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Meitu, Inc.

美图公司

(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as “美圖之家”)

(Stock Code: 1357)

INSIDE INFORMATION AND PROFIT WARNING

This announcement is made by Meitu, Inc. (the “**Company**”, together with its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd. and its subsidiaries, collectively the “**Group**”, “**we**” or “**us**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

INSIDE INFORMATION REGARDING THE GROUP'S SMART HARDWARE BUSINESS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce that on November 19, 2018, the Company and Xiaomi Corporation (a company incorporated in the Cayman Islands with limited liability and listed on the Main Board of The Stock Exchange of Hong Kong Limited with stock code: 1810) (“**Xiaomi**”) entered into a strategic cooperation framework agreement (the “**Strategic Cooperation Agreement**”). While the Group remains committed to grow the *Meitu* branded smartphones and other smart hardware business, the Board has determined that it is in the Group's interests to operate this business by way of cooperating with a partner with the scale and reach of Xiaomi.

Pursuant to the Strategic Cooperation Agreement, the Group has granted an exclusive global license of the *Meitu* brand and global license of certain technologies and domain names in relation to all future *Meitu* branded smartphones (other than the *Meitu* V7 model) (the “**Cooperation Smartphones**”) and certain smart hardware products to Xiaomi (the “**Other Cooperation Smart Hardware**”) (the “**Licensing Arrangement**”). Furthermore, in relation to the future Cooperation Smartphones, Xiaomi will be responsible for design, research and development, production, business operation, sales and marketing of the Cooperation Smartphones, while the Company will be responsible for certain image-related algorithms and technologies of the Cooperation Smartphones cameras. In addition, Xiaomi has also been granted the exclusive license to use the *Meitu* brand in relation to a range of other smart hardware products, with the exception of certain skin-related smart hardware products.

THE STRATEGIC COOPERATION AGREEMENT

Further details regarding the Strategic Cooperation Agreement are set out below:

Economics Sharing Arrangement

Pursuant to the Strategic Cooperation Agreement, the Company and Xiaomi have agreed on the following economics sharing arrangement under the Licensing Arrangement:

Licensing Phase 1 for Cooperation Smartphones

Once the quantity of the Cooperation Smartphones sold reaches a specified quantity (“**Cooperation Smartphone Commencement Date**”), the Company shall be entitled to ten percent (10%) gross profit share for each Cooperation Smartphone sold (including the Cooperation Smartphones already sold before the Cooperation Smartphone Commencement Date), until the Company has received, at any time within 5 years after the Cooperation Smartphone Commencement Date, (A) a cumulative gross profit share of a specified threshold amount or (B) a total payment in the same specified threshold amount in the form of gross profit share and/or cash payment from Xiaomi and/or its affiliates, whichever is earlier. Immediately afterwards, licensing phase 2 (“**Phase 2**”) may commence at the election of Xiaomi, otherwise the Licensing Arrangement will automatically terminate.

Licensing Phase 2 for Cooperation Smartphones

Starting from the commencement date of Phase 2 until a period of 30 years following the Cooperation Smartphone Commencement Date, the Company shall be entitled to a specific dollar amount for each Cooperation Smartphone sold, subject to an annual minimum guaranteed amount of US\$10 million.

Licensing Phase for Other Cooperation Smart Hardware

Once the quantity of the first Other Cooperation Smart Hardware sold reaches a specified quantity (the “**Other Cooperation Smart Hardware Commencement Date**”), the Company shall be entitled to a fifteen percent (15%) gross profit share for each Other Cooperation Smart Hardware sold (including the Other Cooperation Smart Hardware already sold before the Other Cooperation Smart Hardware Commencement Date), for a period of 30 years after the Other Cooperation Smart Hardware Commencement Date.

Term and Termination

The Licensing Arrangement commences from the date of the Strategic Cooperation Agreement and ends at the termination of the Cooperation Smartphones cooperation or the Other Cooperation Smart Hardware cooperation, whichever is later. Upon at least two (2) Cooperation Smartphone models sold reach a specified quantity, Xiaomi shall have the right to terminate the Licensing Arrangement by giving 6 months’ prior written notice to the Company.

The Strategic Cooperation Agreement shall terminate upon the termination of the Licensing Arrangement or when one of the termination events under the Strategic Cooperation Agreement is triggered, whichever is earlier.

Other Special Provisions

If the Company is in material breach of the Strategic Cooperation Agreement, Xiaomi shall have the right to terminate the Strategic Cooperation Agreement, seek compensation from the Company

for the losses suffered, and be entitled to a free, global and irrevocable license to use the *Meitu* brand, certain technologies and domain names, in relation to the Cooperation Smartphones, Other Cooperation Smart Hardware and ancillary services, for a further 10-year period starting from the date of the termination of the Strategic Cooperation Agreement.

For ordinary breaches of the Strategic Cooperation Agreement, the non-defaulting party shall be entitled to seek compensation from the defaulting party for the losses suffered. If the Company is the defaulting party for certain specific ordinary breaches, Xiaomi shall be entitled to elect to seek compensation from the Company or extend the Licensing Arrangement for a further 1-year period.

REASONS FOR AND BENEFITS OF ENTERING INTO THE STRATEGIC COOPERATION AGREEMENT

The Group's mission is "to inspire more people to express their beauty", and the Board believes that entering into this Strategic Cooperation Agreement will accelerate our pace in carrying out this mission.

Since the launch of the first *Meitu* smartphone model in 2013, we have sold approximately 3.5 million smartphones and empowered their users to take exceptional quality pictures through their phone cameras. Our proprietary image technologies and beautification algorithms, together with the *Meitu* brand that is associated with beauty, are the key contributing factors to this achievement. We are very proud of this achievement considering the small team size we have for this business. However, as we look ahead and evaluate our strategy in further growing the user base of our smartphones, we realize that working with a partner who has a scalable smartphone business can significantly accelerate our pace in realizing the vision of putting our smartphones in the hands of tens of millions, or even hundreds of millions of users. With such strategic partnership, we can focus our efforts in developing the next-generation image processing technologies, while leveraging our partner's economy of scale in research and development, supply chain management, and new retail efforts. We believe Xiaomi is the perfect partner as it is currently one of the world's largest smartphone brands with sales volume exceeding 100 million for the ten (10) months ended October 31, 2018, and has established one of the world's largest consumer IoT platform, with approximately 132 million smart devices (excluding smartphones and laptops) connected to its platform as at the end of the third quarter of 2018.

We are very excited about the upcoming series of Cooperation Smartphones under this strategic partnership as we will be able to accelerate the growth of our smartphone user base as well as our photo and social app user base due to pre-installations. Going forward, we will focus more on the growth of the user base of our apps and social network.

Accordingly, the Board is of the view that the cooperation contemplated under the Strategic Cooperation Agreement is in the interests of the Company and its shareholders ("**Shareholders**") as a whole.

LISTING RULES IMPLICATION

The entering into of the Strategic Cooperation Agreement does not constitute a notifiable transaction under Chapter 14 of the Listing Rules as the transactions contemplated under the Strategic Cooperation Agreement is of revenue nature in the ordinary and usual course of business of the Group.

To the best of the Directors' knowledge, information and belief and having made reasonable

enquiries, Xiaomi and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

PROFIT WARNING

In our interim results announcement for the six months ended June 30, 2018, the Company has disclosed the near-term challenges faced by the smart hardware business at the time, and also disclosed the Company's expectation that the net loss for the second half of 2018 will be wider than that of the first half of 2018, which was RMB127.4 million. The Board now wishes to inform the Shareholders and potential investors that based on the preliminary assessment of the Group's unaudited consolidated management accounts for the ten months ended October 31, 2018 (the "**Management Accounts**"), it is expected that the Group may record a net loss of between approximately RMB950 million and RMB1,200 million for the year ending December 31, 2018 (compared to a net loss of approximately RMB197 million for the year ended December 31, 2017).

Based on information currently available to the Company, such expected increase in net loss is primarily due to the following factors:

- (i) decrease in revenue from the Group's smart hardware segment due to (a) reduction of shipment volume of smartphones as a result of launching less phone models in 2018 compared to 2017. The Group launched 5 phone models in 2017 and only 1 model in 2018; (b) average selling price ("**ASP**") of the smartphones in the second half of 2018 has reduced as we have lowered the selling price of the M-Series (our lowest-priced series that were launched in 2017) smartphones in response to the competitive environment which had become even more intense since the second half of 2018;
- (ii) as a result of lower ASP, gross profit generated from sales of smartphones has been decreasing rapidly in the second half of 2018. Although our gross profit from Internet businesses has continued to increase during the second half of 2018, we expect such increase will not be able to offset the decline in the gross profits of the smartphone business, leading to a decline in overall gross profit for the Group. Given the intensity of competition of the smartphone market has further accelerated in the second half of 2018, it appears that our smartphone business is no longer profitable. We anticipate that the bulk of the Group's incremental net loss in the second half of 2018 will be attributable to our smartphone business. However, we expect that these losses will not be recurring after the quantity of the Cooperation Smartphones sold reaches a specified quantity under the Licensing Arrangement with Xiaomi;
- (iii) as we are moving to the new business model for our smartphone business under the Strategic Cooperation Agreement, we expect to incur certain non-recurring expenses in relation to the restructuring of the existing smartphone business. Furthermore, as a result of the Group's recent decision to close down its e-commerce platform, *MeituBeauty*, on November 30, 2018 in order to focus its resources implementing the Group's new strategy surrounding "beauty and social media", we also expect to incur certain non-recurring expenses in relation thereto; and
- (iv) increase in sales and marketing expenses, in particular, a one-off sponsorship of certain reality show and related marketing expenses, which amount to approximately RMB200 million. Such expenses are related to the brand building of the Group's social platform and smartphone business.

It should be noted that the Company has yet to finalise the annual results of the Group for the year ending December 31, 2018. The information contained in this announcement is only based on information currently available to the Group and the Board's preliminary assessment of the Management Accounts, which has not been reviewed by the Company's auditors. As such, the actual annual results of the Group for the year ending December 31, 2018 may be different from what is disclosed in this announcement. Shareholders and investors are therefore advised to read carefully the results announcement of the Company for the year ending December 31, 2018 to be published in around March 2019.

Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Meitu, Inc.
Cai Wensheng
Chairman

Hong Kong, November 19, 2018

As at the date of this announcement, the executive directors of the Company are Mr. Cai Wensheng and Mr. Wu Zeyuan (also known as: Mr. Wu Xinhong); the non-executive directors of the Company are Dr. Guo Yihong and Dr. Lee Kai-fu; the independent non-executive directors of the Company are Mr. Ko Chun Shun Johnson, Mr. Zhou Hao and Professor Zhang Shoucheng.