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SMI CORPORATION LIMITED

星美國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

ISSUANCE OF CONVERTIBLE BONDS DUE 2017 UNDER GENERAL MANDATE

On 7 August 2014 after trading hours, the Company entered into the Subscription Agreement with Mr. QIN Hui and the Original Bondholders pursuant to which the Original Bondholders have conditionally agreed to subscribe for the Convertible Bonds of an aggregate principal amount of up to HK$200,000,000 due three years from the Issue Date.

Based on the initial Conversion Price of HK$0.34 per each Conversion Share, 588,235,294 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds in full, which represent approximately 6.26% of the existing issued share capital of the Company and approximately 5.89% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be issued under the General Mandate.

The net proceeds from the Subscription (after deducting related expenses) are estimated to be of approximately HK$198,000,000 and the Company intends to use such net proceeds for capital expenditure, repayment of liabilities and general working capital requirements.

* *For identification purposes only*

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THE SUBSCRIPTION AGREEMENT

Parties and Date:

Date:	7 August 2014 (after trading hours)
Issuer:	The Company
Obligors:	The Company and Mr. QIN Hui
Subscribers:	Original Bondholders
	To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Original Bondholder and its ultimate beneficial owner is an Independent Third Party.

Subscription:

Subject to the satisfaction of the conditions precedent set out in the Subscription Agreement, the Original Bondholders agreed to subscribe in cash for, and the Company agreed to issue, the Convertible Bonds.

Conditions Precedent:

Completion of the Subscription is conditional upon the satisfaction of, among other things, the following conditions precedent:

a) the Original Bondholders having performed and completed to its satisfaction due diligence exercise, anti-money laundering or similar identification procedures in respect of the Company;

b) the Original Bondholders having received all of the documents and evidence set out in the Subscription Agreement in form and substance satisfactory to them on or prior to the date of the Notice of Issuance;

c) the representations and warranties of each of the Obligors in the Subscription Agreement being true, accurate and correct and not misleading during the period beginning on the date of the Subscription Agreement and ending on the Issue Date; and

d) no Event of Default is continuing or would result from the proposed issue of Convertible Bonds by the Company to the Original Bondholders.

The Subscription Agreement may be terminated if any one or more of the conditions precedent listed above is not fulfilled, satisfied or waived on the date of the Subscription Agreement.

Completion:

The Company shall deliver to each Original Bondholder a duly completed Notice of Issuance not later than 11:00 a.m. on the date falling two Business Days prior to the proposed Issue Date.

Subject to the satisfaction (or waiver as the case may be) of the conditions precedent set out above, completion of the issuance and subscription of the Convertible Bonds between the Company and the Original Bondholders shall take place on the Issue Date as set out in the Notice of Issuance or at such other time as the Company and the Original Bondholders may agree.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Issuer:	The Company
Subscribers:	Original Bondholders
Principal amount:	up to HK$200,000,000
Issue price:	100% of the principal amount of the Convertible Bonds

Form and Title:

The Convertible Bonds will be issued in registered form in the denomination of HK$100,000,000 each.

Interest:

The Convertible Bonds bear interest from and including the Issue Date to the Maturity Date at the rate of 9% per annum payable every three (3) months from the Issue Date.

Maturity Date:

The date falling thirty six (36) months from the Issue Date subject to the right of the Company to redeem the Convertible Bonds not being converted after the date falling twenty four (24) months from the Issue Date.

Conversion Price:

The initial Conversion Price will be HK$0.34 per Share subject to adjustment in the manner provided in the terms and conditions of the Convertible Bonds. The initial Conversion Price represents:

(a) a premium of approximately 7.94% to the closing price of HK$0.32 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(b) a premium of approximately 11.11% to the average closing price of HK$0.31 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day.

The Conversion Price was determined after arm's length negotiations among the parties to the Subscription Agreement at 115% of the average closing price per Share of HK$0.30 for the last 20 consecutive trading days before the date of the Subscription Agreement.

The Directors (including the independent non-executive Directors) are of the opinion that the Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conversion Period:

The Conversion Period will commence at any time from and including the date falling six (6) months from the Issue Date up to the close of business on the Maturity Date.

Redemption on Maturity Date:

The principal amount of the Convertible Bonds not being converted according to the terms of the Bond Instrument before the Maturity Date shall be redeemed in full by the Company on the Maturity Date at such amount that would yield an annual return of 12% per annum thereon calculated from the Issue Date to (and including) the later of the actual date of payment and the Maturity Date.

Transferability:

A Bondholder may not assign all or any of its rights or transfer by novation all or any of its rights and obligations in the Convertible Bonds to any entity or person.

Status:

The Convertible Bonds constitute direct, unsubordinated and unconditional obligations of the Company and shall at all times rank pari passu and without any preference or preference among the Convertible Bonds and all other present and future direct, secured, unsubordinated and unconditional obligations of the Company. The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange.

Voting Rights:

The Convertible Bonds shall not confer on the Bondholders the right to vote at general meetings of the Company.

Conversion Shares:

The Conversion Shares will be credited as fully paid and rank pari passu in all respects with, and within the same class as the Shares in issue as at the date of allotment and issue of the Conversion Shares.

GENERAL MANDATE TO ISSUE THE CONVERTIBLE BONDS AND TO ALLOT AND ISSUE THE CONVERSION SHARES UPON CONVERSION OF THE CONVERTIBLE BONDS

At the annual general meeting of the Company held on 6 June 2014, a resolution of the Shareholders was passed to grant to the Directors a general mandate to allot, issue and otherwise deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing such resolution. The Company is authorised to issue 1,824,806,127 Shares under the General Mandate.

As at the date of this announcement, the Company has not exercised the power to allot and issue any new Shares pursuant to such mandate prior to the Subscription. Upon the exercise of the conversion rights of the Convertible Bonds, the Conversion Shares will be allotted and issued pursuant to the General Mandate. Accordingly, the issuance of the Convertible Bonds and the Conversion Shares (upon conversion of the Convertible Bonds) is not subject to Shareholders' approval.

CHANGES TO SHAREHOLDING AS A RESULT OF THE FULL CONVERSION OF THE CONVERTIBLE BONDS

The shareholding in the Company (a) as at the date of this announcement; and (b) immediately after full conversion of the Convertible Bonds (assuming no further Shares will be issued or repurchased from the date of this announcement up to the date upon which the Convertible Bonds are fully converted) are as follows:

	As at the date of this announcement		**Immediately upon full conversion of the Convertible Bonds**	
	No. of Shares	*Approx. %*	*No. of Shares*	*Approx. %*
Shareholders				
Mr. QIN Hui	6,632,768,664	70.59	6,632,768,664	66.43
Strategic Media International Limited *(Note 1)*	23,878,623	0.25	23,878,623	0.24
Wise Vanguard Holdings Limited	751,256,000	8.00	751,256,000	7.52
Mr. YANG Rongbing *(Note 2)*	1,076,000	0.01	1,076,000	0.01
Public Shareholders				
The Original Bondholders	–	–	588,235,294	5.89
Other Shareholders	1,986,988,284	21.15	1,986,988,284	19.90
Total:	9,395,967,571	100.00	9,984,202,865	100.00

Note:

1. Strategic Media International Limited is wholly-owned by Mr. QIN Hui.

2. Mr. YANG Rongbing is an executive Director.

As disclosed in the above shareholding table, immediately after the full conversion of the Convertible Bonds, over 25% of the then issued share capital of the Company will be held by public Shareholders (including the Original Bondholders).

REASONS FOR THE ISSUANCE OF THE CONVERTIBLE BONDS AND USE OF PROCEEDS

The principal activities of the Group include (i) movie theater operation; (ii) investments in film production and distribution; and (iii) expansion of new complementary business on online shopping and in-theater counter sales and advertising and promotion business.

In view of the current financial market situation, the Subscription offers a good opportunity to the Group to strengthen its financial position including its ability to meet any future obligations, and broaden the shareholder's base. The net proceeds from the Subscription are expected to be used for the Group's capital expenditure, repayment of liabilities and general working capital requirements.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Subscription Agreement to be fair and reasonable, on normal commercial terms and are in the best interests of the Company, as far as the Company and the Shareholders as a whole are concerned.

APPLICATION FOR LISTING

No application will be made by the Company to the Listing Committee for listing of the Convertible Bonds. An application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Shareholders and potential investors should note that the Subscription is subject to various conditions precedent. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

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

"Board"	board of Directors
"Bondholder(s)"	any Original Bondholder or any person to which a Convertible Bond is transferred and in whose name that the Convertible Bond is registered with the Company
"Bond Instrument"	the instrument constituting the Convertible Bonds
"Business Day(s)"	any day (other than Saturday or Sunday or public holiday) on which commercial banks are open for normal banking business in Hong Kong and Bermuda
"CCBI"	CCB International Overseas Limited, a company incorporated under the laws of Hong Kong with limited liability, which is an Independent Third Party
"Company"	SMI Corporation Limited, a company incorporated under the laws of Bermuda and whose Shares are listed on the Hong Kong Stock Exchange (stock code: 198)
"Conversion Period"	Bondholders have the right to convert their Convertible Bonds into Shares at any time during this period
"Conversion Price"	the price at which share(s) of the Company will be issued upon conversion
"Conversion Shares"	the new Shares to be allotted and issued by the Company upon exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	the 9% senior convertible bonds of up to HK$200,000,000 due 2017, which are convertible into Shares

"Director(s)"	the director(s) of the Company
"Event of Default"	any event or circumstance specified as such in the Bond Instrument
"General Mandate"	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 6 June 2014 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at 6 June 2014
"Harvest Progress"	Harvest Progress International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which is an Independent Third Party
"Hong Kong"	the Hong Kong Special Administrative Region of PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Third Party"	third party independent of, and not connected with, the Company and its connected persons (as defined in the Listing Rules)
"Issue Date"	the date on which completion of the issue of and the subscription for the Convertible Bonds
"Last Trading Day"	7 August 2014, being the last trading day in respect of the Shares immediately prior to the signing of the Subscription Agreement
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Maturity Date"	the date falling thirty six (36) months from the Issue Date with respect to the Convertible Bonds

"Mr. QIN Hui"	QIN Hui (覃輝), a PRC resident and the controlling shareholder of the Company
"Notice of Issuance"	the form of notice of issuance in relation to the issue of the Convertible Bonds
"Obligor(s)"	the Company and Mr. QIN Hui
"Original Bondholder(s)"	CCBI and Harvest Progress
"PRC"	the People's Republic of China but for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"SFO"	Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong
"Share(s)"	the fully paid ordinary voting equity shares with a par value of HK$0.10 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Convertible Bonds by the Original Bondholders pursuant to the Subscription Agreement
"Subscription Agreement"	a formal subscription agreement regarding the issue of the Convertible Bonds dated 7 August 2014

By order of the Board
SMI Corporation Limited
YANG Rongbing
Executive Director

Hong Kong, 7 August 2014

As at the date of this announcement, the executive Directors are Mr. CHENG Chi Chung, Mr. YANG Rongbing, Mr. NG Kam Tsun, Mr. XI Qing and Mr. LI Yige. The independent non-executive Directors are Mr. HE Peigang, Mr. PANG Hong and Mr. LI Fusheng.