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meitu

Meitu, Inc.

美图公司

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

(Stock Code: 1357)

**CONNECTED TRANSACTIONS
DISPOSAL OF APPROXIMATELY 14.86%
EQUITY INTEREST IN RUISHENG TIANHE AND
ACQUISITION OF APPROXIMATELY 19.81% OF
EQUITY INTEREST IN RUISHENG TIANHE**

THE DISPOSAL TRANSACTION

On December 25, 2020, Meitu Networks and the Minority Shareholders of Ruisheng Tianhe (a non-wholly owned subsidiary of Meitu Networks as to approximately 80.19%) entered into the Disposal Agreement, pursuant to which Meitu Networks has agreed to sell, and the Minority Shareholders have agreed to purchase approximately 14.86% equity interest in Ruisheng Tianhe at an aggregate cash consideration of RMB7,690,039.47 (equivalent to approximately HK\$9,127,643.29).

Details of the Disposal Agreement are set out below:

Date:

December 25, 2020

Parties:

- (1) Meitu Networks, as vendor, and
- (2) the Minority Shareholders, as purchasers.

Subject Matter of the Disposal:

Approximately 14.86% equity interest in Ruisheng Tianhe:

Name of Minority Shareholder	Consideration (in RMB)	Approximate percentage of equity interest in Ruisheng Tianhe
Ms. Liu Na	5,587,697.00	10.80%
Ms. Chen Xi	1,007,099.29	1.95%
Ms. Liu Renying	385,389.29	0.74%
Ms. Luo Huifang	709,853.89	1.37%
Total:	<u>7,690,039.47</u>	<u>14.86%</u>

Disposal Consideration and Payment:

The Disposal Consideration of RMB7,690,039.47 (equivalent to approximately HK\$9,127,643.29) was determined based on a valuation of Ruisheng Tianhe calculated based on 6 times Ruisheng Tianhe's 2019 consolidated net profit plus a premium of 15%. The basis of the consideration was determined based on arm's length negotiations taking into account, inter alia, the recent business development and future prospects of Ruisheng Tianhe, the fact that as a private company Ruisheng Tianhe's shares do not have a liquid market, and the acquisition cost paid by Meitu Networks for the Disposal Equity Interest in Ruisheng Tianhe of approximately RMB6,686,990.84 (equivalent to approximately HK\$7,937,081.12). The Disposal Consideration shall be settled by the Minority Shareholders in cash in the following manner:

- (A) 51% of the Disposal Consideration shall be payable by the Minority Shareholders to Meitu Networks on or before December 31, 2020; and
- (B) the remaining 49% of the Disposal Consideration shall be payable by the Minority Shareholders to Meitu Networks on or before May 31, 2021.

Completion:

Completion of the Disposal is expected to occur on or before December 31, 2020.

Upon completion of the Disposal, Meitu Networks' equity interests in Ruisheng Tianhe will be reduced from approximately 80.19% to approximately 65.33%, and Ruisheng Tianhe will continue to be a consolidated affiliated entity of the Company with its financials consolidated into the Group's financial statements.

Clawback Provision:

Under the terms of the Disposal Agreement, if Ruisheng Tianhe fails to file an application with the relevant securities regulatory authority(ies) (the “**Relevant PRC Authorities**”) for a listing of Ruisheng Tianhe’s shares on a domestic PRC stock exchange (the “**Proposed PRC Listing**”) by December 31, 2022, or fails to complete the Proposed PRC Listing by failing to obtain the relevant approval document(s) from the CSRC by December 31, 2023 (unless the listing application is being processed by the Relevant PRC Authorities where the relevant deadline will then be extended to no later than December 31, 2024), the Minority Shareholders shall be required to sell back to Meitu Networks (and Meitu Networks shall be required to repurchase from the Minority Shareholders) the Disposal Equity Interest at the same consideration as the Disposal Consideration plus 5% compound interest per annum to reflect the cost of capital (the “**Clawback Provision**”).

Further, the Clawback Provision will also be triggered upon the occurrence of any of the following circumstances (the “**Further Clawback Triggering Conditions**”):

- (1) the Stock Exchange opposes or prohibits the spin off and/or the Proposed PRC Listing; or
- (2) the application for the Proposed PRC Listing was returned in writing, rejected or suspended indefinitely by the Relevant PRC Authorities.

THE ACQUISITION TRANSACTION

On December 25, 2020, Meitu Networks and the Minority Shareholders of Ruisheng Tianhe (a non-wholly owned subsidiary of Meitu Networks as to approximately 80.19%) entered into the Acquisition Agreement, pursuant to which Meitu Networks has agreed to purchase, and the Minority Shareholders have agreed to sell, approximately 19.81% equity interest in Ruisheng Tianhe subject to the Clawback Provision being triggered (representing all of their remaining equity interest in Ruisheng Tianhe after Meitu Networks repurchases the Disposal Equity Interest from the Minority Shareholders pursuant to the Clawback Provision) at an aggregate cash consideration equals to the Acquisition Consideration, on or before June 30 of the year immediately following the year in which the Clawback Provision has been triggered.

Details of the Acquisition Agreement are set out below:

Date:

December 25, 2020

Parties:

- (1) Meitu Networks, as purchaser, and
- (2) the Minority Shareholders, as vendors.

Subject Matter of the Acquisition:

Approximately 19.81% equity interest in Ruisheng Tianhe, representing all of the Minority Shareholders' remaining equity interest in Ruisheng Tianhe after Meitu Networks repurchases the Disposal Equity Interest from the Minority Shareholders pursuant to the Clawback Provision (the "Acquisition Shares"):

Name of Minority Shareholder	Approximate percentage of equity interest in Ruisheng Tianhe
Ms. Liu Na	14.39%
Ms. Chen Xi	2.59%
Ms. Liu Renying	1.00%
Ms. Luo Huifang	1.83%
Total:	<u>19.81%</u>

Acquisition Consideration and Payment:

The Acquisition Consideration was determined based on arm's length negotiations taking into account, inter alia, the recent business development and future prospects of Ruisheng Tianhe, the fact that as a private company Ruisheng Tianhe's shares do not have a liquid market, and will be tied to a valuation of Ruisheng Tianhe (the "**Ruisheng Tianhe Valuation**") calculated based on a multiple of Ruisheng Tianhe's audited net profit (after excluding extraordinary profit and loss) ("**Audited Net Profit**") in its latest financial year (which for the avoidance of doubt, includes the year in which the Clawback Provision has been triggered (the "**Latest Financial Year**"), subject to the Ruisheng Tianhe Valuation being capped at a maximum of HK\$1,250 million (i.e. the Acquisition Consideration will be capped at a maximum of HK\$247,625,000 (or its equivalent amount in RMB)) and the following conditions:

- (A) If Ruisheng Tianhe's Audited Net Profit in the Latest Financial Year is no less than RMB50 million, then the Ruisheng Tianhe Valuation shall be 10 times of such Audited Net Profit;
- (B) If Ruisheng Tianhe's Audited Net Profit in the Latest Financial Year is between RMB45 million and less than RMB50 million, then the Ruisheng Tianhe Valuation shall be 9 times of such Audited Net Profit;
- (C) If Ruisheng Tianhe's Audited Net Profit in the Latest Financial Year is between RMB40 million and less than RMB45 million, then the Ruisheng Tianhe Valuation shall be 8 times of such Audited Net Profit;
- (D) If Ruisheng Tianhe's Audited Net Profit in the Latest Financial Year is less than RMB40 million, then the Ruisheng Tianhe Valuation shall be 6 times of such Audited Net Profit.

As the Minority Shareholders were founding shareholders of Ruisheng Tianhe, the original costs of acquisitions of the Acquisition Shares by Ms. Liu Na, Ms. Chen Xi, Ms. Liu Renying and Ms. Luo Huifong were approximately RMB347,000 (equivalent to approximately HK\$411,869), RMB66,300 (equivalent to approximately HK\$78,694), RMB25,500 (equivalent to approximately HK\$30,267) and RMB61,200 (equivalent to approximately HK\$72,641) respectively.

Completion:

Subject to the Clawback Provision being triggered, completion of the Acquisition is expected to occur on or before June 30 of the year immediately following the year in which the Clawback Provision has been triggered.

Upon completion of the Acquisition, Ruisheng Tianhe shall become a wholly-owned subsidiary of Meitu Networks with its financials continued to be consolidated into the Group's financial statements.

REASONS FOR AND BENEFITS OF ENTERING INTO THE DISPOSAL AGREEMENT AND THE ACQUISITION AGREEMENT

Since Meitu Networks' entry into an investment agreement with the shareholders of Ruisheng Tianhe to acquire Ruisheng Tianhe in 2018 (which was almost three years ago), the businesses of Ruisheng Tianhe have developed in such a manner that it has become necessary for it to consider additional forms of financing to effectively execute its future business development plans. The Company has been in discussions with the Minority Shareholders and have preliminarily formed the view that it may be advantageous for the future development of Ruisheng Tianhe (and thereby in the interest of all of the shareholders of Ruisheng Tianhe) for it to pursue the Proposed PRC Listing.

The Company considers it desirable for Ruisheng Tianhe to pursue a separate listing of its shares on a PRC domestic stock exchange and that it is customary for founding shareholders of companies to be listed on domestic markets to have a higher equity interest than the current interests held by the founding shareholders of Ruisheng Tianhe. The Disposal will further align the interests of the Minority Shareholders with those of the Company and, in particular, enhance their incentives to work assiduously towards consummating a successful listing of Ruisheng Tianhe on a domestic PRC stock exchange.

On the other hand, should the Clawback Provision be triggered due to Ruisheng Tianhe's failure to (i) file an application with the Relevant PRC Authorities for the Proposed PRC Listing by December 31, 2022 or (ii) consummate the Proposed PRC Listing within the specified timeframe under the Disposal Agreement, the Clawback Provision and the Acquisition Agreement will enable Meitu Networks to acquire all of the remaining equity interests in Ruisheng Tianhe held by the Minority Shareholders, thereby giving the Company further flexibility and absolute control over the business and financial affairs of Ruisheng Tianhe. In the event that Ruisheng Tianhe becomes a wholly-owned subsidiary of Meitu Networks, the Company will direct the future development of Ruisheng Tianhe to complement the businesses of the Group.

In the meantime, should Ruisheng Tianhe be able to secure strategic investors to invest in Ruisheng Tianhe resulting in cash in-flows to Ruisheng Tianhe, thereby increasing the net asset value of Ruisheng Tianhe, Meitu Networks and the Minority Shareholders may negotiate in good faith and enter into a supplemental agreement to adjust the Acquisition Consideration and amend other relevant terms of the Acquisition Agreement to reflect such change in the valuation of Ruisheng Tianhe and the shareholding structure of Ruisheng Tianhe. Any such supplemental agreement will be subject to the compliance with the applicable requirements of the Listing Rules (including but not limited to the publication of a supplemental announcement (where required), among other applicable requirements).

As of the date of this announcement, no specific actions have been taken with respect to a potential separate listing of Ruisheng Tianhe on a domestic PRC stock exchange. Any such separate listing of Ruisheng Tianhe would be subject to compliance with applicable requirements of Practice Note 15 of the Listing Rules as well as approval from applicable PRC regulatory authorities, among other requirements. Investors are therefore cautioned that any such separate listing of Ruisheng Tianhe may or may not proceed and should exercise caution in dealing in the securities of the Company.

Given that the Disposal is subject to the Clawback Provision, which once triggered, would require the Minority Shareholders to sell back to Meitu Networks (and Meitu Networks to repurchase from the Minority Shareholders) the Disposal Equity Interest at the same consideration as the Disposal Consideration plus 5% compound interest per annum to reflect the cost of capital and that the likelihood of the Clawback Provision being triggered remains uncertain as at the date of this announcement, it is currently expected that the Group will not record any gain or loss in respect of the Disposal for the year ending December 31, 2020, assuming completion of the Disposal will occur on or before December 31, 2020 and subject to final audit by the Company's auditors.

The Company will closely monitor the progress of the Proposed PRC Listing and ensure that appropriate accounting treatment and recognition will be reflected in the Group's financial statements going forward should the probability of the Clawback Provision being triggered could be reasonably estimated.

The above estimated financial impact is shown for illustrative purposes only and the final financial effects of the Disposal will be subject to audit and may vary from the current estimation.

The Directors intend to apply the net proceeds from the Disposal as general working capital and/or for other investment opportunities when they arise.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal and the Acquisition are fair and reasonable and on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

None of the Directors has any material interests in the transactions contemplated under the Disposal Agreement and the Acquisition Agreement. As such, no Directors were required to abstain from voting on the Board resolution in approving the transactions contemplated under the Disposal Agreement and the Acquisition Agreement.

LISTING RULES IMPLICATIONS

As Ms. Liu Na is interested in approximately 14.39% equity interest in Ruisheng Tianhe, hence a substantial shareholder of Ruisheng Tianhe, and she currently serves as a director and the legal representative of Ruisheng Tianhe, while Ms. Chen Xi has served as a director of Ruisheng Tianhe within 12 months immediately prior to the date of this announcement, Ms. Liu Na and Ms. Chen Xi are therefore connected persons of the Company at a subsidiary level. The transactions contemplated under the Disposal and the Acquisition constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Disposal and the Acquisition exceed 0.1% but are all less than 5%, the Disposal and the Acquisition are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INFORMATION ABOUT THE PARTIES

The Group (including Meitu Networks) is principally engaged in the provision of online advertising and other Internet value-added services by offering a portfolio of innovative photo and community apps (the “**Meitu Apps**”) that enjoys popularity in the PRC and overseas.

The Minority Shareholders are founding shareholders of Ruisheng Tianhe experienced in the fields of media agency, gaming and consumer goods, and are actively involved in the management and daily operations of Ruisheng Tianhe.

Ruisheng Tianhe is a private company that has engaged in the provision of advertising services and has taken steps to diversify into the game publishing business in the PRC and integrate the game publishing business with its advertising business once a suitable game is identified and any other required permits have been obtained.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Ms. Liu Renying and Ms. Luo Huifang are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

The audited net profit of Ruisheng Tianhe for the years ended December 31, 2018 and 2019, and the audited net asset value of Ruisheng Tianhe as at December 31, 2019, in accordance with international financial reporting standards, were approximately:

	For the year ended December 31, 2018	For the year ended December 31, 2019
Net profit before taxation	RMB46,127,000 (equivalent to approximately HK\$54,750,000)	RMB9,490,000 (equivalent to approximately HK\$11,264,000)
Net profit after taxation	RMB39,952,000 (equivalent to approximately HK\$47,421,000)	RMB7,501,000 (equivalent to approximately HK\$8,903,000)
		As at 31 December 2019
Net assets		RMB148,514,000 (equivalent to approximately HK\$176,278,000)

The net asset value of Ruisheng Tianhe as at June 30, 2020 based on its management accounts in accordance with international financial reporting standards was approximately RMB160,002,000 (equivalent to approximately HK\$189,913,000).

DEFINITIONS

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

“Acquisition”	the acquisition of approximately 19.81% equity interest in Ruisheng Tianhe by Meitu Networks from the Minority Shareholders pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the shareholding arrangement agreement dated December 25, 2020, entered into between Meitu Networks and the Minority Shareholders in relation to the Acquisition
“Acquisition Consideration”	the aggregate consideration for the Acquisition payable by Meitu Networks to the Minority Shareholders pursuant to the terms and conditions of the Acquisition Agreement
“Board”	the board of Directors
“Company”	Meitu, Inc. (Stock Code: 1357), a company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission of the PRC
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of approximately 14.86% equity interest in Ruisheng Tianhe by Meitu Networks to the Minority Shareholders pursuant to the terms of the Disposal Agreement
“Disposal Agreement”	the equity transfer agreement dated December 25, 2020, entered into between Meitu Networks and the Minority Shareholders in relation to the Disposal
“Disposal Consideration”	the aggregate consideration of RMB7,690,039.47 (equivalent to approximately HK\$9,127,643.29) payable by the Minority Shareholders to Meitu Networks pursuant to the Disposal Agreement

“Disposal Equity Interest”	the approximately 14.86% equity interest in Ruisheng Tianhe to be disposed of by Meitu Networks to the Minority Shareholders pursuant to the Disposal Agreement
“Group”	the Company and its subsidiaries, together with Meitu Networks and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Meitu Networks”	Xiamen Meitu Networks Technology Co., Ltd.(廈門美圖網絡科技有限公司)(formerly known as Xiamen Shuzi Qingyuan Networks Technology Co. Ltd.(廈門數字情緣網絡科技有限公司)and Xiamen Networks Zhiyuan Xinxi Technology Co. Ltd (廈門網之源信息科技有限公司)), a company established in the PRC on June 18, 2003, owned by Mr. Wu as to 51% and Ms. Cai Shuting as to 49% as at the date of this announcement
“Minority Shareholders”	the minority shareholders of Ruisheng Tianhe holding approximately 19.81% equity interests in Ruisheng Tianhe before the Disposal and the Acquisition, namely, Ms. Liu Na (as to approximately 14.39%), Ms. Chen Xi (as to approximately 2.59%), Ms. Liu Renying (as to approximately 1.00%) and Ms. Luo Huifang (as to approximately 1.83%)
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Ruisheng Tianhe”	Ruisheng Tianhe (Beijing) Media and Technology Co., Ltd.*(睿晟天和(北京)傳媒科技有限公司, formerly known as Ruisheng Advertising (Beijing) Co., Ltd.*(睿晟廣告(北京)有限公司)), a non-wholly owned subsidiary of Meitu Networks as to approximately 80.19%

“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.00001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“%”	Percent

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB0.8425. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

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

Hong Kong, December 25, 2020

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, Dr. Lee Kai-fu and Mr. Chen Jiarong; the independent non-executive directors of the Company are Mr. Zhou Hao, Mr. Lai Xiaoling, Mr. Zhang Ming (also known as Mr. Wen Chu) and Ms. Kui Yingchun.