding ratio	SEGA LIVE CREATION Inc. 99%		
(8) Relationship with the concerned company	Capital Relationship	SEGA LIVE CREATION, of which the Company holds 100% of the shares issued, holds 99% of the shares of the concerned company.	
	Personnel Relationship	Some of the employees of the subsidiary of the Company concurrently serve the concerned company as Directors or Audit & Supervisory Board Members. Some employees of the subsidiary of the Company have been seconded to the concerned company.	
	Business Relationship	Subsidiaries of the Company have attraction machine sales transactions etc. with the concerned company.	
	Relevant Facts Concerning Related Parties	The concerned company is the related party of the Company because it is the consolidated subsidiary of the Company.	
(9) Operating performance and financial condition of the concerned company for the latest three fiscal years (unit: million RMB (unit: million yen (Note 1)))			
Fiscal year	FY Ended December 2013	FY Ended December 2014	FY Ended December 2015
Net Assets	42 (729)	73 (1,420)	86 (1,594)
Total assets	42 (730)	119 (2,295)	118 (2,191)
Net sales	—	—	42 (812)
Operating income	-0 (-5)	-5 (-95)	-13 (-260)
Ordinary income	-0 (-11)	-5 (-91)	-12 (-233)
Net income	-0 (-11)	-5 (-91)	-12 (-233)

(Note1) Exchange rate at the fiscal year end and average rate of the fiscal year are used for each fiscal year

4. Overview of the transferee of shares

(1) Name	China Theme Park Limited	
(2) Head office	P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.	
(3) Title and name of representative	Zhuang Xiangsong, Director	
(4) Business description	Investment holding	
(5) Capital	8 HKD (1 USD)	
(6) Date of establishment	September 21, 2012	
(7) Net asset	54 million HKD	
(8) Total asset	64 million HKD	
(9) Major shareholders and shareholding ratio	China Animation Holding (BVI) Limited (100%)	
(10) Relationship with the concerned company	Capital Relationship	No relevant relationship
	Personnel Relationship	No relevant relationship
	Business Relationship	There is a licensing agreement between China Animation Characters Company Limited, parent company of the concerned company, and subsidiary of the Company.
	Relevant Facts Concerning Related Parties	The concerned party does not fall under the related parties of the Company.

(Reference) Overview of the parent company of the transferee of shares

(1) Name	China Animation Characters Company Limited	
(2) Head office	Cricket Squire, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.	
(3) Title and name of representative	Zhuang Xiangsong, Chairman, CEO and Executive Director	
(4) Business description	Investment holding	
(5) Capital	87 million HKD	
(6) Date of establishment	September 25, 2013	
(7) Net asset	475 million HKD	
(8) Total asset	579 million HKD	
(9) Major shareholders and shareholding ratio	Bright Rise Enterprises Limited (41.84%)	
(10) Relationship with the concerned company	Capital Relationship	No relevant relationship
	Personnel Relationship	No relevant relationship
	Business Relationship	There is a licensing agreement between China Animation Characters Company Limited and subsidiary of the Company.
	Relevant Facts Concerning Related Parties	The concerned party does not fall under the related parties of the Company.

5. Number of shares to be transferred, transfer price and number of shares held before and after the transfer

(1) Number of shares before the transfer	1,000 shares (Ratio of voting rights owned: 100%)
(2) Number of shares to be transferred	851 shares
(3) Transfer price	¥ 600 million
(4) Number of shares after the transfer	149 shares (Ratio of voting rights owned: 14.9%)

6. Schedule

(1) Resolution at the Board of Directors meeting	October 31, 2016
(2) Conclusion of share transfer agreement	October 31, 2016
(3) Date of the share transfer	January 1, 2017 (tentative date)

Note: This share transfer has been scheduled to undergo deliberation at a general meeting of shareholders at China Animation, subject to its resolution, by the effective date of the share transfer.

7. Future outlook

Due to the share transfer mentioned above, we estimate approximately 1.4 billion yen of loss on sales of shares of subsidiaries and associates is scheduled to be recorded as extraordinary loss in the consolidated operating results for the fiscal year ending March 31, 2017. However, the amount may differ from estimation depending on the circumstances in the future.

Furthermore, this matter has not been factored into the forecast of consolidated operating results for the year ending March 31, 2017 announced on May 13, 2016.

Forecast of consolidated operating results for the year ending March 31, 2017 factoring in the impact of the share transfer is currently under close examination. The Company will announce the forecast as soon as it becomes clear.

(For reference)

Forecast of consolidated operating results for the current period (announced on May 13, 2016) and actual consolidated results of the previous period are as follows

(Unit: million yen unless otherwise indicated)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Forecasts for the current year (FY ending March, 2017)	380,000	20,000	20,000	10,000
Results for the previous year (FY ended March, 2016)	347,981	17,617	16,409	5,369

(Note) The above forecasts of operating results are made based on information available to management as of the date hereof. In the future, actual results may differ from the projected figures owing to various factors.

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