

**MEITU INCORPORATED:
THIS COMPANY HAS HUNG ITS HAT
ON THE SALES OF MOBILE TELEPHONES**

Meitu Incorporated () (Code: 1357, Main Board, The Stock Exchange of Hongkong Ltd) has never earned a penny over the past 42 months, ended June 30, 2016, but, nevertheless, it came to the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) in the hope of bagging nearly \$HK5 billion.

And it succeeded.

On scanning the Company's Global Offering Prospectus, dated December 5, 2016, it pulled off this dream because, inter alia, it, already, had commitments from two Cornerstone (corporate) Investors that had promised to contribute about \$HK1.24 billion to this cash-raising exercise.

This Company is just eight years old.

The Initial Public Offering (IPO) Of Meitu Incorporated

Management of Meitu Incorporated Offered a total of 574 million, \$US0.00001 Shares at the Indicative Offer Price Per Share, ranging from a low of \$HK8.50 to a high of \$HK9.60.

HKSAR Investors were Offered 57.40 million Shares and the remaining 516.60 million Shares were reserved for International Investors.

At Pages 278 and 279 of the Global Offering Prospectus, one was told how the net proceeds of this IPO were intended to be utilised by Management.

These two Pages stated:

'The aggregate net proceeds that we expect to receive from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$9.05 per Share, being the mid-point of the indicative range of the Offer Price of HK\$8.50 to HK\$9.60 per Share) will be approximately HK\$4,988 million. We will bear the underwriting commissions, SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the Global Offering ... Our Directors intend to apply the net proceeds from the Global Offerings as follows:

'(a) approximately HK\$1,446 million (equivalent to approximately RMB1,283 million, representing 29.0% of the net proceeds) is expected to be used over the next two years to continue the expansion of our smart hardware business by expanding our component and raw material sourcing capacity, with a view to producing more smartphones and other smart hardware. We expect that substantially all of the proceeds for this purpose will be used as working capital for component and raw material sourcing and hiring additional personnel. We currently plan to launch at least one new smartphone model for each of the first and second halves of 2017;

- ‘(b) approximately HK\$1,127 million (equivalent to approximately RMB1,000 million, representing 22.6% of the net proceeds) is expected to be used over the next two to four years for making additional strategic investments and acquisitions in cash alone or in combination with equity. We plan to continue to invest in or acquire businesses that are complementary to our business, such as: (i) businesses that possess cutting-edge technologies such as machine learning, computer vision, virtual reality, augmented reality, big data analytics and other technologies related to our business; (ii) businesses with proven monetization models in Internet services, including but not limited to advertising, e-commerce and IVAS (Internet Value-Added Services), that synergize with our plans to continue monetizing our user base; (iii) companies that operate apps or social communities with meaningful user bases; and (iv) companies that own quality entertainment intellectual property or produce quality video content, such as production houses, which can enrich our content and entertainment offerings;*
- ‘(c) approximately HK\$982 million (equivalent to approximately RMB871 million, representing 19.7% of the net proceeds) is expected to be used over the next two years to continue to implement our sales and marketing initiatives to expand our user base overseas and increase user engagement in China, including but not limited to launching online viral marketing campaigns, hosting product launch events and engaging KOLs (Key Opinion Leader) and/or celebrities to promote our brand, as well as our smart hardware products and Internet services, in both China and overseas markets. We also plan to hire additional sales and marketing personnel to achieve this purpose. We expect that approximately 30%, 60% and 10% of the proceeds for this purpose will be used to promote our smart hardware products, Internet services business and our brand, respectively;*
- ‘(d) approximately HK\$654 million (equivalent to approximately RMB580 million, representing 13.1% of the net proceeds) is expected to be used over the next two to three years to continue the expansion of our Internet services business, including but not limited to purchasing more servers and increasing bandwidth capacity, leasing additional office space and hiring additional personnel. We expect that approximately 35% of the proceeds for this purpose will be capital expenditure for the purchase of additional servers, computers and office equipment, as well as renovations of any newly leased office space in the future. The remaining proceeds will be used as working capital for the payment of bandwidth and server custody fees and operating expenses, of which approximately 30%, 40% and 30% of the proceeds will be allocated to online advertising, e-commerce and IVAS, respectively. We currently plan to start rolling out an upgraded advertising platform by the end of 2016 to offer more comprehensive and innovative advertising solutions and increased advertising inventory to business partners;*
- ‘(e) approximately HK\$327 million (equivalent to approximately RMB290 million, representing 6.6% of the net proceeds) is expected to be used over the next two years to continue to expand our research and development capabilities, including but not limited to hiring engineers, data scientists and analysts and acquiring technology-related intellectual property. We expect that approximately 20% of the proceeds for this purpose will be expended on research and development for our smart hardware products, while the remaining proceeds will be used on research and development for our Internet services business; and*
- ‘(f) approximately HK\$451 million (equivalent to approximately RMB400 million, representing 9.0% of the net proceeds) is expected to be used for general working capital purposes.’*

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