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星美控股

SMI HOLDINGS GROUP LIMITED

星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)



星美文化

SMI Culture Group Holdings Limited

星美文化集團控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 2366)

JOINT ANNOUNCEMENT

PROPOSED ISSUE OF NOTES AND THE CONVERTIBLE BONDS UNDER THE GENERAL MANDATE AND A SPECIFIC MANDATE AND PROVISION OF GUARANTEE

SUMMARY

On 8 August 2016, after trading hours, SMI Culture and the Investor entered into the Subscription Agreement, pursuant to which (i) SMI Culture conditionally agreed to issue, and the Investor conditionally agreed to subscribe the Notes in an aggregate principal amount of HK\$200,000,000; and (ii) SMI Culture conditionally agreed to issue, and the Investor conditionally agreed to subscribe the Convertible Bonds in an aggregate principal amount of HK\$100,000,000, and which carry conversion rights to convert up to 148,148,148 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to adjustment) during the Conversion Period. Both the Notes and the Convertible Bonds will be secured by the Guarantee.

The Conversion Shares of up to 110,159,685 and of up to 37,988,463 issued upon exercise of the conversion rights attaching to the Convertible Bonds will be issued under the General Mandate and the Specific Mandate respectively.

Pursuant to the terms of the Subscription Agreement, the Guarantor is to enter into the Guarantee with the Investor, under which the Guarantor as principal obligor will guarantee to the Investor the due and punctual performance and observance of SMI Culture in relation to all moneys, obligations and liabilities owing or payable or expressed to be owing or payable by SMI Culture to the Investor under or in connection with the transaction documents.

A special general meeting of SMI Culture will be convened and held for the Shareholders to consider, and if thought fit, to approve of the issue of the Specific Mandate. A circular containing, among other things, details of (i) the Specific Mandate and (ii) the notice of the special general meeting of SMI Culture will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

SMI Culture will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds. No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchanges.

The provision of the Guarantee, when aggregating with the guarantees provided by the Guarantor to other creditors of SMI Culture within 12 months prior to the date of the Subscription Agreement in an aggregate amount of HK\$650,000,000 constitutes a discloseable transaction for the Guarantor. As one or more of the applicable percentage ratios in respect of the provision of the Guarantee, on an aggregated basis, exceeds 5% but are less than 25%, the provision of the Guarantee is subject to the reporting and announcement requirements but exempt from the Guarantor Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Completion of the subscription of the Notes and the Convertible Bonds is subject to the satisfaction of the conditions precedent under the Subscription Agreement. As the subscription of the Notes and the subscription of the Convertible Bonds may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are set out below:

Date : 8 August 2016

Issuer : SMI Culture

Investor : Ever Ascend Investments Limited (永晉投資有限公司)

The Investor is a limited liability company incorporated in the British Virgin Islands. It is indirectly and wholly-owned by Huarong International Financial Holdings Limited.

To the best of the SMI Culture Directors' knowledge, information and belief having made all reasonable enquiries, the Investor and its respective ultimate beneficial owners are Independent Third Parties.

Principal terms of the Notes

The principal terms of the Notes are summarised below:

Issuer : SMI Culture

Principal amount : HK\$200,000,000

- Term : A term of 12 months from the date of issue of the Notes to the date falling on the first anniversary of the date of issue of the Notes, which can, at the Noteholder's sole and absolute discretion, be extended to the date falling, on the second anniversary of the date of issue of the Notes and if that is not a Business Day, the first Business Day after.
- Form : The Notes will be issued upon Completion in registered form and a Notes certificate will be issued to the Noteholder.
- Interest Rate : The Notes bear interest from and including the date of issue of the Notes to the Maturity Date of the Notes at the rate of 5% per annum payable every six months from the date of issue of the Notes, in arrears. When interest is required to be calculated in respect of a period of less than the full six months, it is calculated on the actual number of days elapsed and a 365-day year.
- Security : The Notes will have the benefit of the security constituted by the Guarantee.
- Status : The Notes constitute direct, guaranteed, unsecured, unsubordinated and unconditional obligations of SMI Culture and shall at all times rank *pari passu* without any preference or priority among themselves.
- Transferability : The Notes are transferable except to connected persons or direct competitors of SMI Culture.
- Redemption : The redemption price payable by SMI Culture to the Noteholder on the date of redemption is equal to the aggregate of (i) the outstanding principal amount on the Notes, (ii) the outstanding interest up to the date of redemption, and (iii) any other outstanding amount due but unpaid under the Notes ("**Applicable Redemption Amount of the Notes**").
- Redemption on the Maturity Date : SMI Culture will redeem all of the Notes on the Maturity Date of the Notes unless previously redeemed, purchased or cancelled at the Applicable Redemption Amount of the Notes plus an amount that would make up an aggregate internal return rate on the amount of the Notes at 10% per annum (having included the interest paid and the Administrative Consultancy Fee paid but excluding all default interest (whether accrued, paid or unpaid)) calculated from the date of issue of the Notes to (and including) the Maturity Date of the Notes. Any accrued and unpaid default interest shall be payable by SMI Culture to the Noteholder in addition to the aforesaid amount at the same time.

Noteholder's redemption right for events of default : SMI Culture must redeem all or such part of the outstanding principal amount of the Notes upon the issuance of a notice of redemption by the Noteholder after the occurrence of an event on the principal amount of the Notes at default, at the Applicable Redemption Amount of the Notes plus an amount that would make up an aggregate internal rate of return on the principal amount of the Notes at 15% per annum (having included the interest paid and the Administrative Consultancy Fee paid but excluding all default interest (whether accrued, paid or unpaid)) calculated during the period from the date of issue of the Notes up to (and including) the actual date of payment. Any accrued and unpaid default interest shall be payable by SMI Culture to the Noteholder in addition to the aforesaid amount at the same time.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarised below:

Issuer : SMI Culture

Principal Amount : HK\$100,000,000

Number of Conversion Shares : Based on the initial Conversion Price of HK\$0.675 per Conversion Share and assuming that there will not be any change in the issued share capital of SMI Culture before the exercise of the conversion rights in full (other than the issue of the Conversion Shares), upon the exercise of the conversion rights in full, 148,148,148 Conversion Shares will be issued, representing approximately 18.29% of the existing issued share capital of SMI Culture and approximately 15.46% of the issued share capital as enlarged by the allotment and issue of the Conversion Shares.

Term : A term of 12 months from the date of issue of the Convertible Bonds to the date falling on the first anniversary of the date of issue of the Convertible Bonds, which can at the Bondholder's sole and absolute discretion, be extended to the date falling on the second anniversary of the date of issue of the Convertible Bonds and if that is not a Business Day, the first Business Day after.

Conversion Price	:	Each Convertible Bond carries the right to convert Shares at an initial Conversion Price of HK\$0.675 per Conversion Share, subject to adjustments as a result of share consolidation, subdivision or reclassification, capitalisation of profits or reserve, capital distributions, right issues of shares or options over shares, right issues of other securities, issues of shares and securities at less than the initial Conversion Price, modification of right of conversion, other offers to shareholders of SMI Culture, and any one or more events or circumstances not previously referred to which SMI Culture or the Bondholder determines that an adjustment should be made to the Conversion Prices but in no event shall the Conversion Price be lower than HK\$0.38.
Conversion Period	:	The conversion rights attaching to the Convertible Bonds may be exercised at any time during the term of the Convertible Bonds.
Security	:	The Convertible Bonds will have the benefit of the security constituted by the Guarantee.
Status	:	The Convertible Bonds constitute direct, guaranteed, unsecured, unsubordinated and unconditional obligations of SMI Culture. The Convertible Bonds will at all times rank <i>pari passu</i> without any preference among themselves.
Form	:	The Convertible Bonds will be issued upon Completion in registered form in the denomination and principal amount of HK\$5,000,000.
Interest	:	The Convertible Bonds bear interest from and including the date of issue of the Convertible Bonds to the Maturity Date of the Convertible Bonds at the rate of five (5)% per annum payable every six (6) months from the date of issue of the Convertible Bonds. When interest is required to be calculated in respect of a period of less than the full six months, it shall be calculated on the actual number of days elapsed and a 365-day year.
Rights of the Conversion Shares	:	The Conversion Shares that are to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds will be credited as fully paid free from any security interest and will rank <i>pari passu</i> in all respects with and within the same class as the Shares in issue on the conversion date of the Convertible Bonds.
Transferability	:	The Convertible Bonds are transferable except to connected persons or direct competitors of SMI Culture.
Denomination	:	HK\$5,000,000
Rights of Bondholders	:	The redemption price payable by SMI Culture to the Bondholder is equal to the aggregate of (i) the outstanding principal amount on the Convertible Bonds, (ii) the outstanding interest up to the date of redemption and (iii) any other outstanding amount due but unpaid under the Convertible Bonds (the “ Applicable Redemption Amount of the Convertible Bonds ”).

- Redemption on the Maturity Dates : SMI Culture will redeem all of the Convertible Bonds on the Maturity Date of the Convertible Bonds, unless previously redeemed, converted, purchased or cancelled at the Applicable Redemption Amount of the Convertible Bonds plus an amount that would make up an aggregate internal return rate on the amount of the Convertible Bonds at 10% per annum (having included the interest paid and the Administrative Consultancy Fee paid, but excluding any default interest (whether accrued, paid or unpaid)) calculated from the date of issue of the Convertible Bonds to (and including) the Maturity Date of the Convertible Bonds. Any accrued and unpaid default interest shall be payable by SMI Culture to the Bondholder in addition to the aforesaid amount at the same time.
- Bondholder's redemption right for events of default : SMI Culture must redeem all or such part of the outstanding principal amount of the Convertible Bonds upon the issuance of a notice of redemption by the Bondholder after occurrence of an event of default at the Applicable Redemption Amount of the Convertible Bonds plus an amount that would make up an aggregate internal rate of return on the principal amount of the Convertible Bonds at 15% per annum (having included the interest paid and the Administrative Consultancy Fee paid but excluding all default interest (whether accrued, paid or unpaid)) calculated during the period from the date of issue of the Convertible Bonds to (and including) the actual date of payment. Any accrued and unpaid default interest shall be payable by SMI Culture to the Bondholders in addition to the aforesaid amount at the same time.

Basis of pricing of the Convertible Bonds:

The initial Conversion Price of HK\$0.675 per Conversion Share represents:

- (i) a premium of approximately 8.87% to the closing price of HK\$0.620 per Share quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 24.08% to the average closing price of HK\$0.544 per Share for the last five (5) consecutive trading days prior to the Last Trading Day; and
- (iii) a premium of approximately 10.66% over the audited net asset value per Share attributable to the Shareholders of approximately HK\$0.610 as at 31 December 2015.

The Conversion Price was determined after arm's length negotiations between SMI Culture and the Investor, taking into account the recent trading prices of the Shares. The SMI Culture Directors consider that the Conversion Price is fair and reasonable and in the interest of SMI Culture and the Shareholders as a whole.

Issue of the Conversion Shares

Issue of Conversion Shares by way of the General Mandate

The Conversion Shares of up to 110,159,685, when allotted, will be allotted and issued pursuant to the General Mandate granted to the SMI Culture Directors at the annual general meeting of SMI Culture held on 3 June 2016 subject to the limit of 162,011,536 Shares

(representing 20% of the aggregate nominal amount of the share capital of SMI Culture in issue on that date). Thus, the subscription of the Convertible Bonds in relation to the 110,159,685 Conversion Shares is not subject to the approval of the Shareholders. The 110,159,685 Conversion Shares, to be allotted and issued upon full exercise of the conversion rights attaching to the Convertible Bonds, will utilise approximately 68% of the General Mandate.

The Conversion Shares of up to 37,988,463 when allotted, will be allotted and issued pursuant to the Specific Mandate which will be sought from the Shareholders in a special general meeting of SMI Culture. The Specific Mandate shall not affect any general mandate which have been granted to the SMI Culture Directors.

Application for listing of Conversion Shares

SMI Culture will apply to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds. No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchanges.

Conditions precedent for the subscription

Conditions precedent for subscription of the Notes

The Investor's obligations to subscribe for the Notes under Subscription Agreement are conditional upon (unless waived by the Investor):

- (i) the Investor having performed and completed to its satisfaction due diligence review of business, affairs, operations and financial position of SMI Culture and the Group;
- (ii) the Investor having performed and completed to its satisfaction "know your customer", anti-money laundering or similar identification procedures in respect of SMI Culture;
- (iii) the Investor having received all of the documents and evidence as required under the Subscription Agreement for Completion of the issue of the Notes in form and substance satisfactory to it on or prior to the date of Completion;
- (iv) evidence that the Investor has performed all necessary external, internal and corporate approvals and checks under all applicable laws and regulations, including but not limited to, investment committee approval;
- (v) the representations and warranties of SMI Culture contained in the transaction documents to which it is a party being true, accurate and correct and not misleading during the period beginning on the date of the Subscription Agreement and ending on the date of Completion; and
- (vi) no event of default is continuing or would result from the proposed issue by SMI Culture of the Notes to the Investor.

Conditions precedent for the subscription of the Convertible Bonds

- (i) the Investor having performed and completed to its satisfaction due diligence review of business, affairs, operations and financial position of SMI Culture and the Group;

- (ii) the Investor having performed and completed to its satisfaction 'know your customer', anti-money laundering or similar identification procedures in respect of the SMI Culture;
- (iii) SMI Culture having obtained the approval from the Shareholders at the general meeting to be convened for the grant of the Specific Mandate to allot and issue the Conversion Shares upon conversion of the Convertible Bonds under the terms of the Subscription Agreement;
- (iv) the listing committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and such approval and permission remaining in full force and effect;
- (v) the Investor having received all of the documents and evidence as required under the Subscription Agreement for Completion of the issue of the Convertible Bonds in form and substance satisfactory to it on or prior to the date of Completion;
- (vi) evidence that the Investor has performed all necessary external, internal and corporate approvals and checks under all applicable laws and regulations, including but not limited to, investment committee approval;
- (vii) the representations and warranties of SMI Culture contained in the transaction documents to which it is a party being true, accurate and correct and not misleading during the period beginning on the date of the Subscription Agreement and ending on the date of Completion; and
- (viii) no event of default is continuing or would result from the proposed issue by SMI Culture of the Notes or the Convertible Bonds (as the case may be) to the Investor.

If any of the conditions above have not been fulfilled or waived by the Investor on or before the Long Stop Date then the Subscription Agreement thereof shall lapse immediately thereafter and be of no further effect and neither party to the Subscription Agreement shall have any claim against or liability or obligation to other party under the Subscription Agreement save for any rights or obligations which may accrue prior to the date of such termination.

Completion of the Subscriptions

The Notes will be issued to the Investor on the second Business Day following satisfaction or waiver (as the case may be) of the applicable conditions precedent or at such other day as SMI Culture and the Investor may agree in writing but in any event no later than the Long Stop Date.

The Convertible Bonds, subject to fulfilment or waiver (as the case may be) of the applicable conditions precedent, will be issued to the Investor on such time or date as the parties may agree in writing, but in any event no later than the Long Stop Date.

Event of default under the Notes Instrument and the Convertible Bonds

The events of default under the Notes Instrument and the Convertible Bonds are:

- (a) SMI Culture or the Guarantor does not pay on the due date any amount payable or any interest payable pursuant to the transaction documents at the place at and in the currency in which it is expressed to be payable;

- (b) (1) the net asset value of the Guarantor is less than HK\$5,000,000,000 (or its equivalent in another currency or currencies) in any of its financial years during which the Notes or Convertible Bonds remain outstanding; or (2) the quotient of the total asset value of the Guarantor divided by the net asset value of the Guarantor is greater than 2.2 in any of its financial years during which the Notes or Convertible Bonds remain outstanding; or (3) the net asset value of SMI Culture is less than HK\$400,000,000 (or its equivalent in another currency or currencies) in any of its financial years during which the Notes or Convertible Bonds remain outstanding;
- (c) if SMI Culture or the Guarantor fails to perform or observe any of its other obligations under any transaction document (to which it is a party), which if capable of remedy, is not remedied within five (5) Business Days (or such longer period as the Noteholder or the Bondholder, as the case may be, may permit) of the earlier of receipt of a written notice specifying such breach from the Noteholder or the Bondholder (as the case may be) and SMI Culture or the Guarantor becoming aware of such breach;
- (d) a representation, statement or warranty made or deemed to be made or repeated by SMI Culture or the Guarantor in any transaction document or in any document delivered by or on behalf of SMI Culture or the Guarantor under any transaction document is or proves to have been incorrect or misleading when made or deemed to be made or repeated, which if capable of remedy, is not remedied within five (5) Business Days (or such longer period as the Noteholder or the Bondholder, as the case may be, may permit) of the earlier of receipt of a written notice specifying such breach from the Noteholder or the Bondholder (as the case may be) and SMI Culture or Guarantor becoming aware of such breach;
- (e) the Shares cease to be listed or admitted to, or are suspended for a period of more than five (5) consecutive Trading Days (or such longer period as agreed by the Noteholder or the Bondholder as the case maybe) from, trading on the Stock Exchange and/or the Shareholders pass a Shareholder resolution to delist its shares from the Stock Exchange;
- (f) if (1) any financial indebtedness of SMI Culture, the Guarantor or member of the Group is not paid when due nor within any originally applicable grace period; (2) any financial indebtedness of SMI Culture, the Guarantor or member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described); (3) any commitment for any financial indebtedness of SMI Culture, the Guarantor or member of the Group is cancelled or suspended by a creditor of SMI Culture, the Guarantor or member of the Group as a result of an event of default (however described); (4) any creditor of SMI Culture, the Guarantor or member of the Group becomes entitled to declare any financial indebtedness of SMI Culture, the Guarantor or member of the Group due and payable prior to its specified maturity as a result of any event of default (however described); (5) any security given by SMI Culture, the Guarantor or member of the Group becomes enforceable and steps are taken to enforce the same; or (6) default is made by SMI Culture, the Guarantor or member of the Group in making any payment due under any guarantee and/or indemnity given by it in relation to any financial indebtedness of any other person;
- (g) (1) if any order is made by any competent court which is not discharged or overruled within 14 days by a non-appealable order by a competent court, or any resolution is passed for the winding up, bankruptcy or dissolution of SMI Culture, the Guarantor or member of the Group; (2) if SMI Culture, the Guarantor or member of the Group stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for

the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent by a competent court and such ruling is not discharged or overruled within 14 days (or such longer period as may be agreed by the Noteholder or Bondholder as the case maybe) by a non-appealable order by a competent court; (3) if (A) proceedings are initiated against SMI Culture, the Guarantor or member of the Group under any applicable liquidation, insolvency, bankruptcy, judicial management, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, judicial manager, administrator or other similar official, or an administrative or other receiver, manager, judicial manager, administrator or other similar official is appointed, in relation to SMI Culture, the Guarantor or member of the Group or, as the case may be, in relation to the whole or any part of the undertaking, assets or revenues of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them; and (B) in any such case (other than the appointment of an administrator) unless initiated by the relevant company is not discharged within 14 days (or such longer period as may be agreed by the Noteholder or Bondholder as the case maybe); (4) if SMI Culture, the Guarantor or member of the Group (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation, judicial management or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors) and such meeting is not cancelled within 14 days (or such longer period as may be agreed by the Noteholder or the Bondholder as the case maybe) from its joint announcement; (5) if any event occurs which, under the laws of the jurisdiction of incorporation of SMI Culture, the Guarantor or member of the Group, has or may have, in the Noteholder's or Bondholder's opinion (as the case may be), an analogous effect to any of the events referred to in paragraphs (1) to (4) above;

- (h) if SMI Culture or the Guarantor repudiates or purports to repudiate any transaction document to which it is a party;
- (i) any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings, requisitions or disputes are commenced or threatened in relation to any transaction document or the transactions contemplated in any transaction document or against SMI Culture, the Guarantor or member of the Group or in relation to its assets which has or is reasonably likely to have a material adverse effect;
- (j) (1) it is or becomes unlawful for SMI Culture or the Guarantor to perform any of its obligations under any transaction document to which it is a party; or (2) any obligation of SMI Culture under any transaction document to which it is a party are not or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively adversely affects the interests of the Noteholder or Bondholder, as the case may be, under any transaction document; or (3) any transaction document ceases to be in full force and effect or cease to be legal, valid, binding, enforceable or effective;
- (k) any event or circumstance occurs which in the opinion of the Noteholder or Bondholder, as the case may be, has or may likely to have a material adverse effect;

- (l) if SMI Culture, the Guarantor or member of the Group ceases or threatens to cease to carry on the whole or a substantial part of its business or changes or threatens to change the nature or scope of its business;
- (m) if the guarantee given by the Guarantor under the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect; or
- (n) if an event of default in respect of the Notes or Convertible Bonds issued by the Guarantor takes place and such event of default is not remedied within any applicable period.

Undertakings

Pursuant to the Subscription Agreement, SMI Culture has given, among others, the following undertakings:

- (a) except for any lien arising by operation of law or any security interest created or entered into with the consent of the Investor, SMI Culture shall not (and shall ensure that no other members of the Group will) create or permit to subsist any security interest over any of its assets or interest or shareholding in any member of the Group; or sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or reacquired or acquired by it or any of its related entities, or enter into any other preferential arrangement having a similar effect, in circumstances where the transaction is entered into primarily as a method of raising financial indebtedness or financing the acquisition of an asset;
- (b) SMI Culture shall not (and shall ensure that no members of the Group will) incur, create or permit to subsist or have outstanding any financial indebtedness or enter into any agreement or arrangement whereby it is entitled to incur, create or permit to subsist any financial indebtedness other than financial indebtedness arising under the transaction documents, permitted in writing by the Investor or, if not falling into the aforementioned categories, the aggregate amount does not exceed HK\$300,000,000 (or its equivalent); and
- (c) that the net asset value of SMI Culture is not less than HK\$400,000,000 and SMI Culture shall procure that the net asset value of the Guarantor is not less than HK\$5,000,000,000 and that the quotient of the total asset value divided by the net asset value of the Guarantor is not greater than 2.2.

Administrative Consultancy Fee

Pursuant to the Subscription Agreement, the Investor is to deduct the relevant Administrative Consultancy Fee from the proceed of the Notes on Completion of the issue of the Notes. Subsequent Administrative Consultancy shall be payable by SMI Culture to the Investor within 5 Business days from the first anniversary of the Completion of the issue of the Notes.

Guarantee

Pursuant to the Guarantee, the Guarantor will, irrevocably, absolutely and unconditionally:

- (i) as principal obligor, guarantee to the Investor, the due and punctual performance and observance of SMI Culture in relation to all moneys, obligations and liabilities owing or payable or expressed to be owing or payable by SMI Culture to the Investor under or in connection with the transaction documents;

- (ii) undertake with the Investor that whenever SMI Culture does not pay any amounts due and payable under or in connection with the transaction documents, the Guarantor shall immediately on demand by the Investor pay that amount as if the Guarantor instead of SMI Culture were expressed to be the principal obligor; and
- (iii) agree with the Investor that if any obligation guaranteed by it under the Guarantee is or becomes unenforceable, invalid or illegal he will, as an independent and primary obligation and as principal debtor and primary obligor to indemnify the Investor immediately against any cost, loss or liability the Investor incurs as a result of SMI Culture not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by SMI Culture under any transaction document on the date when it would have been due.

The Guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Guarantor or SMI Culture under any transaction document, regardless of any intermediate payment or discharge in whole or in part or other matter whatsoever.

REASONS FOR THE ISSUE OF THE NOTES, THE ISSUE OF THE CONVERTIBLE BONDS AND THE PROVISION OF THE GUARANTEE

SMI Culture is an investment holding company. The Group is principally engaged in the investment in the production and distribution of films, investment in the production and distribution of television dramas and creation, production and distribution of new media contents, production and distribution of online and film advertisements, agency operation for films, directors, scriptwriters and artists, and tourism.

The SMI Culture Board has considered various ways of raising funds to develop the businesses of the Group and considers that the issuance of the Notes and Convertible Bonds represents a suitable opportunity to raise funds having considered the recent market conditions. The proceeds from the issuance of the Notes and Convertible Bonds will be used solely as working capital and for purposes of future acquisitions. Such proceeds will not however be used for the acquisition of shares or securities of any listed companies.

The SMI Culture Directors (including the independent non-executive SMI Culture Directors) consider that the terms of the Subscription Agreement in relation to the issue of the Convertible Bonds and Notes and the respective term of the Convertible Bonds and the Notes are on normal commercial terms and are fair and reasonable and in the interests of SMI Culture and the Shareholders as a whole.

The Guarantor is an investment holding company. The Guarantor Group is principally engaged in movie theater operation, investments in film production and distribution, in-theatre counter sales and online shopping.

SMI Culture is owned as to 28.19% by SMI Investment (HK) Limited, a wholly-owned subsidiary of the Guarantor. The provision of Guarantee will facilitate the issue of the Notes and Convertible Bonds pursuant to the Subscription Agreement. The businesses of the Guarantor and SMI Culture are complementary and the proceeds from the issuance of the Notes and Convertible Bonds will be used as working capital and for purposes of future acquisitions of SMI Culture, which in turn will benefit the Guarantor. The Guarantor Directors (including the independent non-executive Guarantor Directors) consider that the terms of the Guarantee are on normal commercial terms and are fair and reasonable and in the interests of the Guarantor and the Guarantor Shareholders as a whole.

To the best of the SMI Culture Directors' and the Guarantor Directors' knowledge, information and belief, having made all reasonable enquiries, the Investor and its ultimate beneficial owners are independent of and not connected with SMI Culture or the Guarantor or any connected persons of SMI Culture or the Guarantor.

LISTING RULES IMPLICATIONS

The provision of the Guarantee, when aggregating with the guarantees provided by the Guarantor to other creditors of SMI Culture within 12 months prior to the date of the Subscription Agreement in an aggregate amount of HK\$650,000,000 constitutes a discloseable transaction for the Guarantor. As one or more of the applicable percentage ratio in respect of the provision of the Guarantee, on an aggregated basis, exceeds 5% but are less than 25%, the provision of the Guarantee is subject to the reporting and announcement requirements but exempt from the Guarantor Shareholders' approval requirement under Chapter 14 of the Listing Rules.

FUND RAISING ACTIVITIES OF SMI CULTURE IN THE PAST TWELVE MONTHS

The equity fund raising activity conducted by SMI Culture in the past 12 months prior to the date of this joint announcement are set out below:

Date of announcement	Fund raising activity	Net proceeds raised (approximately)	Proposed use of the net proceeds	Actual use of the net proceeds
29 July 2016	Issue of notes and convertible bonds	HK\$345.9 million	General working capital and future acquisitions requirements	Completion has taken place as at 8 August 2016

EFFECTS ON SHAREHOLDING STRUCTURE OF SMI CULTURE

Assuming there being no other changes in the share capital of SMI Culture, the shareholding structure of SMI Culture (i) as at the date of this joint announcement; and (ii) immediately after exercise of the conversion rights attaching to the Convertible Bonds in full (assuming that there will not be any change in the issued share capital of SMI Culture before the exercise of such purchase rights) are as follows:

Shareholders	As at the date of this joint announcement		Immediately after exercise of the conversion rights attaching to the Convertible Bonds in full (assuming that there will not be any change in the issued share capital of SMI Culture before the exercise of such conversion rights)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
SMI Investment (HK) Limited <i>(Note)</i>	242,952,281	29.99	242,952,281	25.36
The Bondholder	—	—	148,148,148	15.46
Other public Shareholders	<u>567,105,403</u>	<u>70.01</u>	<u>567,105,403</u>	<u>59.18</u>
	<u>810,057,684</u>	<u>100.00</u>	<u>958,205,832</u>	<u>100.00</u>

Note:

SMI Investment (HK) Limited (“SMI Investment”) is wholly-owned by SMI Holdings Group Limited (“SMI Holdings”), the shares of which are listed on the Stock Exchange (stock code: 198). SMI Investment is the beneficial owner of the 242,952,281 Shares. SMI Holdings is therefore deemed to be interested in such 242,952,281 Shares of SMI Investment under the SFO.

SMI Holdings is owned as to approximately 59.01% by Mr. Qin Hui. By virtue of his interest in SMI Holdings, Mr. Qin Hui is therefore deemed to be interested in such 242,952,281 Shares.

Completion of the subscription of the Notes and the Convertible Bonds is subject to the satisfaction of the conditions precedent under the Subscription Agreement. As the subscription of the Notes and the Convertible Bonds may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Administrative Consultancy Fee”	an annual administrative consultancy fee of 1% of the aggregate of the principal amounts of the Notes and the Convertible Bonds
“Bond Instrument”	a separate instrument to be executed by SMI Culture by way of a deed poll containing terms of the Convertible Bonds
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong and the PRC are generally open for business and in the case a surrender of a certificate in respect of the Convertible Bonds, in the place where the certificate is surrendered
“Completion”	completion of the issue of the Notes and the issue of the Convertible Bonds (as applicable)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Conversion Period”	the period from and including the date of issue of the Convertible Bonds up to the close of business on the Maturity Date of the Convertible Bonds
“Conversion Price”	the initial conversion price of HK\$0.675 per Conversion Share upon the Bondholders exercise of conversion rights under the Convertible Bonds (subject to adjustment), provided that the Conversion Price shall not in any event be lower than HK\$0.38
“Conversion Share(s)”	up to 148,148,148 new Share(s) to be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bond(s) under the General Mandate or Specific Mandate (as the case may be)

“Convertible Bond(s)”	the 5% guaranteed convertible bond(s) in the aggregate principal amount of HK\$100,000,000 to be issued by SMI Culture pursuant to the Subscription Agreement
“General Mandate”	the general mandate granted to the SMI Culture Directors by the Shareholders at the annual general meeting of SMI Culture convened and held on 3 June 2016
“Group”	SMI Culture and its subsidiaries
“Guarantee”	the deed of guarantee to be entered into by the Guarantor and the Investor
“Guarantor”	SMI Holdings Group Limited (星美控股集團有限公司), a company incorporated in the Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 198)
“Guarantor Board”	the board of Guarantor Directors
“Guarantor Director(s)”	the director(s) of the Guarantor
“Guarantor Group”	the Guarantor and its subsidiaries
“Guarantor Shareholders”	the holder(s) of the ordinary share(s) of HK\$0.10 each in the capital of the Guarantor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) which is/are not connected person(s) of SMI Culture and is/are independent of SMI Culture and its connected persons
“Investor”	Ever Ascend Investments Limited (永晉投資有限公司), a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly owned subsidiary of Huarong International Financial Holdings Limited
“Last Trading Day”	8 August 2016, being the last trading day for the Shares prior to the release of this joint announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	14 calendar days immediately following the date of the Subscription Agreement for Completion of the issue of the Notes or 60 calendar days immediately following the date of the Subscription Agreement for Completion of the issue of the Convertible Bonds, as the case may be (or such later date as may be agreed by the parties hereto in writing)

“Maturity Date of the Convertible Bonds”	the date falling on the first anniversary of the date of issue of the Convertible Bonds, which can, at the Investor’s sole and absolute discretion, be extended to the date falling on the second anniversary of the date of issue of the Convertible Bonds and if that is not a Business Day, the first Business Day after
“Maturity Date of the Notes”	the date falling on the first anniversary of the date of issue of the Notes, which can, at the Investor’s sole and absolute discretion, be extended to the date falling on the second anniversary of the date of issue of the Notes and if that is not a Business Day, the first Business Day after
“Notes”	the 5% fixed guaranteed notes in the aggregate principal amount of HK\$200,000,000 due on the Maturity Date of the Notes
“Notes Instrument”	a separate instrument to be executed by SMI Culture by way of a deed poll containing terms of the Notes
“Noteholder(s)”	the person(s) in whose name the Notes is registered
“percentage ratios”	as defined in the Listing Rules
“PRC”	the People’s Republic of China (excluding, for the purpose of this joint announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of SMI Culture
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	a specific mandate to be sought from the Shareholders at a general meeting of SMI Culture to be convened to issue the Convertible Bonds and to allot and issue the Conversion Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Notes and the Convertible Bonds
“Subscription Agreement”	the subscription agreement entered into between SMI Culture and the Investor dated 8 August 2016 in relation to the Subscription
“SMI Culture Board”	the board of SMI Culture Directors
“SMI Culture”	SMI Culture Group Holdings Limited (星美文化集團控股有限公司), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares of which are listed on the Main Board the Stock Exchange
“SMI Culture Director(s)”	director(s) of SMI Culture

“Trading Day” a day when the Stock Exchange is open for dealing business, provided if no closing price is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days

“%” per cent.

By order of the board of directors
SMI Holdings Group Limited
YANG Rongbing
Executive Director

By order of the board of directors
SMI Culture Group Holdings Limited
WANG Fei
Chairman and Executive Director

Hong Kong, 8 August 2016

As at the date of this joint announcement, the executive directors of SMI Holdings Group Limited are Mr. CHENG Chi Chung and Mr. YANG Rongbing; the non-executive director of SMI Holdings Group Limited is Dr. YAP Allan; and the independent non-executive directors of SMI Holdings Group Limited are Mr. PANG Hong, Mr. LI Fusheng and Mr. LI Wing Yin.

As at the date of this joint announcement, the executive directors of SMI Culture Group Holdings Limited are Mr. Wang Fei (Chairman), Mr. Jiang Feng (President), Mr. Chan Chi To, Antony and Mr. Kong Dalu; and the independent non-executive directors of SMI Culture Group Limited are Mr. Du Jiang, Mr. Liu Xianbo and Mr. Wu Chien-Chiang.