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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)

**PROPOSED ISSUE OF NOTES
AND
CONVERTIBLE BONDS**

On 29 July 2016, after trading hours of the Stock Exchange, the Company, SMI Holdings and the Investor entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for (i) the Notes in the aggregate principal sum of HK\$315,000,000; and (ii) the Convertible Bonds with an aggregate principal amount of HK\$35,000,000 and which carry conversion rights to convert up to 51,851,851 Conversion Shares at the Conversion Price (being the initial price of HK\$0.675 per Conversion Share which is subject to normal adjustment) during the Conversion Period. Both the Notes and the Convertible Bonds will be secured by the Guarantee.

The Conversion Shares issued upon exercise of the conversion rights attaching to the Convertible Bonds will be issued under the General Mandate.

The Company 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.

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

Date: 29 July 2016 (after trading hours of the Stock Exchange)

Issuer: The Company

Guarantors: SMI Holdings Group Limited

Investor: Cheer Hope Holdings Limited

The Investor is a limited liability company incorporated in the BVI. It is indirectly and wholly-owned by CCB International (Holdings) Limited (“CCBI”).

To the best of the 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: The Company

Principal amount: HK\$315,000,000

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.

Default Interest: 15% per annum on the outstanding principal amount of the Notes

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 the Company 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 the Company.

Redemption:	The redemption price payable by the Company 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:	The Company 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 Arrangement 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 the Company to the Noteholder in addition to the aforesaid amount at the same time.
Noteholder’s redemption right for events of default:	The Company 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 Arrangement 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 the Company 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:	The Company
Principal Amount:	HK\$35,000,000
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 the Company 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, 51,851,851 Conversion Shares will be issued, representing approximately 6.40% of the existing issued share capital of the Company and approximately 6.02% 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 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 the Company, and any one or more events or circumstances not previously referred to which the Company or the Bondholder determines that an adjustment should be made to the Conversion Prices.
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 the Company. 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.
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.
Default interest:	15% per annum on the outstanding principal amount of the Convertible Bonds.
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 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 the Company.

Denomination:	HK\$5,000,000
Rights of Bondholders:	The redemption price payable by the Company 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 Date:	The Company 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 Arrangement 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 the Company to the Bondholder in addition to the aforesaid amount at the same time.
Bondholder’s redemption right for events of default:	The Company 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 Arrangement 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 the Company 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 39.18% to the closing price of HK\$0.485 per Share quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 43.62% to the average closing price of HK\$0.470 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 the Company and the Investor, taking into account the recent trading prices of the Shares. The Directors consider that the Conversion Price is fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

General Mandate for issue of the Conversion Shares

The Conversion Shares will be allotted and issued under the General Mandate granted to the Directors at the annual general meeting of the Company 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 the Company in issue on that date). Thus, the Convertible Bond Subscription is not subject to the approval of the Shareholders.

The 51,851,851 Conversion Shares, to be allotted and issued upon full exercise of the conversion rights attaching to the Convertible Bonds, will utilise approximately 32% of the General Mandate.

Application for listing of Conversion Shares

The Company 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 Subscriptions

The Investor's obligations to subscribe for the Notes and Convertible Bonds 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 the Company 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 Company;
- (iii) 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;
- (iv) the Investor having received all of the documents and evidence as required under the Subscription Agreement in form and substance satisfactory to it on or prior to the date of Completion;
- (v) 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;
- (vi) the representations and warranties of the Company contained in the transaction documents contemplated thereunder 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 date of Completion; and

(vii) no event of default is continuing or would result from the proposed issue by the Company of the Notes and the Convertible Bonds 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.

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) the Company 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 remains 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 the Company 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 the Company 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 the Company or the Guarantor becoming aware of such breach;
- (d) a representation, statement or warranty made or deemed to be made or repeated by the Company or the Guarantor in any transaction document or in any document delivered by or on behalf of the Company 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 the Company 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 the Company, the Guarantor or member of the Group is not paid when due nor within any originally applicable grace period; (2) any financial indebtedness of the Company, 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 the Company, the Guarantor or member of the Group is cancelled or suspended by a creditor of the Company, the Guarantor or member of the Group as a result of an event of default (however described); (4) any creditor of the Company, the Guarantor or member of the Group becomes entitled to declare any financial indebtedness of the Company, 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 the Company, the Guarantor or member of the Group becomes enforceable and steps are taken to enforce the same; or (6) default is made by the Company, 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) 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 the Company, the Guarantor or member of the Group;
- (h) if the Company, 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;
- (i) if (1) proceedings are initiated against the Company, 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 the Company, 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 (2) 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);
- (j) if the Company, 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 announcement;

- (k) if any event occurs which, under the laws of the jurisdiction of incorporation of the Company, 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 (g) to (j) above;
- (l) if the Company or the Guarantor repudiates or purports to repudiate any transaction document to which it is a party;
- (m) 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 the Company, 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;
- (n) (1) it is or becomes unlawful for the Company or the Guarantor to perform any of its obligations under any transaction document to which it is a party; or (2) any obligation of the Company 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;
- (o) any event or circumstance occurs which in the opinion of the Noteholder or Bondholder, as the case maybe, has or may likely to have a material adverse effect;
- (p) if the Company, 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;
- (q) 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
- (r) 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.

Completion of the Subscriptions

The Notes and the Convertible Bonds will be issued to the Investor on the same Business Day of fulfillment or waiver (as the case may be) of the conditions precedent or at such other day as the Company and the Investor may agree in writing.

Undertakings

Pursuant to the Subscription Agreement, the Company 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, the Company 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 re-acquired 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) the Company 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 the Company is not less than HK\$400,000,000 and the Company 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.

Arrangement Fee

Pursuant to the Subscription Agreement, the Company is to pay to the Investor the Arrangement Fee.

Guarantee

The payment of the principal and interest (including default interest) in respect of the Convertible Bonds and Notes and all other moneys payable by the Company under or pursuant to the Subscription Agreement and its ancillary documents have been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Guarantee.

REASONS FOR THE ISSUE OF THE NOTES AND THE ISSUE OF THE CONVERTIBLE BONDS

The Company 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 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 Directors (including the independent non-executive 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 the Company and the Shareholders as a whole.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Conversion Shares to be issued upon the exercise of all Convertible Bonds, when aggregated with all other equity securities which remain to be issued on exercise of all other subscription rights, will not exceed 20% of the issued share capital of the Company.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save for below, the Company has not conducted any equity fund raising activity in the 12 months immediately preceding the date of this announcement:

Save and except the subscription of 112,500,000 Shares in March 2015 (full particulars of which are set out in the announcements of the Company dated 16 March 2015 and 24 March 2015), the Company has not conducted any equity fund raising activity in the past twelve (12) months before the date of this announcement.

Of the net proceeds of approximately HK\$70 million raised from the placing in March 2015, approximately HK\$47 million has been used for repayment of loans from financial institution; approximately HK\$15 million has been used for repayment of loans from shareholder and approximately HK\$8 million has been used for general working capital of the Group. The use is consistent with the intended use of proceeds as disclosed in the announcement of the Company dated 16 March 2015.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no other changes in the share capital of the Company, the shareholding structure of the Company (i) as at the date of this 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 the Company before the exercise of such purchase rights) are as follows:

Shareholders	As at the date of this 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 the Company before the exercise of such conversion rights)	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
SMI Investment (HK) Limited ^(Note)	242,952,281	29.99	242,952,281	28.19
The Bondholder	—	—	51,851,851	6.02
Other public Shareholders	<u>567,105,403</u>	<u>70.01</u>	<u>567,105,403</u>	<u>65.79</u>
	<u>810,057,684</u>	<u>100.00</u>	<u>861,909,535</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 announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

“Arrangement Fee”	an annual arrangement fee of HK\$3,500,000
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bond(s)

“Business Day”	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
“BVI”	British Virgin Islands
“Company”	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 and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the issue of the Notes and the issue of the Convertible Bonds
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Conversion Period”	the period from the date of issue of the Convertible Bonds to 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 normal adjustment), provided that the Conversion Price shall not in any event be lower than HK\$0.38
“Conversion Share(s)”	up to initially 51,851,851 new Share(s) to be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bond(s)
“Convertible Bond(s)”	the 5% guaranteed convertible bond(s) in the aggregate principal amount of HK\$35,000,000 to be issued by the Company pursuant to the Subscription Agreement
“Convertible Bond Subscription”	the subscription of the Convertible Bonds
“Director(s)”	director(s) of the Company for the time being
“General Mandate”	general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company convened and held on 3 June 2016
“Group”	the Company and its subsidiaries and the term “Group Company(ies)” shall be construed accordingly
“Guarantee”	the deed of guarantee to be entered into by the Guarantor and the Investor
“Guarantor”	SMI Holdings Group Limited

“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 the Company and is/are independent of the Company and its connected persons
“Investor”	Cheer Hope Holdings Limited, a limited company incorporated under the laws of the BVI
“Last Trading Day”	29 July 2016, being the last trading day for the Shares prior to the release of this 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 (or such late date as may be agreed by the parties in writing), 12 August 2016
“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\$315,000,000 due on the Maturity Date of the Notes
“Notes Instrument”	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Notes
“Noteholder(s)”	the person(s) in whose name the Notes is registered
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement entered into among the Company, the Investor, the Guarantor dated 29 July 2016 in relation to the Subscription

“Subscriptions”	the subscriptions of the Notes and the Convertible Bonds
“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
SMI Culture Group Holdings Limited
Wang Fei
Chairman and Executive Directors

Hong Kong, 29 July 2016

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