

# 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  
Global Offering



Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Morgan Stanley

CREDIT SUISSE

CMS 招商证券

Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

建银国际  
CCB International

Joint Bookrunners and Joint Lead Managers

招銀国际  
CMB INTERNATIONAL

UBS

AMTD 尚乘

廣發證券(香港)經紀有限公司  
GF SECURITIES HONGKONG BROKERAGE LIMITED

Joint Lead Managers

聯合證券有限公司  
HEAD & SHOULDERS SECURITIES LIMITED

富途證券  
WWW.FUTUS.COM

## IMPORTANT

**IMPORTANT:** If you are in doubt about any of the contents of this prospectus, you should obtain independent professional advice.

# 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”)

### GLOBAL OFFERING

<b>Number of Offer Shares under the Global Offering</b>	<b>: 574,000,000 Shares (subject to reallocation and the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 57,400,000 Shares (subject to reallocation)</b>
<b>Number of International Offering Shares</b>	<b>: 516,600,000 Shares (subject to reallocation and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>: HK\$9.60 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)</b>
<b>Nominal Value</b>	<b>: US\$0.00001 per Share</b>
<b>Stock Code</b>	<b>: 1357</b>

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

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Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed “Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection” in this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Our Company is incorporated under the laws of the Cayman Islands and substantially all of our businesses are located in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the Cayman Islands, the PRC and Hong Kong and that there are different risk factors relating to the investment in our Company. Potential investors should also be aware that the regulatory frameworks in the Cayman Islands and the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed “Risk Factors” and “Regulations” in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of, any U.S. person, except that Offer Shares may be offered or sold to qualified institutional buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, December 8, 2016 and, in any event, not later than Wednesday, December 14, 2016, or such other date as agreed between parties. The Offer Price will be no more than HK\$9.60 per Offer Share and is currently expected to be no less than HK\$8.50 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, December 14, 2016, or such other date as agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor), the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed “Risk Factors” in this prospectus.

The Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [corp.meitu.com](http://corp.meitu.com) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, please refer to the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus.

December 5, 2016

\* Incorporated in the Cayman Islands under the name of “Meitu, Inc. 美图公司” and carrying on business in Hong Kong as “美图之家”

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## EXPECTED TIMETABLE

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*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in English in South China Morning Post and in Chinese in Hong Kong Economic Times.*

Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> .....	11:30 a.m. <sup>(1)</sup> on Thursday, December 8, 2016
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Thursday, December 8, 2016
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> application forms .....	12:00 noon on Thursday, December 8, 2016
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Thursday, December 8, 2016
Latest time to complete payment of <b>White Form eIPO</b> applications by effecting Internet banking transfers or PPS payment transfer(s) .....	12:00 noon on Thursday, December 8, 2016
Application lists of the Hong Kong Public Offering close .....	12:00 noon on Thursday, December 8, 2016
Expected price determination date <sup>(5)</sup> .....	Thursday, December 8, 2016
(1) Announcement of:	
• the Offer Price;	
• the level of applications in Hong Kong Public Offering;	
• an indication of the level of interest in the International Offering; and	
• the basis of allocation of the Hong Kong Offer Shares,	
to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our Company at <a href="http://corp.meitu.com">corp.meitu.com</a> on or before <sup>(6)</sup> .....	Wednesday, December 14, 2016
(2) Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <sup>(7)</sup> and our Company at <a href="http://corp.meitu.com">corp.meitu.com</a> <sup>(8)</sup> (see "How to Apply for Hong Kong Offer Shares — Publication of Results" from .....	Wednesday, December 14, 2016
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our Company's website at <a href="http://corp.meitu.com">corp.meitu.com</a> from .....	Wednesday, December 14, 2016
Results of allocations in the Hong Kong Public Offering will be available at <a href="http://www.iporesults.com.hk">www.iporesults.com.hk</a> with a "search by ID" function .....	Wednesday, December 14, 2016
Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(6)</sup> .....	Wednesday, December 14, 2016
Dispatch of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful application to be posted on or before <sup>(9)</sup> .....	Wednesday, December 14, 2016
Dealings in Shares on the Stock Exchange expected to commence on .....	Thursday, December 15, 2016

*Notes:*

(1) All times refer to Hong Kong local time, except as otherwise stated.

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## EXPECTED TIMETABLE

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- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Thursday, December 8, 2016, the application lists will not open on that day. See “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather Conditions on the Opening of the Application Lists”.
- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Thursday, December 8, 2016 and, in any event, no later than Wednesday, December 14, 2016, or such other date as agreed between parties. If, for any reason the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) by Wednesday, December 14, 2016, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.
- (6) Share certificates are expected to be issued on Wednesday, December 14, 2016 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Thursday, December 15, 2016. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [corp.meitu.com](http://corp.meitu.com).
- (8) None of the websites or any of the information contained on the website forms part of this prospectus.
- (9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.



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### IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

*This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.*

*We are a company incorporated in the Cayman Islands with limited liability under the name “Meitu, Inc. 美图公司”. We were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance and we carry on business in Hong Kong as “美图之家” (in Chinese) as approved by and registered with the Registrar of Companies in Hong Kong. We are not in any way connected with or related to 美图有限公司 (Import Export Metro Limited), a company incorporated in Hong Kong, or any of its associates.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this prospectus.*

### OVERVIEW

We have been transforming the way our users create and share beauty. We offer a portfolio of innovative photo and community apps that enjoys popularity in China and overseas and precipitated the selfie phenomenon in China. Our apps had been activated on over 1.1 billion unique devices in China and overseas as of October 31, 2016. We repeatedly ranked among the top eight iOS non-game app developers globally as measured in number of downloads from June 2014 through October 2016, along with global Internet giants Alibaba, Apple, Baidu, Facebook, Google, Microsoft and Tencent, according to App Annie Inc., or App Annie, a globally recognized app analytics company and an independent third party. To better meet our users’ needs for high-quality selfies, in 2013, we launched Meitu smartphones specifically designed for selfie-taking, which represented our first major monetization initiative. Revenue from our smart hardware segment, which primarily comprises Meitu smartphones, represented 59.7%, 87.8%, 89.9% and 95.1% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

We view ourselves as a mobile Internet company with a massive, active and fast-growing user base as our core asset. Our apps engaged approximately 456 million MAUs in October 2016. We developed our apps to enable users to easily and conveniently edit and enhance their photos and videos as well as share the created content on social media. Our apps have become an integral part of our users’ social lives online. In October 2016, our users generated approximately 6.0 billion photos across our core photo apps. Approximately 53.5% of the photos posted on major social networks in China were processed by our apps, according to a survey conducted by iResearch in June 2016. We have also built a vibrant video and live streaming community on *Meipai*. *Meipai* attracted approximately 110 million MAUs in October 2016, and enjoyed increasing user engagement, with average daily time spent per *Meipai* in-app user growing from 12.9 minutes in May 2014, when *Meipai* was first launched, to 33.8 minutes in October 2016. As of October 31, 2016, *Meipai* users had uploaded over 490 million videos with diverse subject matters. We aim to leverage our success with *Meipai* to transform our core photo apps into social communities to further improve user engagement and stickiness.

We have built strong brand recognition and user loyalty through our apps, contributing to our success both in China and overseas. As of October 31, 2016, we have attracted over 430 million overseas users, including at least one million total users from each of 26 overseas countries and regions and in particular, over 10 million total users from each of Brazil, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam. Building on the success of our apps, we have gathered large volumes of user behavior data, and such proprietary data insights have been instrumental in maintaining our cutting-edge technology and developing and continually optimizing our products and services.

### Net Losses, Accumulated Losses and Net Liabilities

We had a net loss of RMB25.8 million, RMB1.8 billion, RMB2.2 billion, RMB1.3 billion and RMB2.2 billion for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. Excluding the impact of fair value loss of the Preferred Shares and share-based payments, we had adjusted net loss of RMB2.3 million, RMB112.3 million and RMB710.5 million for the years ended December 31, 2013, 2014 and 2015, respectively, and RMB290.4 million and RMB257.6 million for the six months ended June 30, 2015 and 2016, respectively. See “Financial Information — Consolidated Income Statement” and “Financial Information — Non-IFRS Measure: Adjusted Net Loss”. As of June 30, 2016, we had an accumulated loss of RMB6.3 billion, primarily due to our accumulated fair value loss of the Preferred Shares of RMB5.1 billion as of June 30, 2016. Excluding the impact of our accumulated fair value loss of the Preferred Shares of RMB5.1 billion and share-based payments of RMB75.4 million, our adjusted accumulated loss would have been RMB1.1 billion as of June 30, 2016. We expect to remain loss-making for the years ending December 31, 2016 and 2017.

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## SUMMARY

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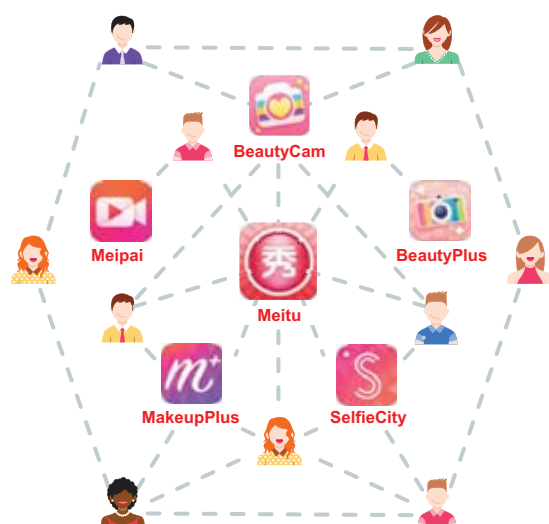
Subject to compliance with our Articles of Association, our Company may declare and pay dividends out of our profits or share premium account provided that immediately following the date on which the dividend is proposed to be paid, our Company is able to pay its debt as they fall due in the ordinary course of business. While we may declare and pay dividends out of our share premium account despite our accumulated losses, accumulated losses in our Company may limit the amount of dividends that we may declare and distribute as compared to when we make a profit, in the event that a dividend is declared. Our Board has absolute discretion as to whether to declare any dividend for any year, and in what amount. The declaration, payment and amount of any future dividends will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant. We currently plan to continue to focus on business growth and do not expect to declare any dividend in the near future.

As of June 30, 2016, we had net liabilities of RMB6.6 billion. Excluding the liabilities of the Preferred Shares of RMB8.6 billion as of June 30, 2016, our adjusted net assets would have been RMB2.0 billion. All the Preferred Shares will be converted into ordinary shares of the Company upon the Global Offering becoming unconditional and prior to the completion of the Global Offering, and the liabilities of the Preferred Shares of RMB8.6 billion as of June 30, 2016 will be derecognized and accounted for as an increase in equity upon the Listing and Global Offering. Assuming an Offer Price of HK\$8.50 per Share, being the low-end of the indicative Offer Price range, and estimated net proceeds of HK\$4.7 billion (equivalent to approximately RMB4.2 billion) for this Offering, upon the Listing and Global Offering, our net tangible assets attributable to owners of the Company would be RMB6.2 billion. Assuming an Offer Price of HK\$9.60 per Share, being the high-end of the indicative Offer Price range, and estimated net proceeds of HK\$5.3 billion (equivalent to approximately RMB4.7 billion) for this Offering, upon the Listing and Global Offering, our net tangible assets attributable to owners of the Company would be RMB6.8 billion.

### Our Business Model

Our business model is to initially focus on engaging a large user base with innovative products and services free of charge, followed by the implementation of various monetization strategies when we reach significant scale. We believe as long as our monetization strategies are based on products and services that are relevant to our users, we will be well-positioned to create value for our business, users and business partners. For example, with our insights into users' needs to take high-quality selfies, we launched our Meitu smartphone business in 2013. The sale of smartphones has been the primary driver for the rapid growth of our revenue during the Track Record Period. Set forth below is an illustration of our business model.

#### 1 Accumulate and Connect Users through a Portfolio of Free Products and Services



#### 2 Monetize Our User Base through Different Monetization Models



We operate two business segments: (i) smart hardware and (ii) Internet services and others. At present, the smart hardware segment primarily comprises the sale of Meitu smartphones, while the Internet services and others segment primarily comprises online advertising and the sale of virtual items on *Meipai* and in our mobile game.

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## SUMMARY

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### *Smart Hardware*

We currently design and develop Meitu smartphones and subcontract smartphone manufacturing to contract manufacturers. Our contract manufacturers generally manufacture smartphones using components and materials primarily sourced and procured by us. To better expand Meitu smartphones' market share and geographic coverage, we primarily sell most of the smartphones to strategically selected online and offline distributors and retailers. As of June 30, 2016, we had seven distributors in China, Hong Kong, Macau and Taiwan, and seven retailers in China.

We currently offer two series of Meitu smartphones, the flagship M series and the premium V series. Both series are designed to enable users to easily snap flattering selfies, with differences in screen size and design, but each series targets a different demographic. Meitu smartphones are priced to reflect product cost, anticipated demand, income level of target users, prices of competing products, changes in the mix of sales channels and past sales volume of previous models, among other considerations. The average selling price of our smartphones ranged from approximately RMB1,500 to RMB2,000 during the Track Record Period. For further details, see "Business — Suppliers and Procurement" and "Financial Information — Description of Major Components of Our Results of Operations — Revenue — Smart Hardware".

### *Internet Services and Others*

Our photo and community apps are user-friendly products created around a core design philosophy of "smart and simple". As of October 31, 2016, we had six core apps, including core photo apps *Meitu*, *BeautyCam*, *BeautyPlus*, *SelfieCity* and *MakeupPlus* and a video and live streaming community app *Meipai*. For in-app advertising, we currently charge for display-based advertisements on a cost-per-time fixed price basis, calculated based on the length of display time. We began generating revenue from IVAS sales in our mobile game, *Beauty Box*, since its launch in April 2016, and on *Meipai* since June 2016. For further details, see "Financial Information — Description of Major Components of Our Results of Operations — Revenue — Internet Services and Others".

### *Monetization Opportunities*

We expect to continue to expand smartphone sales with our strong image optimization expertise, while broadening monetization efforts and serving our users' beauty-related needs in more diverse ways, including:

- *Smart hardware.* In the near-term, we intend to continue to develop and launch new models and expand smartphone sales. China's smartphone market presents significant opportunities, with approximately 457 million smartphone units shipped in 2015, according to the Frost & Sullivan Report. We expect to incur research and development expenses of no more than RMB63 million in the year ending December 31, 2017 to develop new smartphone models and other smart hardware.
- *Online advertising.* Our popular apps present significant advertising opportunities, especially for advertisers in female-related sectors such as luxury goods, cosmetics and fast-moving consumer goods, as the majority of our user base is female whom we believe appreciate beauty. The online advertising market for female-related goods in particular presents significant potential, with online advertising spending for cosmetics, skin care and personal care in China reaching RMB33.7 billion in 2015 and expected to reach an estimated RMB125.1 billion in 2020, according to the Frost & Sullivan Report. In addition, mobile advertising in China reached RMB91.2 billion in 2015 and is expected to reach RMB468.9 billion in 2020, according to the Frost & Sullivan Report. We plan to leverage our proprietary technologies and big data analytical capabilities to further optimize our advertising infrastructure and offer more comprehensive and creative advertising solutions. While the majority of the expenditure to be incurred on developing our online advertising business will be operating expenses, we expect to incur capital expenditure of no more than RMB10 million in the year ending December 31, 2017 to optimize our advertising infrastructure.
- *E-commerce.* We plan to launch a social e-commerce platform that operates primarily under an agency model, which would enable users to enjoy easy online shopping for authentic, branded, fashion-related merchandise. According to the iResearch Report, the gross merchandise volume, or GMV, of China's online retail market was RMB3.8 trillion in 2015 and is expected to reach RMB10.5 trillion in 2020. We expect to incur capital expenditure of no more than RMB41 million and operating expenses of no more than RMB176 million in the year ending December 31, 2017 for the launch of our social e-commerce platform.
- *Internet value-added services.* *Meipai* users can access content and interact with live streaming hosts, content creators and other users for free or send them paid virtual gifts. We share a portion of such IVAS revenue with hosts and content creators who receive such gifts, incentivizing them to create additional quality content. Based on our current business plans, we expect to continue to share IVAS revenue with



## SUMMARY

live streaming hosts and short-form video content creators on *Meipai*. In addition to such revenue-sharing fees, we plan to pay fixed fees of no more than RMB30 million in the year ending December 31, 2017 to engage celebrities to create live streaming or short-form video content, with the primary objective of further increasing user activities on *Meipai* and our other apps. These fixed fees paid to celebrities are accounted for as selling and marketing expenses.

See the section headed “Future Plans and Use of Proceeds” for a discussion of the planned allocation of the net proceeds from the Global Offering among our monetization initiatives.

We currently operate two business segments: (i) smart hardware and (ii) Internet services and others. Our revenue from each of these segments is set forth as follows:

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,	
	2013		2014		2015		2015		2016		2016 <sup>(1)</sup>	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)											
	(unaudited)											
Smart Hardware .....	51,305	59.7	428,360	87.8	667,122	89.9	138,780	76.8	556,847	95.1	609,569	97.1
Internet Services and Others .....	34,572	40.3	59,689	12.2	74,691	10.1	41,820	23.2	28,630	4.9	18,500	2.9
<b>Total</b> .....	<u>85,877</u>	<u>100.0</u>	<u>488,049</u>	<u>100.0</u>	<u>741,813</u>	<u>100.0</u>	<u>180,600</u>	<u>100.0</u>	<u>585,477</u>	<u>100.0</u>	<u>628,069</u>	<u>100.0</u>

Note:

- (1) The revenues for the third quarter of 2016 as set forth in the above table are derived from our condensed consolidated financial information for the three months ended September 30, 2016, which has been reviewed by our Reporting Accountant, PricewaterhouseCoopers.

Gross profit from our smart hardware segment was RMB18.4 million, RMB55.6 million, RMB125.2 million and RMB108.7 million for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. For our Internet services and others segment, we had gross profit of RMB31.2 million and RMB31.1 million for the years ended December 31, 2013 and 2014, respectively, and gross loss of RMB24.7 million and RMB34.2 million for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively. The gross loss of the Internet services and others segment for the year ended December 31, 2015 and the six months ended June 30, 2016 was due to the fact that RMB91.6 million, or 92.1%, and RMB57.7 million, or 91.8%, respectively, of the segment costs were attributable to *Meipai*, which did not generate significant revenue during the indicated periods and only began generating IVAS revenue in June 2016. The gross margin for the smart hardware segment was 35.8%, 13.0%, 18.8% and 19.5% for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The gross margin for the Internet services and others segment was 90.3% and 52.0% for the years ended December 31, 2013 and 2014, respectively, and gross loss margin was 33.0% and 119.5% for the Internet services and others segment for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively. The gross loss margin for the Internet services and others segment for the year ended December 31, 2015 and the six months ended June 30, 2016 was primarily due to bandwidth and server custody fees associated with *Meipai*, which engaged a growing number of users but only started to generate revenue in June 2016.

Substantially all of the revenues from the Internet services and others segment were online advertising revenues generated from our photo apps, *Meitu* and *BeautyCam*, during the Track Record Period. We expect to generate profits from the Internet services and others segment when the advertisements placed on our apps, virtual items sold on *Meipai* and *Beauty Box*, and the sales volume of merchandise sold on our proposed e-commerce platform reach a level that is sufficient to cover the associated costs and expenses.

We have taken and will continue to take appropriate steps to implement our monetization initiatives:

- *Smart hardware*. We plan to continue to develop and launch stylish smartphones that are optimized for taking high-quality selfies. We currently plan to launch at least one new smartphone model for each of the first and second halves of 2017, each of which will continue to be targeted at users that pursue high-quality selfies. With approximately 75% of Meitu smartphone users being Meitu app users prior to their purchases of Meitu smartphones, according to a survey that we conducted in August 2016, we believe that a large user base could potentially drive additional Meitu smartphone sales. We also plan to launch a digital single-lens reflex/mirrorless digital camera with built-in photo and video editing and sharing functions in 2017.

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## SUMMARY

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- *Online advertising.* We currently plan to start rolling out an upgraded advertising platform by the end of 2016, which would offer more comprehensive and innovative advertising solutions with increased advertising inventory available to our advertising customers.
- *E-commerce.* We expect to launch a social e-commerce marketplace platform in the first half of 2017. As of the date of this prospectus, we have built a team for engaging brands, brands' official distributors and KOLs for our proposed social e-commerce platform, and have hired additional research and development personnel to develop our e-commerce platform.
- *Internet value-added services.* In June 2016, we started offering paid virtual gifts and emoji to *Meipai* users to promote better interaction with our live streaming hosts and short-form video creators. We also launched our first mobile game, *Beauty Box*, in April 2016, from which we started to generate IVAS revenue through the sale of virtual items.

Please refer to “Business — Our Strategies — Increase monetization while creating value for our users” for further details regarding the implementation plans for our monetization initiatives.

### OUR INDUSTRIES AND COMPETITIVE LANDSCAPE

#### *Mobile Internet*

Globally, the mobile Internet adoption rate has grown rapidly, presenting significant growth potential for mobile Internet-related businesses. According to the Frost & Sullivan Report, as of December 31, 2015, China had 619.8 million mobile Internet users, which represented 45.1% of the total population. In addition, photo and video apps have grown increasingly popular in recent years. According to the iResearch Report, social networking and video sharing and viewing were among the most popular activities on mobile Internet in China.

#### *Photo Apps*

Photo apps have become an increasingly integral part of people's social lives online. According to the iResearch Report, China's photo app market size as measured in annual average MAUs was 226.7 million in 2015 and is expected to be 714.6 million in 2020. According to the same report, in June 2016, approximately 70.5% of social network users in China shared at least one photo per week, and approximately 21.3% of people who had shared photos on social networks in China indicated that they used photo apps to enhance photos every time before sharing them on social networks, while 40.6% indicated that they processed photos in a majority of instances before they shared such photos. In addition, the iResearch Report states that the top photo apps in China as measured by the average MAUs for the ten months ended October 31, 2016 included *BeautyCam* (美顏相機), *Meitu* (美圖秀秀), Tencent's *Pitu* (天天P圖), *Camera360* (相機360) and *MakeupPlus* (美妝相機), among which *BeautyCam*, *Meitu* and *MakeupPlus* ranked first, second and fifth, respectively.

#### *Short-form Video Platforms*

In recent years, short-form videos became increasingly popular because they require relatively limited time commitment and bandwidth and data usage. The rapidly expanding short-form video market in China is generally viewed as being at an early development stage with significant growth potential. According to the iResearch Report, China's short-form video platform market size as measured by the number of annual average monthly active devices was 301.2 million in 2015, and is expected to reach 577.2 million in 2020. According to the same report, China's top short-form video platforms, as measured by the number of average monthly active devices that accessed the relevant short-form video platform's own app for the ten months ended October 31, 2016, included *Kwai* (GIF快手), *Meipai* (美拍), *VivaVideo* (小影), *Miaopai* (秒拍) and *Xiaokaxiu* (小咖秀), among which *Meipai* ranked second. Popular short-form video platforms are also able to provide a range of services, such as online advertising, e-commerce opportunities and live streaming, to both their users and business partners.

#### *Smartphones*

Historically, a significant majority of our revenue came from smartphone sales. Smartphone shipments in China amounted to approximately 457 million units in 2015 and are expected to increase to approximately 652 million units in 2020, representing a CAGR of 7.4% from 2015, according to the Frost & Sullivan Report. As we specialize in smartphones designed for high-quality selfies, we believe that we are most comparable with other developers of smartphones designed for specialized uses, such as smartphones with particularly high megapixel cameras, integrated

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## SUMMARY

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with sophisticated image processing capabilities for which no market share data is available. See the section headed “Industry Overview” for more information on our industries and competitive landscape.

### OUR MISSION AND VISION

Our mission is to make the world a more beautiful place. Our vision is to build an ecosystem around beauty and make everyone a user of Meitu products.

### OUR COMPETITIVE ADVANTAGES

We believe that the following competitive advantages have contributed to our success to date:

- Large and increasingly engaged user base;
- Proprietary data insights and leading technological capabilities;
- Strong brand recognition;
- Established track record of successful products;
- Strong platform synergies;
- Ability to attract overseas users;
- Proven success in monetization; and
- Visionary and passionate management team with proven track record.

For detailed discussions of these competitive advantages, see “Business — Our Competitive Advantages”.

### OUR STRATEGIES

We plan to further implement the following strategies:

- Expand our global user base;
- Connect our users;
- Facilitate content creation and sharing;
- Increase monetization while creating value for our users;
- Further develop data insights and technology capabilities; and
- Pursue strategic investments and acquisitions.

For detailed discussions of these competitive strategies, please refer to “Business — Our Strategies”.

### OUR CUSTOMERS

Our customers primarily consist of smartphone distributors and retailers and advertising customers. Our largest customer accounted for approximately 11.5%, 65.3%, 45.1% and 50.5% of our revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our largest customer for the year ended December 31, 2013 was an advertising customer, while our largest customer for each of the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016 was a smartphone distributor or retailer. Our top five customers accounted for approximately 26.8%, 74.2%, 78.0% and 68.8% of our revenue for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We regard our business relationships with our top five customers as stable, having maintained our business relationships with our top smartphone distributors and retailers for two to three years on average, and with our top advertising customers for two to four years on average as of June 30, 2016.

As of June 30, 2016, Mr. Cai, our founder and the Chairman, indirectly owned approximately 4.4% of the total equity of Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司), a smartphone distributor which was one of our top five customers for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016. Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司) wholly owns Jiangsu Liangjin Information Technology Co., Ltd. (江蘇良晉信息技術有限公司), a smartphone distributor which was one of our top five customers for the year ended December 31, 2015 and the six months ended June 30, 2016. Other than the foregoing, during the Track Record Period, none of our Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our top five customers.

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## SUMMARY

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### OUR SUPPLIERS

We select suppliers based on their industry experience and reputation. Our suppliers primarily consist of:

*Contract Manufacturers.* We currently subcontract smartphone production to manufacturers that specialize in electronic devices. For smartphone models launched in 2013 and 2014, we engaged an original design manufacturer to design, develop and produce our smartphones. In April 2015, we changed our smartphone production model from original design manufacturing (ODM) to original equipment manufacturing (OEM), and started to engage FIH Mobile Limited, an indirect subsidiary of Hon Hai Precision Industry Co. Ltd., which is commonly known as Foxconn Technology Group (“**Foxconn**”), as our contract manufacturer. In early 2016, in line with industry practice, we started to engage another contract manufacturer to produce our smartphones to reduce reliance on a single manufacturer. Our contract manufacturers produce smartphones using components and materials primarily sourced and procured by us. As of the date of this prospectus, Foxconn indirectly owns 1.81% of our total issued and outstanding ordinary shares (assuming each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and assuming the options granted under the ESOP are not exercised).

*Suppliers for Smartphone Components and Materials.* The main components and materials used in the production of our smartphones, as measured by cost as a percentage of total cost of sales, include displays, processors, memory chips, and front and rear cameras. We aim to source each smartphone component from at least two suppliers, but certain components, including camera sensors and processors, are provided by a single supplier and may pose a supply disruption risk. We believe that our relationships with our suppliers are good. We have not experienced any major difficulties in obtaining adequate supplies of components to meet our production requirements during the Track Record Period. We seek to avoid shortages of components and materials by actively balancing our rolling smartphone demand forecast with our component stock levels. See “Business — Suppliers and Procurement” for more information.

*Data Storage and Bandwidth Providers.* We source servers from trustworthy suppliers with whom we have long-standing relationships. Our providers include: (i) server vendors, including original server manufacturers for trusted international brands and designated agents of server manufacturers; and (ii) bandwidth providers, who provide us with content delivery network services.

*App Distribution and User Acquisition Channels.* While we grew the majority of our user base in China organically, we also use third-party marketing channels to help expand our user base both in China and overseas. We usually work with app stores to promote our apps, either directly or through advertising agencies.

*Payment Channels.* We work with major third-party payment channels in China for smartphones sold on our online store as well as virtual items sold in our mobile game and on *Meipai*.

### RISK FACTORS

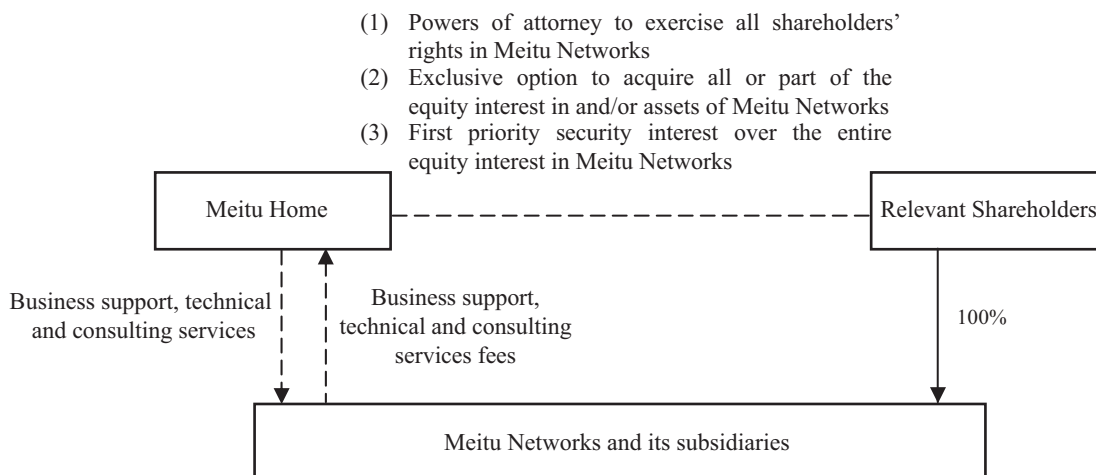
Our business and the Global Offering involve certain risks, which are set out in the section headed “Risk Factors”. You should read that section in its entirety carefully before you decide to invest in the Offer Shares. Some of the major risks we face include:

- We have a limited operating history in new and dynamic industries;
- Smartphone sales account for a significant portion of our revenues, and any decrease in such sales or any increase in the costs associated with such sales may materially and adversely affect our business;
- We may fail to grow or retain our user base, or our user engagement may cease to grow or decline;
- We are in the early stages of monetization and cannot guarantee that our monetization strategies will be successfully implemented or will generate sustainable revenue, profit or positive operating cash flows;
- We have incurred significant net losses and negative operating cash flows and had accumulated losses during the Track Record Period, and may not achieve profitability or generate positive operating cash flows;
- Risks relating to the agreements concerning the structure for operating parts of our business in China;
- We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our business; and
- We may fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in China, or we may be required to take compliance actions that are time-consuming or costly.

## SUMMARY

### CONTRACTUAL ARRANGEMENTS

The operation of our apps, website and mobile games and the provision of audio-visual program services to the public through our apps and websites are subject to foreign ownership restrictions under PRC laws and regulations. We therefore do not own any equity interest in Meitu Networks. In order to enable us to control the equity interest in Meitu Networks and its subsidiaries, we have adopted the Contractual Arrangements to maintain and exercise control over the operations of Meitu Networks and its subsidiaries. The Contractual Arrangements allow us to obtain the economic benefits of Meitu Networks and its subsidiaries and consolidate its results of operations into those of ours. Please refer to the section headed “Contractual Arrangements” for details. The following simplified diagram illustrates the flow of economic benefits from Meitu Networks to us under the Contractual Arrangements:



*Notes:*

“——→” denotes direct legal and beneficial ownership in the equity interest.

“- - - →” denotes contractual relationship.

### APPROVED NAME FOR CARRYING ON BUSINESS IN HONG KONG

We were incorporated in the Cayman Islands on July 25, 2013 as an exempted limited liability company. We were registered as a non-Hong Kong company with the Registrar of Companies in Hong Kong under Part 16 of the Companies Ordinance on September 26, 2016 and we carry on business in Hong Kong as “美圖之家” (in Chinese) as approved by and registered with the Registrar of Companies on October 28 and November 7, 2016, respectively. We are not in any way connected with or related to 美圖有限公司 (Import Export Metro Limited), a company incorporated in Hong Kong, or any of its associates. To minimize the potential risks of legal proceedings, we carry on business as “美圖之家” (in Chinese) in Hong Kong and have taken additional measures for this purpose. For details, see the sections headed “History, Reorganization and Corporate Structure” and “Business — Intellectual Property”.

### PRE-IPO INVESTMENTS

Our Company has issued five rounds of Preferred Shares, a summary of which is set out below:

	<u>Date of agreement</u>	<u>Date on which investment was settled</u>	<u>Total number of Preferred Shares issued</u>	<u>Cost per Preferred Share paid</u>	<u>Discount to the Offer Price<sup>(1)</sup></u>
Series A-1 Preferred Shares ....	October 22, 2013	November 7, 2013	11,111,111	US\$0.45	96.1%
Series A-2 Preferred Shares ....	January 16, 2014	January 28, 2014	41,730,994 (Series A-2A Preferred Shares)	US\$1.06875 (Series A-2A Preferred Shares)	90.8% (Series A-2A Preferred Shares)
			14,444,444 (Series A-2B Preferred Shares)	US\$0.72 (Series A-2B Preferred Shares)	93.8% (Series A-2B Preferred Shares)
Series B Preferred Shares .....	May 28, 2014	June 12, 2014	52,603,041	US\$2.17668	81.3%
Series C Preferred Shares .....	January 6, 2015	January 9, 2015	34,457,408	US\$5.51405	52.7%
Series D Preferred Shares .....	April 19, 2016	June 20, 2016	14,315,790	US\$9.50	18.6%



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## SUMMARY

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*Note:*

- (1) The discount to the Offer Price is calculated based on the assumption that the Offer Price is HK\$9.05 per Share, being the mid-point of the indicative Offer Price range of HK\$8.50 to HK\$9.60, on the basis that 4,227,294,550 Shares are expected to be in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

Pursuant to the Shareholders' Agreement entered into by the Company and the Pre-IPO Investors, the Pre-IPO Investors have been granted certain special rights, all of which shall automatically terminate prior to Listing when the Preferred Shares are converted into ordinary shares of US\$0.0001 par value.

Immediately prior to the completion of the Global Offering, Internet Fund II Pte. Ltd. will hold approximately 10.95% equity interest in our Company. Upon completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), the Pre-IPO Investors (including Internet Fund II Pte. Ltd.) will collectively hold a total of 39.90% of the enlarged issue share capital of the Company and no individual Pre-IPO Investor (including Internet Fund II Pte. Ltd.) will hold 10% or more of the enlarged issue share capital of the Company. As a result, the Shares held by the Pre-IPO Investors will count towards the public float. All the Pre-IPO Investors are Independent Third Parties of our Group. For more details, see "History, Reorganization and Corporate Structure – Pre-IPO Investments".

### OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), our Controlling Shareholders will have a collective interest in and will control, through various intermediaries and trust vehicles, an aggregate of 39.43% of our enlarged issued share capital and will remain as our Controlling Shareholders.

Under the Concert Party Agreement, the Concert Group has undertaken to vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and confirmed that they had acted in concert in respect of their equity interests in the Company since their acquisition of their interests. As a result of the Concert Party Agreement, Mr. Wu will effectively control approximately 39.43% of the voting rights of the Company immediately after the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). This is consistent with the manner in which the Concert Group has voted and made decisions throughout the history of the Company, and has confirmed and acknowledged that Mr. Wu was, and is, entitled to exercise all the voting powers associated with the Shares on behalf of the Concert Group historically and in the future if the Concert Group cannot unanimously agree on any matter. For more details, please see the section headed "Relationship with Controlling Shareholders".

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of our Group. We have derived the consolidated financial information for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 and as of December 31, 2013, 2014 and 2015 and June 30, 2016 from our audited consolidated financial statements set forth in the Accountant's Report in Appendix I to this prospectus. We have derived the consolidated financial information for the six months ended June 30, 2015 from our reviewed consolidated financial statements set forth in the Accountant's Report in Appendix I to this prospectus. This summary consolidated financial information should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this prospectus, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

## SUMMARY

### SELECTED CONSOLIDATED INCOME STATEMENT

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(in thousands, except percentages)									
	(unaudited)									
<b>Revenue</b> .....	85,877	100.0	488,049	100.0	741,813	100.0	180,600	100.0	585,477	100.0
Smart										
hardware .....	51,305	59.7	428,360	87.8	667,122	89.9	138,780	76.8	556,847	95.1
Internet services										
and others .....	34,572	40.3	59,689	12.2	74,691	10.1	41,820	23.2	28,630	4.9
<b>Cost of sales</b> .....	(36,272)	(42.2)	(401,376)	(82.3)	(641,323)	(86.5)	(142,306)	(78.8)	(510,996)	(87.2)
Smart										
hardware .....	(32,913)	(38.3)	(372,751)	(76.4)	(541,954)	(73.1)	(102,098)	(56.5)	(448,139)	(76.5)
Internet services										
and others .....	(3,359)	(3.9)	(28,625)	(5.9)	(99,369)	(13.4)	(40,208)	(22.3)	(62,857)	(10.7)
<b>Gross profit</b> .....	49,605	57.8	86,673	17.8	100,490	13.5	38,294	21.2	74,481	12.7
Smart										
hardware .....	18,392	21.4	55,609	11.4	125,168	16.8	36,682	20.3	108,708	18.6
Internet services										
and others .....	31,213	36.4	31,064	6.4	(24,678)	(3.3)	1,612	0.9	(34,227)	(5.9)
Selling and marketing										
expenses .....	(16,201)	(18.9)	(120,955)	(24.8)	(649,092)	(87.5)	(267,067)	(147.9)	(196,760)	(33.6)
Administrative										
expenses .....	(14,134)	(16.4)	(38,281)	(7.9)	(94,742)	(12.8)	(32,867)	(18.2)	(70,424)	(12.0)
Research and development										
expenses .....	(16,478)	(19.2)	(50,149)	(10.3)	(119,605)	(16.1)	(46,356)	(25.7)	(90,511)	(15.5)
Other income .....	115	0.1	3,430	0.7	11,085	1.5	3,327	1.9	4,498	0.8
Other losses, net ...	(77)	(0.1)	(164)	(0.0)	(858)	(0.1)	(158)	(0.1)	(418)	(0.1)
<b>Operating profit/</b>										
<b>(loss)</b> .....	2,830	3.3	(119,446)	(24.5)	(752,722)	(101.4)	(304,827)	(168.8)	(279,134)	(47.7)
<b>Loss for the year/</b>										
<b>period</b> .....	(25,813)	(30.1)	(1,772,336)	(363.2)	(2,217,557)	(298.9)	(1,269,628)	(703.0)	(2,189,739)	(374.0)
<b>Non-IFRS</b>										
<b>Measure:</b>										
<b>Adjusted net loss</b>										
<b>(unaudited)<sup>(1)</sup>...</b>	(2,312)	(2.7)	(112,343)	(23.0)	(710,488)	(95.8)	(290,389)	(160.8)	(257,620)	(44.0)

Note:

- (1) We define adjusted net loss as loss for the year/period added back with fair value loss of convertible redeemable preferred shares and share-based compensation. Adjusted net loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See the section headed "Financial Information— Non-IFRS Measure: Adjusted Net Loss" for details.

## SUMMARY

### SELECTED BALANCE SHEET ITEMS

	As of December 31,			As of
	2013	2014	2015	June 30,
	(in thousands of RMB)			
Total non-current assets .....	7,461	40,840	261,975	440,840
Total current assets .....	86,605	1,770,844	1,446,843	2,030,792
Total assets .....	94,066	1,811,684	1,708,818	2,471,632
Total non-current liabilities .....	53,885	3,592,141	5,681,892	8,645,544
Total current liabilities .....	75,587	44,500	274,733	379,120
Total liabilities .....	129,472	3,636,641	5,956,625	9,024,664
<b>Net liabilities</b> .....	<b>35,406</b>	<b>1,824,957</b>	<b>4,247,807</b>	<b>6,553,032</b>
Share capital .....	123	121	121	121
Reserves .....	44,773	28,022	(176,787)	(292,273)
Accumulated losses .....	(80,302)	(1,853,100)	(4,071,141)	(6,260,880)
<b>Total equity</b> .....	<b>(35,406)</b>	<b>(1,824,957)</b>	<b>(4,247,807)</b>	<b>(6,553,032)</b>

### SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,			For the Six Months	
	2013	2014	2015	Ended June 30,	2016
	(in thousands of RMB)				
	(unaudited)				
Net cash used in operating activities .....	(27,570)	(80,868)	(675,345)	(274,663)	(277,236)
Net cash (used in)/generated from investing activities .....	(1,793)	(467,753)	3,291	(64,739)	(1,121,829)
Net cash generated from financing activities .....	60,482	1,803,757	307,121	307,164	879,878
Net increase/(decrease) in cash and cash equivalents .....	31,119	1,255,136	(364,933)	(32,238)	(519,187)
Exchange gains/(losses) on cash and cash equivalents .....	(360)	(5,323)	66,462	(615)	27,835
Cash and cash equivalents at the beginning of the year/ period .....	7,773	38,532	1,288,345	1,288,345	989,874
Cash and cash equivalents at the end of the year/period .....	<u>38,532</u>	<u>1,288,345</u>	<u>989,874</u>	<u>1,255,492</u>	<u>498,522</u>

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	For the Year Ended December 31,			For the Six Months	
	2013	2014	2015	Ended June 30,	2016
Total revenue growth (%) .....	N/A	468.3	52.0	N/A	224.2
Revenue growth for smart hardware segment (%) .....	N/A	734.9	55.7	N/A	301.2
Revenue growth for Internet services and others segment (%) .....	N/A	72.7	25.1	N/A	(31.5)
Gross margin for smart hardware segment <sup>(1)</sup> (%) .....	35.8	13.0	18.8	26.4	19.5
Gross margin for Internet services and others segment <sup>(1)</sup> (%) .....	90.3	52.0	(33.0)	3.9	(119.5)
Period-end MAU growth (%) .....	N/A	110.6	101.9	54.3	81.1
Average monthly revenue per MAU <sup>(2)</sup> (RMB) .....	0.082	0.220	0.166	0.122	0.219
Average monthly smart hardware revenue per MAU <sup>(3)</sup> (RMB) .....	0.049	0.193	0.149	0.094	0.208
Average monthly Internet services and others revenue per MAU <sup>(4)</sup> (RMB) .....	0.033	0.027	0.017	0.028	0.011
Inventory turnover days <sup>(5)</sup> .....	48	10	39	64	63
Trade receivables turnover days <sup>(6)</sup> .....	38	12	16	30	13

Notes:

- (1) Gross margin equals gross profit/(loss) from the indicated segment divided by revenue from the indicated segment for the period and multiplied by 100%.

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## SUMMARY

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- (2) Average monthly revenue per MAU equals our total revenue for the indicated period divided by the number of months in the indicated period and the MAUs for the last month of the indicated period.
- (3) Average monthly smart hardware revenue per MAU equals revenue from our smart hardware segment for the indicated period divided by the number of months in such period and the MAUs for the last month of such period.
- (4) Average monthly Internet services and others revenue per MAU equals revenue from our Internet services and others segment for the indicated period divided by the number of months in such period and the MAUs for the last month of such period.
- (5) Inventory turnover days equals the average of the opening and closing inventory balances of the indicated period divided by the cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 181 days for a six-month period.
- (6) Trade receivables turnover days equals the average of the opening and closing trade receivables of the indicated period divided by revenue for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 181 days for a six-month period.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the exercise of any options granted under the ESOP and any options that may be granted under the Share Option Scheme and Shares that may be granted under the Share Award Scheme. On the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2015, being RMB741.8 million (equivalent to approximately HK\$836.4 million), which is over HK\$500 million, and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

### NEGATIVE NET OPERATING CASH FLOW AND WORKING CAPITAL SUFFICIENCY

During the Track Record Period, we had increasing negative operating cash flow, with outflows of RMB27.6 million, RMB80.9 million and RMB675.3 million for the years ended December 31, 2013, 2014 and 2015, respectively, and outflows of RMB274.7 million and RMB277.2 million for the six months ended June 30, 2015 and 2016, respectively, primarily due to cash outflows from operating activities associated with our expanded sales and marketing and research and development efforts for our various new products and monetization strategies. For further information, see “Financial Information – Liquidity and Capital Resources”. Taking into account the financial resources available to us including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

### FUTURE DIVIDENDS

We have no policy for future dividend payments. Our Board has absolute discretion as to whether to declare any dividend for any year, and in what amount. We did not declare any dividend during the Track Record Period. The declaration, payment and amount of any future dividends will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant. Any payment of dividends may be limited by legal restrictions and by financing agreements that we may enter into in the future. In addition, we had an accumulated loss of RMB6.3 billion as of June 30, 2016.

### OFFER STATISTICS

	Based on an Offer Price of HK\$8.50 per Share	Based on an Offer Price of HK\$9.60 per Share
Market capitalization of our Shares upon completion of the Global Offering <sup>(1)</sup> .....	HK\$35.9 billion	HK\$40.6 billion
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup> .....	HK\$1.66	HK\$1.81

*Notes:*

- (1) The calculation of market capitalization is based on 4,227,294,550 Shares expected to be in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

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## SUMMARY

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- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 4,227,294,550 Shares are expected to be in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

### LISTING EXPENSES

Based on the mid-point Offer Price of HK\$9.05, the total estimated listing related expenses payable by us in relation to the Global Offering is approximately RMB183.7 million (or approximately RMB45.5 million after excluding underwriting commission of approximately RMB138.2 million). For the years ended December 2013, 2014 and 2015 and the six months ended June 30, 2016, we recognized and charged to our consolidated income statement RMB0.7 million, RMB0.9 million, RMB1.6 million and RMB2.4 million of such expenses, respectively. We estimate that listing expenses of RMB36.2 million (including RMB2.4 million recognized for the six months ended June 30, 2016) will be charged to our consolidated income statement for the year ending December 31, 2016. The balance of approximately RMB144.3 million, which includes underwriting commission, is expected to be capitalized.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$9.05 per Share, being the mid-point of the Offer Price range stated in the prospectus, we estimate that we will receive net proceeds of approximately HK\$4,988 million from the Global Offering after deduction of underwriting fees and estimated expenses in connection with the Global Offering. We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below.

<u>Amount of the estimated net proceeds</u>	<u>Intended use of net proceeds</u>
• Approximately 29.0%, or HK\$1,446 million	Expand component and raw material sourcing capacity, with a view to producing more smartphones and other smart hardware
• Approximately 22.6%, or HK\$1,127 million	Invest in or acquire businesses that are complementary to our business
• Approximately 19.7%, or HK\$982 million	Implement sales and marketing initiatives in both China and overseas market
• Approximately 13.1%, or HK\$654 million	Expand Internet services business
• Approximately 6.6%, or HK\$327 million	Expand research and development capabilities
• Approximately 9.0%, or HK\$451 million	General working capital

For further details, see the section headed “Future Plans and Use of Proceeds”.

If the Over-allotment Option is fully exercised by the Joint Global Coordinators, the Over-allotment Option Grantor will receive net proceeds of approximately HK\$756 million for 86,100,000 Shares to be sold and transferred upon the full exercise of the Over-allotment Option, respectively, based on the Offer Price of HK\$9.05 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Over-allotment Option Grantor.

### RECENT DEVELOPMENT

Our Directors confirm that, as of the date of this prospectus, there had been no material adverse change in the financial conditions or prospects of our Group since June 30, 2016, the end of the period reported on in the Accountant’s Report set out in Appendix I to this prospectus, and there had been no event since June 30, 2016 and up to the date of this prospectus which could materially affect the information shown in the Accountant’s Report.



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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.*

<b>“affiliate(s)”</b>	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
<b>“AMTD”</b>	AMTD Asset Management Limited
<b>“Application Form(s)”</b>	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
<b>“Articles” or “Articles of Association”</b>	the articles of association of our Company conditionally adopted on November 25, 2016 with effect from the Global Offering becoming unconditional on the Listing Date, as amended from time to time
<b>“Baolink Capital”</b>	Baolink Capital Ltd, a company incorporated under the laws of the BVI on June 29, 2007, which is wholly-owned by Mr. Cai and will hold approximately 11.35% of the issued share capital of our Company upon Listing (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), and one of our Controlling Shareholders
<b>“Board”</b>	our board of Directors
<b>“business day”</b>	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
<b>“BVI”</b>	the British Virgin Islands
<b>“CAGR”</b>	compound annual growth rate
<b>“CCASS”</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>“CCASS Clearing Participant”</b>	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
<b>“CCASS Custodian Participant”</b>	a person admitted to participate in CCASS as a custodian participant
<b>“CCASS Investor Participant”</b>	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
<b>“CCASS Participant”</b>	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
<b>“CCB International”</b>	CCB International Capital Limited
<b>“China” or “PRC”</b>	the People’s Republic of China, except where the context requires otherwise and only for the purposes of this prospectus, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. “Chinese” shall be construed accordingly

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## DEFINITIONS

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<b>“China Merchants Securities”</b>	China Merchants Securities (HK) Co., Limited
<b>“CMB International”</b>	CMB International Capital Limited
<b>“Companies Law”</b>	the Companies Law, Cap 22. (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
<b>“Companies Ordinance”</b>	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Companies (Winding Up and Miscellaneous Provisions) Ordinance”</b>	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Company”, “our Company”, “the Company”, “Meitu”, “we” or “us”</b>	Meitu, Inc. 美图公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on July 25, 2013 and carries on business in Hong Kong as “美图之家” (in Chinese) as approved by and registered with the Registrar of Companies in Hong Kong on October 28 and November 7, 2016, respectively. “Meitu” may also refer to the Company’s brand if the context so requires. “Meitu”, when italicized, refers to the Company’s first product, <i>Meitu</i>
<b>“Concert Group”</b>	Mr. Wu, Mr. Cai and Ms. Wang (including, where applicable, any entities directly or indirectly controlled by them that directly holds the Shares)
<b>“Concert Party Agreement”</b>	the agreement entered into among the Concert Group on August 17, 2016, pursuant to which the Concert Group has undertaken to, among other things, vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and has confirmed that its members have acted in concert since the incorporation of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group
<b>“Contractual Arrangement(s)”</b>	the series of contractual arrangements entered into between Mr. Wu, Ms. Cai, Meitu Home and Meitu Networks (as applicable), details of which are described in the section headed “Contractual Arrangements” in this prospectus
<b>“Controlling Shareholders”</b>	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Wu, Mr. Cai, Xinhong Capital, Longlink Capital and Baolink Capital
<b>“Cornerstone Investor(s)”</b>	investor(s) which has/have entered into cornerstone investment agreement(s) with our Company, as described in the section headed “Cornerstone Investors” of this prospectus
<b>“Corporate Restructuring”</b>	the corporate restructuring of the Group in preparation of the Listing, details of which are set out in the section headed “History, Reorganization and Corporate Structure — The Corporate Restructuring” in this prospectus
<b>“Credit Suisse”</b>	Credit Suisse (Hong Kong) Limited

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<b>“CSRC”</b>	the China Securities Regulatory Commission
<b>“Director(s)”</b>	the director(s) of our Company
<b>“ESOP”</b>	the employees’ share option plan of the Company as approved by the Board on February 15, 2014 and amended by the Board on November 18, 2015
<b>“Existing Articles”</b>	the amended and restated memorandum and articles of association of the Company adopted by special resolution of the shareholders passed on April 20, 2016 and as further amended by special resolution of the shareholders passed on August 16, 2016
<b>“Forgame”</b>	Forgame Holdings Limited, a company incorporated under the laws of the Cayman Islands on July 26, 2011, whose shares are listed on the Main Board of the Stock Exchange (Hong Kong Stock Exchange Stock Code: 484)
<b>“Futu Securities”</b>	Futu Securities International (Hong Kong) Limited
<b>“GAAP”</b>	generally accepted accounting principles
<b>“GF Securities”</b>	GF Securities (Hong Kong) Brokerage Limited
<b>“Global Offering”</b>	the Hong Kong Public Offering and the International Offering
<b>“Governmental Authority”</b>	any governmental, regulatory or administrative commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, judicial body, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational
<b>“GREEN Application Form(s)”</b>	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
<b>“Group”, “our Group”, or “the Group”</b>	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements) from time to time
<b>“Head &amp; Shoulders”</b>	Head & Shoulders Securities Limited
<b>“HKSCC”</b>	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
<b>“HKSCC Nominees”</b>	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
<b>“Hong Kong” or “HK”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Hong Kong dollars” or “HK dollars” or “HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“Hong Kong Offer Shares”</b>	the 57,400,000 new Shares initially being offered for subscription in the Hong Kong Public Offering at the Offer Price (subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)

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<b>“Hong Kong Public Offering”</b>	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
<b>“Hong Kong Public Offering Documents”</b>	this prospectus and the Application Forms
<b>“Hong Kong Share Registrar”</b>	Computershare Hong Kong Investor Services Limited
<b>“Hong Kong Stock Exchange” or “Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Hong Kong Takeovers Code” or “Takeovers Code”</b>	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
<b>“Hong Kong Underwriters”</b>	the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
<b>“Hong Kong Underwriting Agreement”</b>	the underwriting agreement dated December 2, 2016, relating to the Hong Kong Public Offering, entered into among the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the Controlling Shareholders and our Company, as further described in the section headed “Underwriting” in this prospectus
<b>“ICP”</b>	Internet content provider
<b>“ICP License”</b>	Value-added Telecommunications Service Operating Permit for Internet information service
<b>“IFRS”</b>	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
<b>“Independent Third Party(ies)”</b>	any entity or person who is not a connected person of our Company or an associate of any such person within the meanings ascribed thereto under the Listing Rules
<b>“International Offering”</b>	the conditional placing of the International Offering Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
<b>“International Offering Shares”</b>	the 516,600,000 Shares being initially offered for subscription at the Offer Price under the International Offering together, where

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## DEFINITIONS

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	relevant, with any additional Shares that may be sold by the Over-allotment Option Grantor pursuant to any exercise of the Over-allotment Option, subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
<b>“International Underwriters”</b>	the underwriters of the International Offering
<b>“International Underwriting Agreement”</b>	the international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Controlling Shareholders, the Over-allotment Option Grantor, the Joint Global Coordinators and the representatives of the International Underwriters, on or about December 8, 2016, as described in the section headed “Underwriting” in this prospectus
<b>“Joint Bookrunners”</b>	Morgan Stanley, Credit Suisse, China Merchants Securities, CCB International, CMB International, UBS, AMTD and GF Securities
<b>“Joint Global Coordinators”</b>	Morgan Stanley, Credit Suisse, China Merchants Securities and CCB International
<b>“Joint Lead Managers”</b>	Morgan Stanley, Credit Suisse, China Merchants Securities, CCB International, CMB International, UBS, AMTD, GF Securities, Head & Shoulders and Futu Securities
<b>“Joint Sponsors”</b>	Morgan Stanley, Credit Suisse and China Merchants Securities
<b>“Latest Practicable Date”</b>	November 25, 2016 being the latest practicable date for ascertaining certain information in this prospectus before its publication
<b>“Laws”</b>	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
<b>“Listing”</b>	the listing of the Shares on the Main Board
<b>“Listing Committee”</b>	the Listing Committee of the Stock Exchange
<b>“Listing Date”</b>	the date, expected to be on or about Thursday, December 15, 2016, on which the Shares are to be listed and on which dealings in the Shares are to be first permitted to take place on the Stock Exchange
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
<b>“Longlink Capital”</b>	Longlink Capital Ltd, a company incorporated under the laws of the BVI on January 11, 2007, which is wholly-owned by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Cai and will hold approximately 14.67% of the issued share capital of our Company upon Listing



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(assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), and one of our Controlling Shareholders

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Maximum Offer Price”	HK\$9.60 (being the high end of the Offer Price range stated in this prospectus)
“Meipai Global”	Meipai Global Limited 美拍網絡有限公司, a limited liability company incorporated under the laws of Hong Kong on June 19, 2015, and our indirectly wholly-owned subsidiary
“Meipai Ltd”	Meipai Ltd, an exempted company with limited liability incorporated under the laws of the Cayman Islands on June 2, 2015, and our directly wholly-owned subsidiary
“Meipai Technology”	Xiamen Meipai Technology Co., Ltd. (廈門美拍科技有限公司), formerly known as Beijing Meitu Networks Technology Co., Ltd. (北京美圖網科技有限公司) and Beijing Rongxin Tiancheng Technology Co., Ltd. (北京榮信天誠科技有限公司), a company established in the PRC on November 17, 2005 and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Meitu HK”	Meitu (China) Limited 美圖(中國)有限公司, a limited liability company incorporated in Hong Kong on August 12, 2013, and our directly wholly-owned subsidiary
“Meitu Holdings”	Meitu Holdings Ltd, an exempted company with limited liability incorporated under the laws of Cayman Islands on June 2, 2015 and our directly wholly-owned subsidiary
“Meitu Home”	Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司), a company established in the PRC on October 14, 2013, and our indirectly wholly-owned subsidiary
“Meitu Home Beijing”	Beijing Meitu Home Technology Co., Ltd. (北京美圖之家科技有限公司), a company established in the PRC on July 27, 2016, and our indirectly wholly-owned subsidiary
“Meitu Huyu”	Beijing Meitu Huyu Technology Co., Ltd. (北京美圖互娛科技有限公司), formerly known as Beijing Meitu Chuangxiang Advertisement Co., Ltd (北京美圖創想廣告有限公司) and Beijing Meihao Huyu Technology Co., Ltd. (北京美好互娛科技有限公司), a company established in the PRC on February 22, 2011, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Meitu Investment”	Meitu Investment Ltd, a BVI business company incorporated under the laws of the BVI on January 30, 2015, and our directly wholly-owned subsidiary

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“Meitu Mobile”	Xiamen Meitu Mobile Technology Co., Ltd. (廈門美圖移動科技有限公司), a company established in the PRC on March 1, 2013 and our indirectly wholly-owned subsidiary
“Meitu Networks”	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (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 and Ms. Cai as to 51% and 49%, respectively, and, by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Meitu Technology”	Meitu Technology, Inc., formerly known as MagicV, Inc., and MIXVID, Inc., a limited liability company incorporated under the laws of the State of Delaware, on August 29, 2014, and our indirectly wholly-owned subsidiary
“Meitu Technology (US)”	Meitu Technology (US), LLC, formerly known as Commsource, LLC, a limited liability company incorporated under the laws of the State of California, on April 1, 2015, and our indirectly wholly-owned subsidiary
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on November 25, 2016 with effect from the Global Offering becoming unconditional on the Listing Date, as amended from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOC”	the Ministry of Culture of the PRC (中華人民共和國文化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Morgan Stanley”	Morgan Stanley Asia Limited
“Mr. Cai”	Mr. Cai Wensheng (蔡文勝), our founder, Chairman, executive Director, one of our Controlling Shareholders and an authorized representative
“Mr. Wu”	Mr. Wu Zeyuan (吳澤源), also known as Mr. Wu Xinhong (吳欣鴻), our founder, Chief Executive Officer, executive Director and one of our Controlling Shareholders
“Mr. Ngan”	Mr. Ngan King Leung Gary (顏勁良), our Chief Financial Officer, one of our joint company secretaries and an authorized representative
“Ms. Cai”	Ms. Cai Shuting, the daughter of Mr. Cai and Ms. Wang
“Ms. Wang”	Ms. Wang Baoshan, the spouse of Mr. Cai

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## DEFINITIONS

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<b>“NDRC”</b>	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
<b>“Offer Price”</b>	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and the International Offering Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
<b>“Offer Share(s)”</b>	the Hong Kong Offer Shares and the International Offering Shares together, where relevant, with any additional Shares that may be sold by the Over-allotment Option Grantor pursuant to the exercise of the Over-allotment Option
<b>“Old Contractual Arrangements”</b>	the series of contractual arrangements entered into between Meitu Mobile, Meitu Networks and Meitu Home, and their respective equity holders (as applicable), on December 10, 2013, details of which are described in the sections headed “Contractual Arrangements” and “History, Reorganization and Corporate Structure — Background relating to the Old Contractual Arrangement” in this prospectus
<b>“Original Series A Preferred Shares”</b>	the series A convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, which were subsequently reclassified as Series A-1 Preferred Shares
<b>“Over-allotment Option”</b>	the option expected to be granted by the Over-allotment Option Grantor to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell up to 86,100,000 Shares (representing in aggregate 15% of the initial Offer Shares) to the International Underwriters to, among other things, cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option” in this prospectus
<b>“Over-allotment Option Grantor”</b>	Ultra Colour Limited
<b>“PRC Legal Advisor”</b>	Jingtian & Gongcheng
<b>“PRC Operating Entities”</b>	Meitu Networks and its subsidiaries and branches, the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
<b>“Preferred Shareholders”</b>	the holders of any Preferred Shares from time to time
<b>“Preferred Shares”</b>	the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares

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## DEFINITIONS

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<b>“Pre-IPO Investment(s)”</b>	the Pre-IPO investments in the Company undertaken by the Pre-IPO Investors pursuant to the Pre-IPO Investment Agreements, details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this prospectus
<b>“Pre-IPO Investment Agreement(s)”</b>	Series A-1 Preferred Share Purchase Agreement, Series A-2 Preferred Share Purchase Agreement, Series B Preferred Share Purchase Agreement, Series C Preferred Share Purchase Agreement and Series D Preferred Share Purchase Agreement, entered into, among others, by the Pre-IPO Investors and the Company in connection with the Pre-IPO Investment
<b>“Pre-IPO Investor(s)”</b>	the Series A-1 Preferred Shareholders, Series A-2 Preferred Shareholders, Series B Preferred Shareholders, Series C Preferred Shareholders and Series D Preferred Shareholders
<b>“Price Determination Agreement”</b>	the agreement to be entered into between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), on the Price Determination Date to record and fix the Offer Price
<b>“Price Determination Date”</b>	the date, expected to be Thursday, December 8, 2016, on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than Wednesday, December 14, 2016, or such other date as agreed between the parties to the Price Determination Agreement
<b>“prospectus”</b>	this prospectus being issued in connection with the Hong Kong Public Offering
<b>“QIB”</b>	a qualified institutional buyer within the meaning of Rule 144A
<b>“QIPO”</b>	a firm underwritten public offering of the Shares in the U.S. that has been registered under the Securities Act, with the market capitalization of the Company immediately prior to such offering of (i) not less than US\$5 billion, if such offering is completed on or prior to the second anniversary of April 20, 2016, or (ii) not less than US\$6 billion, if such offering is completed after the second anniversary and on or prior to the fourth anniversary of April 20, 2016 (unless otherwise approved by a majority of the Preferred Shareholders), or a similar public offering of the Shares in another jurisdiction approved by the majority of the Preferred Shareholders, which results in the Shares trading publicly on a recognized regional or national securities exchange
<b>“Regulation S”</b>	Regulation S under the U.S. Securities Act
<b>“RMB” or “Renminbi”</b>	Renminbi, the lawful currency of China
<b>“Rule 144A”</b>	Rule 144A under the U.S. Securities Act
<b>“SAFE”</b>	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

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## DEFINITIONS

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“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SARFT”	the State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局)
“SAT”	the State Administration of Taxation (國家稅務總局)
“SCIO”	the State Council Information Office of the PRC (中華人民共和國國務院新聞辦公室)
“Series A Preferred Shareholders”	the holder of the Series A Preferred Shares
“Series A Preferred Shares”	the series A-1 Preferred Shares, the Series A-2A Preferred Shares and the Series A-2B Preferred Shares
“Series A-1 Preferred Share Purchase Agreement”	the series A-1 preferred share purchase agreement dated October 22, 2013 between, among others, the Company, Mr. Wu and the Series A-1 Preferred Shareholders
“Series A-1 Preferred Shareholders”	the holder of the Series A-1 Preferred Shares
“Series A-1 Preferred Shares”	the series A-1 convertible redeemable preferred shares of the Company (which were reclassified from the Original Series A Preferred Shares), par value US\$0.0001 per share, 11,111,111 of which are currently in issue and held by the Series A-1 Preferred Shareholders pursuant to the Series A-1 Preferred Purchase Agreement
“Series A-2 Preferred Share Purchase Agreement”	the series A-2 preferred share purchase agreement dated January 16, 2014 between, among others, the Company, Mr. Wu and the Series A-2 Preferred Shareholders
“Series A-2 Preferred Shareholders”	the holder of the Series A-2 Preferred Shares
“Series A-2 Preferred Shares”	the series A-2A Preferred Shares and the Series A-2B Preferred Shares
“Series A-2A Preferred Shares”	the series A-2A convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, 41,730,994 of which are currently in issue and held by the Series A-2 Preferred Shareholders pursuant to the Series A-2 Preferred Purchase Agreement
“Series A-2B Preferred Shares”	the series A-2B convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, 14,444,444 of which are currently in issue and held by the Series A-2 Preferred Shareholders pursuant to the Series A-2 Preferred Purchase Agreement
“Series B Preferred Share Purchase Agreement”	the series B preferred share purchase agreement dated May 28, 2014 between, among others, the Company, Mr. Wu and the Series B Preferred Shareholders
“Series B Preferred Shareholders”	the holder of the Series B Preferred Shares

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## DEFINITIONS

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<b>“Series B Preferred Shares”</b>	the series B convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, 52,603,041 of which all currently in issue and held by the Series B Preferred Shareholders pursuant to the Series B Preferred Purchase Agreement
<b>“Series C Preferred Share Purchase Agreement”</b>	the series C preferred share purchase agreement dated January 6, 2015 between, among others, the Company, Mr. Wu and the Series C Preferred Shareholders
<b>“Series C Preferred Shareholders”</b>	the holder of the Series C Preferred Shares
<b>“Series C Preferred Shares”</b>	the series C convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, 34,457,408 of which all currently in issue and held by the Series C Preferred Shareholders pursuant to the Series C Preferred Purchase Agreement
<b>“Series D Preferred Share Purchase Agreement”</b>	the series D preferred share purchase agreement dated April 19, 2016 between, among others, the Company, Mr. Wu and the Series D Preferred Shareholders
<b>“Series D Preferred Shareholders”</b>	the holder of the Series D Preferred Shares
<b>“Series D Preferred Shares”</b>	the series D convertible redeemable preferred shares of the Company, par value US\$0.0001 per share, 14,315,790 of which all currently in issue and held by the Series D Preferred Shareholders pursuant to the Series D Preferred Purchase Agreement
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO” or “Securities and Futures Ordinance”</b>	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Share Award Scheme”</b>	the share award scheme adopted by the Company on November 25, 2016 which is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules
<b>“Share Option Scheme”</b>	the share option scheme adopted by the Company on November 25, 2016 which complies with the provisions of Chapter 17 of the Listing Rules
<b>“Shareholder(s)”</b>	holder(s) of the Share(s)
<b>“Shareholders’ Agreement”</b>	the shareholders’ agreement entered into between our Company and the Pre-IPO Investors on October 30, 2013, which was then amended and restated on each of January 24, 2014, May 28, 2014, January 6, 2015 and April 20, 2016, respectively
<b>“Share(s)”</b>	ordinary share(s) in the share capital of our Company following the Share Subdivision with a par value of US\$0.00001 each
<b>“Share Subdivision”</b>	the subdivision of each issued and unissued ordinary share of US\$0.0001 par value each of the Company into 10 ordinary shares



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## DEFINITIONS

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	of US\$0.00001 par value each to be effected following the reclassification and redesignation of all the issued and unissued Preferred Shares into ordinary shares of US\$0.0001 each on the Listing Date and prior to Listing, the details of which are described in “History, Reorganization and Corporate Structure — Share Subdivision”
“Stabilizing Manager”	Morgan Stanley Asia Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Over-allotment Option Grantor and the Stabilizing Manager (or its affiliate(s)) on or around the Price Determination Date
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“Track Record Period”	the three financial years ended December 31, 2013, 2014, and 2015 and the six months ended June 30, 2016
“UBS”	UBS AG Hong Kong Branch
“Ultra Colour”	Ultra Colour Limited, a company incorporated under the laws of the BVI on May 15, 2013, which in turn is owned by Ultra Colour Limited, a company incorporated under the laws of Samoa which in turn is wholly-owned by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai Rongjia, the son of Mr. Cai, and one of our Shareholders
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S”.	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. SEC”	Securities and Exchange Commission of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“WFOEs”	collectively, Meitu Home and Meitu Mobile, each a wholly foreign-owned enterprise incorporated under the laws of the PRC
“WHITE Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants’ own name
“White Form eIPO”	the application for Public Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>

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“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xiamen Longling”	Xiamen Longling Investment Partnership (LLP) (廈門隆領投資合夥企業 (有限合夥)), a fund founded by Mr. Cai, among others, which was restructured into Longling Capital Co., Ltd (隆領投資股份有限公司), an entity established in the PRC on March 29, 2011 with limited liability that previously held an equity interest in Meitu Mobile and is held by Mr. Cai as to 84.83% and by Independent Third Parties as to 15.17%
“Xinhong Capital”	Xinhong Capital Limited, a company incorporated under the laws of the BVI on June 13, 2013, which is wholly-owned by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Wu and will hold approximately 13.40% of the issued share capital of our Company upon Listing (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), and one of our Controlling Shareholders
“YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

*Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option. See the section headed “Underwriting”.*

*The terms “associate(s)”, “close associate(s)”, “connected person(s)”, “core connected person(s)”, “connected transaction(s)”, and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

*Unless otherwise indicated, (i) the translations of Renminbi into Hong Kong dollars in this prospectus are based on the rate of RMB1.00: HK\$1.1275, being the PBOC Rate prevailing on November 18, 2016 and (ii) the translations of U.S. dollars into Hong Kong dollars are based on the rate of US\$1.00: HK\$7.7572, being the noon buying rate as set forth in the H.10 statistical release of the United States Reserve Board on November 18, 2016.*

*No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as of the date of this prospectus.*

*If there are any inconsistencies in this prospectus between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purpose only.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains definitions of certain terms used in this prospectus in connection with our business. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.*

<b>activation</b>	the first time a user accesses an app
<b>core apps</b>	comprises <i>Meitu</i> (formerly named <i>MeituPic</i> ), <i>Meipai</i> , <i>BeautyCam</i> , <i>BeautyPlus</i> , <i>SelfieCity</i> and <i>MakeupPlus</i>
<b>core photo apps</b>	comprises <i>Meitu</i> , <i>BeautyCam</i> , <i>BeautyPlus</i> , <i>SelfieCity</i> and <i>MakeupPlus</i>
<b>gross billings</b>	total amount paid by users during a given period for purchase of virtual items
<b>gross merchandise volume/GMV</b>	the total value of merchandise sold in the specified market or through a specified platform during a given period
<b>IVAS</b>	Internet value-added services
<b>key opinion leaders/KOLs</b>	individuals with a significant number of followers that are able to influence their followers and others
<b>live streaming platform</b>	a platform that enables live broadcasting of video content and real-time communication and interaction among users and live streaming hosts, either through mobile or PC Internet
<b>mobile Internet</b>	Internet accessed through mobile devices including smartphones, tablets or other handheld devices (excluding laptops)
<b>mobile Internet penetration rate</b>	the percentage of a country or region's overall population that are mobile Internet users
<b>monthly active users/MAUs</b>	<ul style="list-style-type: none"><li>• "MAUs" for a specific app (excluding <i>Meipai</i>) refers to the number of devices that activate the app at least once during the calendar month in question</li><li>• "<i>Meipai</i> MAUs" is defined as the sum of (i) the number of devices that access the <i>Meipai</i> app ("<b><i>Meipai</i> in-app user</b>") and (ii) the number of cookies (a commonly used tracking code) recorded by mobile browsers or third-party apps that access <i>Meipai</i>'s content, at least once during the calendar month in question. We are generally able to identify a device that accesses <i>Meipai</i> both through the <i>Meipai</i> app and mobile browsers or third-party apps during a given period, and such device is recorded as one MAU. However, in certain circumstances, we may not be able to identify such overlap, and in such cases those devices would be recorded as two MAUs</li></ul>

The number of devices that access each of our apps primarily targeting users in China is tracked through the data services provided by Umeng+ (友盟+), a leading big data service provider in

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## GLOSSARY OF TECHNICAL TERMS

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	<p>China, and the number of devices that access each of our apps primarily targeting users overseas is tracked through data services provided by Flurry, Inc., an international mobile analytics, monetization, and advertising company owned by Yahoo Inc.. Umeng+ and Flurry, Inc. are independent third parties of our Company. The number of cookies recorded by mobile browsers or third-party apps that access <i>Meipai</i>'s content are tracked by our own internal database</p>
<b>online video platform</b>	a mobile- or PC-based platform that enables users to view, or upload and share video content through the Internet
<b>overseas / international</b>	refers to countries, regions or jurisdictions outside China
<b>overseas users</b>	refers to the sum of activations from overseas. For example, if a device from overseas activates two different apps, it would, under this definition, be counted as two users
<b>PC</b>	a personal computer
<b>photo app</b>	an app that focuses on in-app photo-taking and photo-editing and enables photo-sharing
<b>photos generated</b>	the number of photos processed or taken during a given period using the specified app or apps. For the purpose of this definition, a photo that is processed twice using an app counts as two photos generated. A photo that is taken using one app and then additionally processed using another app counts as two photos generated
<b>short-form video platform</b>	a platform focusing on facilitating creation and sharing of short-form videos
<b>short-form videos</b>	creative videos that are often seconds in duration and easily shared and accessed across the mobile Internet
<b>social networking platform and media</b>	a PC- or mobile-based platform and media embedded with functions aimed to enable users to maintain social relations or expand their social network through the Internet
<b>total MAUs</b>	refers to the sum of the MAUs of all of our apps (including <i>Meipai</i> ) during the calendar month in question. For example, if a mobile device accesses two different Meitu apps over the course of a calendar month, it would, under this methodology, be counted as two MAUs
<b>total users</b>	refers to the sum of activations for all of our apps. For example, if a mobile device activates two different apps, it would, under this definition, be counted as two users

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this prospectus are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “aim”, “plan”, “projection”, “could”, “vision”, “goals”, “objective”, “target”, “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this prospectus), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our future business development, financial condition and results of operations;
- our business strategies and plans to achieve these strategies;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section in this prospectus under the heading “Risk Factors”.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

All forward-looking statements in this prospectus are expressly qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus, including the following risk factors before making any investment decision in relation to the Offer Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the Offer Shares could fall significantly due to any of these risks, and you may lose all or part of your investment.*

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industries; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### RISKS RELATING TO OUR BUSINESS AND INDUSTRIES

#### **We have a limited operating history in new and dynamic industries, which makes it difficult to evaluate our future prospects.**

We launched our first product, *Meitu* (美圖秀秀), in 2008 as a PC version, and only began to substantially expand our product offerings and generate significant revenue in recent years. We have developed and launched more than 20 apps since 2011, five models of Meitu smartphones since June 2013, and a mobile game in April 2016. Our total revenue grew from RMB85.9 million for the year ended December 31, 2013 to RMB488.0 million for the year ended December 31, 2014 and RMB741.8 million for the year ended December 31, 2015 and from RMB180.6 million for the six months ended June 30, 2015 to RMB585.5 million for the six months ended June 30, 2016. Our revenue further increased to RMB628.1 million for the three months ended September 30, 2016. A significant majority of our revenue during the Track Record Period was derived from our smartphone sales. Our relatively short operating history, particularly with respect to monetization, makes it difficult to assess our future prospects or forecast our future results.

The risks and challenges we face include our ability to, among other things:

- enhance and maintain the value of our brand;
- develop and launch diversified and distinguishable products and features to effectively address the needs of our users and business partners;
- grow our user base, enhance our user engagement and encourage users' social interactions in a cost-efficient manner;
- develop or implement additional strategic initiatives to further increase monetization;
- successfully expand into and gain meaningful market share in target overseas markets in a cost-efficient manner;
- maintain and strengthen our competitive edge on our key technologies, including our facial recognition technology, big data analytics and machine learning capabilities;
- maintain a reliable, secure, high-performance and scalable technology infrastructure that can efficiently handle increased usage;
- develop and maintain relationships with our business partners, including our contract manufacturers, suppliers and their authorized distributors, retailers and other service providers for our smartphones, advertising customers (including both advertising agencies and advertisers), KOLs and potential e-commerce partners;
- successfully compete with other companies, some of which have substantially greater resources and market power than we do, that are currently in or may in the future enter our industries or offer products similar to ours;



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## RISK FACTORS

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- maintain our innovative company culture and continue to attract, retain and motivate talented employees;
- generate reasonable returns on our investments or realize synergies by investing in potential strategic targets; and
- defend ourselves against litigation, regulatory interference, claims concerning intellectual property or privacy or other aspects of our business.

The industries in which we operate, including apps, smart hardware, online advertising, live streaming and mobile games, and the industries in which we intend to enter, such as e-commerce, are all relatively new and highly dynamic, and may not develop as expected. Our users and business partners may not fully understand the value of our products and services, and potential new users and business partners may have difficulty distinguishing our products and services from those of our competitors. If we fail to convince users and business partners of the value of our products and services, the markets for our products and services do not continue to develop as we expect or we fail to address the needs of these dynamic, evolving industries, our business may be materially and adversely affected.

**Smartphone sales account for a significant portion of our revenue, and any decrease in such sales or any increase in the costs associated with such sales may materially and adversely affect our business.**

The significant majority of our revenue over the Track Record Period were derived from smartphone sales. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our smart hardware segment, which primarily comprises the sale of Meitu smartphones, contributed 59.7%, 87.8%, 89.9% and 95.1% of our total revenue, respectively. Although we have substantially derived our revenue from smartphone sales, we intend to diversify our revenue streams by expanding our online advertising, live streaming and mobile game businesses, and explore other monetization opportunities such as e-commerce. However, if our plan to expand our advertising services and our other monetization efforts do not succeed as we anticipate, we may continue to heavily rely on smartphone sales for a significant portion of our revenue. A decrease in the sales volume of our smartphones or their prices, changing user preferences or material quality issues concerning our smartphones may materially and adversely affect our business and operating results. Furthermore, we are exposed to increases in the prices of smartphone components and materials. While we may seek to reflect such increases in the pricing of our smartphones, we may not be able to do so completely or in a timely fashion. Our future growth and financial performance may depend in part on our ability to develop, produce and sell our smartphones. If we fail to deliver product enhancements, new releases or new products that our users and business partners consider useful and attractive, our business and results of operations would be harmed.

**If we fail to grow or retain our user base, or if user engagement ceases to grow or declines, our business and operating results may be materially and adversely affected.**

The size of our user base and the level of user engagement are critical to our success. Our total MAUs reached approximately 88 million, 184 million, 372 million, 446 million and 456 million in December 2013, 2014 and 2015, June and October 2016, respectively. We sold 27,917, 277,595, 387,775, 289,079 and 357,367 units of Meitu smartphones for the years ended December 31, 2013, 2014 and 2015, the six months ended June 30, 2016 and the four months ended October 31, 2016, respectively. Our business has been and will continue to significantly depend on our users and their level of engagement with our products and services. If users no longer view our products and services as useful and attractive as compared to competing offerings, we may not be able to increase or maintain our user base and the level of user engagement.

A number of factors could negatively affect user growth, retention and engagement, including:

- despite our continual research, monitoring and analysis of user needs, we may be unable to identify and meet evolving user demands;
- we may not be able to timely develop and introduce new or updated products and services, or the new or updated products and services we introduce may not be favorably received by users;

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## RISK FACTORS

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- we may fail to update existing technology or develop new technology in time to stay ahead or abreast of market advances;
- we may not be able to continue to successfully drive organic growth of users through word-of-mouth referrals and in-app cross-promotion, which may cause the growth of our user base to slow down or stall or require us to increase our promotion and advertising spending or devote more additional resources to acquire users;
- influential users of our products and services, such as celebrities, KOLs and major organizations, may move away from using our products;
- user experience with our products and services may become compromised and result in a loss of existing users, a slowdown in new user growth or a decline in user engagement, as we continue to explore various monetization opportunities, including online advertising, e-commerce, live streaming and mobile games, among others, or as we continue to update our apps to connect our users, which would require users to adapt to new app configurations;
- we may be unable to prevent or combat inappropriate use of our products in particular *Meipai*, which may lead to negative public perception of us and damage our brand or reputation;
- we may encounter technical or other problems that prevent our products and services from operating in a smooth and reliable manner or otherwise adversely affect user experience;
- our competitors may launch or develop products and services similar to ours with better user experience, which may result in loss of existing users or decline in new user growth;
- we may fail to address user concerns related to privacy and communication, data safety, security or other factors; and
- we may be compelled to modify our products and services to address requirements imposed by legislation, regulations, government policies or requests from government authorities in manners that may compromise user experience; for example, as a mobile Internet application information service provider, we can only transmit content uploaded by individuals whose identity has been verified and such content shall comply with the relevant content management rules.

If we are unable to grow or maintain our user base or enhance user engagement, our products and services will become less attractive to our business partners, including KOLs and live streaming hosts on *Meipai*, advertising customers, game developers and potential e-commerce partners, which would have a material and adverse impact on our business, operating results and long-term monetization potential.

**We are in the early stages of monetization and cannot guarantee that our current or future monetization strategies will be successfully implemented or will generate sustainable revenue, profit or positive operating cash flows.**

Our various monetization strategies are new and evolving, and we have historically focused primarily on developing and launching innovative products and features and improving user experience rather than short-term operating results. To better meet our users' demands for higher quality selfies, in 2013 we developed and successfully launched our Meitu smartphones, which are proprietarily designed to appeal to female users and with a special emphasis on taking selfies. Over the Track Record Period, our smart hardware segment, which comprises primarily the sale of Meitu smartphones, contributed 59.7%, 87.8%, 89.9% and 95.1% of our revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We have historically focused on maintaining quality user experience and therefore limited monetization of our users. While we generated revenue from our online advertising services, we took an opportunistic approach and only dedicated limited resources to such business. As a result, our online advertising revenue experienced only moderate growth or, from time to time, a decline for certain periods. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our online advertising revenue was RMB34.5 million, RMB58.2 million, RMB72.6 million, RMB41.0 million and RMB25.9 million, respectively. Online advertising accounted for approximately 40.2%, 11.9%, 9.8% and 4.4% of our revenue for the years ended

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## RISK FACTORS

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December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. In April 2016, we started to operate *Beauty Box*, a mobile game which we operate in cooperation with Forgame, a game developer in China. In June 2016, we also started to generate revenue from sale of virtual items on *Meipai*.

As we continue to build an ecosystem to better serve our users, we plan to implement multiple monetization strategies, some of which are still at the inception or trial stage and may not prove successful. If our current or future monetization strategies do not succeed as we anticipate, we may not be able to maintain or increase our revenue, generate profits or achieve positive operating cash flows. Furthermore, we may not be able to identify suitable business partners for our new monetization initiatives. We plan to continue to introduce new products and services to further diversify our revenue streams, including those with which we have little or no prior development or operating experience. If these new products and services fail to engage users or business partners, we may fail to generate sufficient revenue and profit to justify our investments, and our business and operating results may suffer as a result.

**We have incurred significant net losses and negative operating cash flows in the past, and we may not be able to achieve profitability or generate positive operating cash flows.**

We have incurred significant net losses, as we are still at an early stage of monetization and continue to incur significant selling and marketing expenses and research and development expenses for our new products. See “Business — Our Strategies — Increase monetization while creating value for our users” for a discussion of our monetization strategies. As of June 30, 2016, we had an accumulated loss of RMB6.3 billion. If the impact of the fair value loss of Preferred Shares was excluded, our adjusted accumulated loss would have been RMB1.2 billion. Our future revenue growth and profitability will depend on a variety of factors, many of which are beyond our control. These factors include our ability to successfully continue to timely anticipate and adequately address the evolving needs of our users and business partners, as well as our ability to attract new users, increase user engagement, effectively design and implement monetization strategies, and compete effectively and successfully. We also intend to closely monitor and adjust the extent of our selling and marketing efforts as necessary and intend to grow our user base organically to the extent possible. During the Track Record Period, an increase in bandwidth and server custody costs and associated expenses for *Meipai* significantly impacted the gross margin for our Internet services and others segment, while *Meipai* only began to generate revenue in June 2016. We have also incurred significant selling and marketing expenses to promote our brand and products and services in China and overseas. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we had selling and marketing expenses of RMB16.2 million, RMB121.0 million, RMB649.1 million and RMB196.8 million, respectively. Our ability to achieve and sustain profitability is also affected by market and regulatory development related to smartphones, apps, online advertising, e-commerce, live streaming and mobile games in China and overseas.

In addition, we had increasing negative operating cash flow over the Track Record Period, with outflows of RMB27.6 million, RMB80.9 million and RMB675.3 million for the years ended December 31, 2013, 2014 and 2015, respectively, and outflows of RMB274.7 million and RMB277.2 million for the six months ended June 30, 2015 and 2016, respectively. The increase was primarily due to cash outflows from operating activities associated with our expanded sales and marketing and research and development efforts for our various new products and monetization strategies. While we plan to implement various monetization strategies and have the flexibility to scale down our sales and marketing expenditures if necessary, we may not achieve profitability or generate positive operating cash flows in the near future.

**Our business significantly depends on the strength and market perception of our brand, and our brand image may be adversely impacted by any negative publicity.**

A well-recognized brand is critical to increasing our user base and, in turn, facilitating our efforts to monetize and enhance our attractiveness to users and business partners. We mainly market our products under the Meitu brand both in China and overseas. Our business and financial performance are highly dependent on the strength and the market perception of our brand and products and services. We conduct marketing activities across various media and regions to enhance our brand power and to guide public perception of our brand and products and services. In order to create and maintain brand awareness and loyalty, to influence public perception

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and to retain existing and attract new users and business partners, we may need to continue to substantially increase our promotion and advertising expenses. However, these activities may not be successful and we may not be able to achieve the brand promotion effect we expect.

Additionally, given the importance of our brand to our success, any negative publicity involving us, our users, our management, our brand ambassadors, business partners associated with our brand such as KOLs, celebrities and public organizations, and services and brands that place advertisements with us, may materially and adversely harm our brand and our business. We may not be able to defuse any negative publicity about us, our management and/or our products to the satisfaction of our users and business partners. Negative publicity about our brand may also require us to engage in defensive media campaigns and legal actions, which may increase our sales and marketing and legal expenses and divert our management's attention and may adversely impact our business and results of operations.

**We rely on KOLs and celebrities, including brand ambassadors, to promote our apps and Meitu smartphones.**

We have, to a significant extent, relied on word-of-mouth among our satisfied loyal users to help us promote our products in China, including KOLs, celebrities, public organizations and ordinary users. In particular, with regard to our video and live streaming community on *Meipai*, KOLs and celebrities engaged by us play an important role in attracting users to and keeping users in the community. KOLs and celebrities engaged by us create short-form videos and host live streaming shows on *Meipai* to tell stories, share experiences, promote themselves and broadcast live events. KOLs and celebrities are often held to a high standard of beauty and regularly present attractive and interesting media on their social networking accounts to maintain engagement with their followers. We strategically engage celebrities to enhance our brand, products and services. For example, we have engaged Angelababy (楊穎), a popular beauty icon and celebrity in China, as a brand ambassador for our Meitu smartphones. If we are unable to attract or retain KOLs or continue to engage celebrities that match our brand proposition, we may become less effective at promoting our brand, products and services, which may materially and adversely affect our business, results of operations and growth prospects. See “Business — Sales and Marketing” for more details about our cooperation with KOLs and celebrities, including a description of the material terms of our agreements with celebrities.

**User misconduct and misuse of our apps may adversely impact our brand image, and we may be held liable for information or content displayed on, retrieved from or linked to our apps, which may materially and adversely affect our business and operating results.**

Our apps, in particular *Meipai*, may be misused by individuals or groups of individuals to engage in inappropriate, fraudulent, politically-sensitive or illegal activities. We have implemented control procedures, and have an internal team as well as external vendors that monitor content uploaded by *Meipai* users. See “Business — Quality Control and Content Monitoring”. These procedures aim to detect and block illegal, fraudulent, politically-sensitive or inappropriate content or activities conducted through the misuse of *Meipai*, particularly those that violate applicable laws and regulations. However, they may not be able to block all such content uploads or activities in real time due to the time lag between content upload and the inspection by our internal team and external vendors. In addition, as we expand our live streaming services on *Meipai*, it may become more difficult for our internal team and external vendors to timely detect and block illegal or inappropriate content or activities. In October 2015, we were fined an immaterial amount for two songs blacklisted by the Chinese government authorities and posted by our users on *Meipai*. We may again be found liable for illegal or inappropriate content uploaded by our users in the future. Our brand image may be materially and adversely affected by the misuse of our products and services and we may face governmental or regulatory actions. In addition, regulations in relation to our live streaming services, such as the Administrative Regulations on Online Live-streaming Services (《互聯網直播服務管理規定》), may require us and *Meipai* users to obtain the qualifications for Internet news information service if they provide Internet news information on *Meipai* in the future. In response to allegations of illegal or inappropriate activities conducted through our apps or any negative media coverage about us, PRC government authorities may intervene and hold us liable for non-compliance with PRC laws and regulations concerning the dissemination of information on the Internet or violation of relevant regulations on live streaming services and subject us to administrative penalties or other sanctions, such as

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requiring us to restrict or discontinue certain features and services provided on our apps. As a result, our business may suffer and our user base and operating results may be materially and adversely affected. See “Regulations — Regulations Relating to Internet Audio-visual Program Services” for further details regarding the regulations on live streaming services.

**We have experienced rapid growth in recent periods. If we fail to manage our growth effectively and control our expenses, we may be unable to execute our business strategies, maintain high-quality services or adequately address competitive challenges.**

You should not consider our recent growth as indicative of our future performance. We have experienced rapid growth in our business and operations and rapid expansion of our product portfolio in recent years, which places significant demands on our management, operational and financial resources. For example, our total MAUs grew from approximately 88 million in December 2013 to approximately 456 million in October 2016. Our total number of employees grew from 218 as of December 31, 2013 to 1,001 as of June 30, 2016. Our total revenue grew from RMB85.9 million for the year ended December 31, 2013 to RMB741.8 million for the year ended December 31, 2015, and from RMB180.6 million for the six months ended June 30, 2015 to RMB585.5 million for the six months ended June 30, 2016. We anticipate that we will continue to significantly expand our operations, especially our overseas operations, and continue to diversify our products and services and monetization efforts. However, given our limited operating history and the rapidly-evolving markets in which we compete, we may encounter difficulties as we establish and expand our operations, product development, sales and marketing, and general administrative capabilities.

We face significant competition for talented employees, and we may not be able to hire new talent quickly enough or successfully integrate our new hires to meet our needs and support our operations, in particular research and development and monetization efforts. In addition, we expect our expenses to continue to increase in the future as we broaden our user base and increase user engagement in China and overseas, and develop and launch new products and services. Continued growth could also strain our ability to continue to provide quality products and services to our users, business partners and customers, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. If we are unable to generate adequate revenue and to manage our expenses, we may continue to incur significant losses in the future and may not be able to maintain profitability. Our expenses may grow faster than our revenue, and our expenses may be greater than we anticipate. Managing our growth will require significant expenditures and the allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, operating results and financial condition could be harmed.

**If we fail to meet the challenges presented by our increasingly globalized operations, our business may be materially and adversely affected.**

Although revenue generated from our overseas markets remains insignificant (less than 1% of our total revenue) as of the date of this prospectus, one of our key growth strategies is to expand our overseas operations to further build a global user base and broaden our cooperation with overseas business partners, which requires significant resources and management attention and will subject us to a number of risks. We assembled a dedicated team for international expansion in June 2014, and we had eight overseas offices in seven countries and regions, namely Brazil, Hong Kong, India, Indonesia, Japan, Singapore and the United States as of October 31, 2016. As of October 31, 2016, our apps had more than one million total users from each of 26 overseas countries and regions. The risks we face in global expansion include:

- challenges in selecting suitable geographic regions for global expansion;
- challenges in effectively localizing and adapting our products and services and sales and marketing strategies for specific countries and regions, including cultural differences and preferences;
- new and different sources of competition;
- challenges in identifying appropriate local representatives, employees and business partners in different overseas markets and establishing and maintaining good working relationships with them;
- increased costs generally associated with doing business in foreign jurisdictions;



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- challenges in formulating and successfully implementing monetization strategies in different overseas markets;
- compliance with applicable foreign laws and regulations in particular for countries and regions in which we maintain offices (Brazil, Hong Kong, India, Indonesia, Japan, Singapore and the United States), including but not limited to Internet content requirements, data privacy requirements, foreign exchange controls, cash repatriation restrictions, labor laws and intellectual property protection rules;
- fluctuations in currency exchange rates; and
- exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rates.

Our business may be materially and adversely affected by these and other risks associated with our increasingly globalized operations.

**We rely on a limited number of third-party suppliers and their authorized distributors for smartphone components and materials, contract manufacturers for the manufacture of our smartphones, and logistics and warehouse providers for the transportation and storage of smartphone components and products.**

All of the components and materials used to produce our smartphones are sourced from third-party suppliers and their authorized distributors, and some of these components and materials are provided by a single or a limited number of suppliers and their authorized distributors. All of the components and materials we procure are sold to us on a non-exclusive basis. In addition, we do not have internal manufacturing capabilities and rely on two contract manufacturers, namely Foxconn and another contract manufacturer that we started to engage in early 2016, to manufacture our smartphones. As of the date of this prospectus, Foxconn indirectly owns approximately 1.81% of our total issued and outstanding ordinary shares (assuming each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and assuming the options granted under the ESOP are not exercised). If we lose access to or experience a significant disruption in the supply of components and materials from our suppliers or their authorized distributors, or if we fail to maintain our relationships with our contract manufacturers, we may be unable to timely procure adequate substitutes at an acceptable price, or at all. As a result of the foregoing, our smart hardware business could be materially and adversely affected. Furthermore, we generally have internal requirements forecasts for smartphone components and materials, based on which we make orders with our suppliers and their authorized distributors as well as our contract manufacturers. If the forecasts turn out to have underestimated our actual needs, we may suffer from a shortage of supply of the components and materials, which may severely impact our inventory levels and capability to meet market demands for our smartphones. In addition, if we experience a significant increase in demand for our smartphone products, our suppliers and their authorized distributors as well as our contract manufacturers might not have the capacity or elect to meet our needs as they allocate components, materials or manufacturing capacities to other customers and force us to seek new suppliers, suppliers' authorized distributors or manufacturers. In addition, we engage a limited number of logistics and warehouse providers to transport and store our smartphone components, materials and finished products. Identifying a suitable supplier or its authorized distributor, a contract manufacturer or a logistics and warehouse provider is an involved process that requires us to become satisfied with such third parties' quality control, responsiveness, after-sale service, financial stability and labor and ethical practices, and if we seek to source components and materials from new suppliers or authorized distributors or services from new manufacturers or logistics and warehouse providers, we may not be able to do so in a manner that does not disrupt the manufacture and sale of our products.

Our reliance on suppliers and their authorized distributors, contract manufacturers and logistics and warehouse providers involves a number of additional risks, including risks related to:

- capacity constraints of our suppliers, contract manufacturers and logistics and warehouse providers;
- failure on our part to maintain good working relationships with suppliers and their authorized distributors, or failure of their authorized distributors to maintain good working relationships with suppliers;
- material price or service fee increases;



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- component and product quality;
- timely production and delivery;
- failure of a key supplier or its authorized distributors to remain in business and adjust to market conditions; and
- disruptions in manufacturing operations due to equipment breakdowns, labor strikes or shortages, component or material shortages, cost increases, natural disasters, fire, acts of terrorism or other events beyond our control.

In addition, we do not control our suppliers, their authorized distributors, contract manufacturers or logistics and warehouse providers, including their labor, environmental or other practices, or require them to comply with a formal code of conduct. Although we conduct periodic audits of such third parties' qualifications and their compliance with applicable license/approval requirements, laws and regulations and good industry practices, these audits may not be frequent or thorough enough to detect non-compliance. A violation of labor, environmental or other laws by such third parties, or any failure on their part to follow ethical business practices, could lead to negative publicity and harm our reputation. In addition, we may choose to use alternative suppliers and their authorized distributors, manufacturers or logistics and warehouse providers if these violations or failures were to occur. Identifying and qualifying new suppliers and their authorized distributors, manufacturers and logistics and warehouse providers can be time-consuming and we may not be able to substitute suitable alternatives in a timely manner or at an acceptable cost.

**We derive a significant portion of our revenue from a limited number of customers.**

Our top five customers, which include distributors and retailers for Meitu smartphones and our advertising customers, accounted for approximately 26.8%, 74.2%, 78.0% and 68.8% of our revenue for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. For each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our largest customer accounted for approximately 11.5%, 65.3%, 45.1% and 50.5% of our revenue, respectively. Our largest customer for the year ended December 31, 2013 was an advertising customer, while our largest customer for each of the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016 was a smartphone distributor or retailer. The loss of a small number of our large customers, or the reduction in business with one or more of these customers, could have a significant adverse impact on our operating results.

**We rely on a limited number of distributors and after-sale service providers for the sale and services of our smartphones. Any failure to renew agreements with these parties or any breach of such agreements by them may materially and adversely affect our business and operating results.**

As of June 30, 2016, we had seven distributors for smartphone sales in China, Hong Kong, Macau and Taiwan. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our top distributor contributed approximately nil, 4.0%, 50.7% and 53.7% of our smartphone revenue, respectively. We rely on distributors to assist us in exploring and penetrating new markets for our smartphones. In addition, we rely on third-party service providers to provide after-sale services. We may not be able to maintain our relationships with these distributors and service providers or be successful in attracting new quality distributors or service providers to maintain or expand our smartphone business. For example, if we increase smartphone sales through our direct sales channel in the future, we would be competing with our distributors, which may adversely affect our relationship with them.

We generally enter into agreements with our distributors with terms of six months to one year. Our agreements with after-sale service providers generally have terms of one to two years. We may not be able to renew these agreements at all or on terms that are favorable to us, and distributors or after-sale service providers may not fulfill their commitments as set out in the respective agreements in time, or at all. If the relevant agreements cannot be renewed or if our distributors or after-sale service providers breach any of the terms thereunder, our smartphones business and our operating results may be materially and adversely affected. In addition, our after-sale service providers may not deliver after-sales services according to the standards we prescribe in the agreements, in which case our reputation may be damaged.

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**Efforts to implement a unified user account system and add more media and social features into our apps to further connect our users may not ultimately succeed, and could reduce the attractiveness of our products and adversely affect our business and results of operations.**

We are in the process of integrating our 280 million registered user accounts across multiple apps into a unified account system. We expect the number of registered accounts after completion of integration will be below 280 million as we will deactivate user accounts that have not been active on our platform, and users may choose not to migrate to the new user account system. In addition, to enhance user experience and engagement, we have begun integrating media and social features into our apps.

We aim to continue to grow our user base and increase user engagement by building user communities, which may lead us to additional monetization opportunities. However, we may not succeed in this strategy. The strategy may divert the attention and resources of our management and research and development personnel away from the development of other new products or upgrades of existing products which would otherwise drive revenue growth. In addition, we may face unanticipated costs and time investments in the process if we experience any unforeseen and untested technological or regulatory issues. If we fail in these efforts, or fail to realize the anticipated benefits of and recoup our investments in such efforts, our business and results of operations may be materially and adversely affected.

**The markets in which we operate are highly competitive. If we are unable to compete effectively for users, user engagement, business partners and customers, our business and operating results may be materially and adversely affected.**

Although we believe that no other companies compete directly with us as the builder of an ecosystem centered around beauty, we face significant competition in each separate business and in overseas markets. See “Business — Competition”. Our competitors may have substantially more financial, technical and other resources, longer operating histories in businesses such as smartphones, apps, online advertising, e-commerce, live streaming and mobile games, as well as broader product offerings and larger market share. We may be unable to compete successfully against these competitors or new market entrants, which may adversely affect our business and financial performance.

We believe that our ability to compete effectively against other market participants depends upon many factors, some of which are beyond our control, including:

- the popularity, usefulness, ease-of-use, performance and reliability of our products and services compared to those of our competitors, which are highly dependent on our product development and technological capabilities and our insights into user behavior and preferences as compared to our competitors;
- our ability to increase the revenue and profit margin of our smartphones in a market that tends to be dominated by large brands;
- our ability to compete with our competitors for users, user engagement, business partners and customers;
- our ability to identify and capture new market opportunities in advance of our competitors;
- our reputation and brand strength relative to our competitors;
- as we continue to build a platform of products and services with new functions and features, we may become competitors with certain business partners, who may react by limiting our product and services reach to their users or otherwise cease or reduce cooperation with us;
- regulations or government policies in the markets where we operate;
- acquisitions or consolidation within industries, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees; and
- our ability to manage and grow our operations cost-effectively.

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**If we fail to keep up with technological developments and evolving user demands and expectations, our business and operating results may be materially and adversely affected.**

We operate in a market characterized by rapidly-developing technologies, evolving industry standards, frequent new product and service launches and updates, and changing user demands and expectations. The continuing popularity of our products and services and our ability to further monetize depend in significant part on our ability to adapt to these rapidly-changing technologies and industry standards as well as our ability to continually innovate in response to evolving user demands and expectations and intense market competition. For example, one of our most popular products, *Meitu*, which was launched as a PC version in 2008 and as an app in 2011, had gone through over 130 versions for Android and iOS as of October 31, 2016. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business and operating results. For example, we have also stopped developing, maintaining and updating certain apps because they did not sufficiently resonate with users.

Moreover, enhancing legacy technologies and incorporating new technologies into our products involve numerous technical challenges, substantial capital and personnel resources and significant time, and we may not be able to handle these challenges effectively due to numerous factors, some of which are beyond our control. For instance, our ability to predict user demands and expectations is linked to the size of our user base and the level of user engagement, as the more samples of user behavior we collect, the more accurate our apps can be in making the correct editing suggestions and other recommendations to users. If we fail to retain or expand our user base or maintain user engagement levels, the amount of data available to us for analysis would be affected, and our ability to predict user preferences may be adversely impacted. Thus, all of the factors that affect the size and level of engagement of our user base also affect our ability to keep up with technology and user expectations. See “— If we fail to grow or retain our user base, or if user engagement ceases to grow or declines, our business and operating results may be materially and adversely affected”.

Although we have been and will continue to devote significant resources to the enhancement and development of technologies, products and services, we may not be able to effectively develop or integrate new technologies on a timely basis or at all, which may decrease user satisfaction. In addition, new technologies may not succeed or integrate well with our products and services, and even if integrated, may not function as expected or may be unable to attract and retain a substantial number of users. Our failure to keep pace with rapid technological changes may impact our ability to retain or attract users or generate revenue, and have a material and adverse effect on our business and operating results.

**Privacy concerns relating to the use of user information by us or third parties, or any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, could negatively impact our user base or user engagement, or subject us to governmental regulation and other legal obligations, which could have a material and adverse effect on our business and operating results.**

We generally do not collect user personal data except for age, gender, mobile phone numbers and location of *Meipai* users or during major social or promotional activities with participating users’ consents. We, however, collect certain user personal data in order to comply with China’s Administrative Provisions on Mobile Internet Applications Information Services. See “Regulations — Regulations on mobile Internet applications information services”. Part of *Meipai*’s user-generated-content is stored on servers maintained by third parties which have access to such user data. In addition, certain of our business partners may also have access to users’ or game players’ data, including Forgame, the joint developer and main operator of our mobile game, and potential e-commerce partners. Concerns about the collection, use, disclosure or security of personal information or other privacy-related matters on the part of us or such third parties, even if unfounded, could damage our reputation, cause us to lose users and business partners and subject us to regulatory investigations, all of which may materially and adversely affect our business and operating results. We strive to comply with, and cause business partners to comply with, applicable data protection laws and regulations, our own privacy policies pursuant to our terms of use and other obligations we may have with respect to privacy and data protection. However, we use standard terms-of-use language across different regions that may not necessarily be adapted to reflect different local laws, and any failure or perceived failure by us or any business partners to comply with local laws,

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regulations or policies may result in inquiries and other proceedings or actions against us by government agencies or others, as well as negative publicity and damage to our reputation and brand image, each of which could cause us to lose users and business partners and have an adverse effect on our business and operating results.

Any system failure or security breach that results in the release of, or unauthorized access to, personal data, or any failure or perceived failure by us or any business partners to comply with applicable privacy and data protection laws, regulations and policies, could result in proceedings against us by governmental entities or others. Such proceedings could result in the imposition of sanctions, fines, penalties, liabilities, and/or governmental orders requiring us to change our data collection, transfer and storage practices, any of which could have a material adverse effect on our business, operating results, and financial condition.

In addition, the interpretation of privacy and data protection laws and their application to the mobile Internet industry is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting manners from country to country, or region to region, and in a manner that is not consistent with our current data protection practices. As our operations become increasingly globalized, complying with these varying international requirements could cause us to incur additional costs and change our business practices.

**We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new employees to replace these key personnel.**

We depend on the continued contributions of our senior management and other key employees. In particular, we rely on the expertise, experience and leadership ability of our core senior management members, particularly Mr. Cai, our founder and the Chairman of our board of directors, and Mr. Wu, our founder and Chief Executive Officer. Mr. Cai and Mr. Wu have been critical to the strategic direction and overall management of our company.

If one or more of our key personnel are unable or unwilling to continue in their present positions within our Company, we may not be able to replace them easily or at all, which may cause a significant disruption to our business operations, strategic plan and strategy implementation, and materially and adversely affect our financial condition and results of operations. We may also have to incur additional and potentially significant expenses to recruit and train new personnel. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose knowhow, trade secrets, business partners and key professionals and staff. Furthermore, since the demand and competition for talent is intense in our industry, we may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future, which could increase our compensation expenses. Although we also recruit technology talent from leading universities and competing companies, we may not be able to recruit sufficient technology talent to support the growth of our business.

**Our business and operating results may be harmed by service disruptions, or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.**

We may experience service disruptions, outages and other large-scale performance problems due to a variety of factors, including infrastructure changes, human or software errors, hardware failure, capacity constraints due to an overwhelming number of users accessing our apps and services simultaneously, computer viruses and denial of service, fraud and security attacks, whether such disruptions, outages or other problems are caused by ourselves or by third-party service providers. During the Track Record Period, we have experienced temporary immaterial service disruptions to *Meipai*, and we have responded and resolved these issues shortly after we received the relevant reports. However, although we have not suffered from material disruptions, outages and other large-scale performance problems in the past, we may encounter these issues in the future, especially given the recent expansion of our operations. As the number of our users increases and our users generate more content, in particular as a result of our expansion of the live streaming services on *Meipai*, we may be required to expand and adapt our technology and infrastructure to continue to reliably store, process and analyze this content. It may become increasingly difficult and costly to maintain and improve the performance of

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our apps and services, especially during peak usage times, as our user traffic increases. If our users are unable to access our apps in a timely fashion, or at all, our user experience may be compromised and the users may seek other apps to meet their needs, and may not use our apps as often in the future, or at all. This would negatively impact our ability to retain and attract users and maintain the level of user engagement, and may in turn result in negative perception of our products and services by our business partners.

In addition, any disruption or failure in our infrastructure, whether caused by us or third-party service providers, could affect our ability to retain existing users or cause us to lose the data and content stored in our system, which would have a material and adverse impact on our business and our ability to retain or attract users and business partners.

**We may not be able to adequately protect our intellectual property, which could cause us to be less competitive and third-party infringements of our intellectual property rights may adversely affect our business.**

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain or use our intellectual property, including seeking court declarations that they do not infringe upon our intellectual property rights. Monitoring unauthorized use of our intellectual property is difficult and costly, and the steps we have taken may not fully prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources, and thus may adversely affect our business.

**We may be subject to intellectual property infringement claims or other allegations by third parties, which may materially and adversely affect our business, operating results and prospects.**

We have been subject to immaterial intellectual property infringement claims and allegations in the past, and may in the future be subject to intellectual property claims or other allegations by third parties for the products and services we provide. Companies in the Internet, technology, smartphone and media industries are frequently involved in litigation related to allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties' rights. The validity, enforceability and scope of protection of intellectual property rights in Internet-related industries, particularly in China, are still evolving. We may face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors, or allegations that we are involved in unfair trade practices. As we face increasing competition and as litigation becomes a more common method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources, and favorable final outcomes may not be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our products and services to reduce the risk of future liability, may have a material adverse effect on our business, operating results and prospects.

**We rely in significant part upon effective interoperation with mobile operating systems, networks, mobile devices and standards that we do not control.**

We make our apps available across a variety of mobile operating systems and devices both in China and overseas. We are dependent on the interoperability of our apps with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that decrease the functionality of our apps or give preferential treatment to competing products may materially and adversely affect usage of our products. Further, if the number of platforms for which we develop our apps increases, which is typically seen in the dynamic and fragmented mobile Internet market both in China



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and overseas, it will result in an increase in our costs and expenses. In order to deliver high-quality products and services, it is important that our products and services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. Although we have developed relationships with key participants in the mobile industry and such key participants develop products that operate effectively with these operating systems, networks, devices and standards, there is no guarantee that we can continue to maintain such relationships or develop new relationships with other key participants. If it becomes difficult for our users to access and use our products and services, particularly on their mobile devices, our user growth and user engagement could be harmed, and our business and operating results may be materially and adversely affected.

### **Future strategic investments or mergers and acquisitions may have a material and adverse effect on our business and operating results.**

We have in the past and may in the future invest in various businesses. Over the Track Record Period, we made minority investments of an aggregate of approximately RMB324 million in different companies in China and overseas that we believe have technologies or businesses that complement and benefit our business. None of these individual investments are regarded as material. Such investments could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business and operating results. Underperformance of companies we invest in may result in impairment of the investments, thus impacting our financial results. We may have little ability to control or monitor the actions of investee companies and to the extent such investees suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

We may invest in or acquire businesses that: (i) possess cutting-edge technologies such as machine learning, computer vision, virtual reality, augmented reality and other technologies related to our business; (ii) have proven monetization models in Internet services, including but not limited to advertising, e-commerce and IVAS, that synergize with our plans to continue monetizing our user base; (iii) operate apps or social communities with meaningful user bases; and (iv) own quality entertainment intellectual property or produce quality video content, such as production houses, that can enrich our content and entertainment offerings. Any future investments, mergers and acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. The assets or businesses we invest in, merge with or acquire may not generate results we expect. In addition, acquisitions, mergers and investments could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the incurrence of debt, the incurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. When we make investments or acquisitions, or enter into mergers we may not be able to fully and timely comply with applicable laws and regulations due to factors beyond our control, including but not limited to changes in governing authorities, changes in government policies, and the time required for governmental filings and procedures pertinent to such transactions. We have encountered several instances of immaterial non-compliance in connection with acquired companies, and we have taken immediate steps to rectify such non-compliance. Moreover, the costs of identifying and consummating investments, mergers and acquisitions may be significant. In addition to possible shareholders' approval, we may also have to obtain approvals and licenses from the government authorities in China or overseas for future investments, mergers and acquisitions and comply with applicable PRC or overseas laws and regulations, which could result in increased costs and delays.

### **Differences in the assumptions and estimates adopted by the two industry consultants that we commissioned to prepare reports, and limitations on certain data available to them may impact the comparability of certain industry data.**

In connection with the Global Offering, we commissioned iResearch and Frost & Sullivan to conduct market research concerning certain Internet-related industries and China's smartphone industry. We commissioned iResearch to conduct market research concerning Internet-related industries in China, including



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the photo app, short-form video platform, e-commerce and live streaming markets, because we believe that iResearch has specialized research capabilities and experience in tracking user data for Internet-related industries in China. We commissioned Frost & Sullivan to conduct market research concerning China's smartphone market and the global mobile Internet and online advertising markets, because we believe that Frost & Sullivan has specialized research capabilities and experience for the smartphone market and comparisons between China and international markets. In deriving the market size of the aforementioned industries, iResearch and Frost & Sullivan may have adopted different assumptions and estimates, such as the number of mobile Internet users.

In addition, we track *Meipai's* MAUs as the sum of (i) the number of devices that access the *Meipai* app ("***Meipai* in-app user**") and (ii) the number of cookies (a commonly used tracking code) recorded by mobile browsers or third-party apps that access *Meipai's* content, at least once during the calendar month in question. We believe that presenting *Meipai's* MAUs to reflect *Meipai's* reach beyond its in-app users is necessary and appropriate, as both *Meipai* viewers within *Meipai* app and outside of *Meipai* app consume *Meipai's* content and are exposed to *Meipai's* influence, which forms the basis for *Meipai's* potential monetization opportunities. However, iResearch, our industry consultant that conducted market research for the short-form video platform market in connection with the Global Offering, did not have access to data with respect to our competitors on the number of cookies recorded by mobile browsers or other apps through which content of short-form video platforms is accessed. Therefore, iResearch defines market size for the short-form video platform industry as the number of devices that have accessed the short-form video platforms' content through (i) the short-form video platforms' own app, (ii) mobile browsers or (iii) other apps, at least once during the calendar month, instead of adopting the MAU definition that we used for *Meipai*. As a result, *Meipai's* MAUs may not be directly comparable to the size in terms of unique devices of the short-form video platform market. You should therefore not place undue reliance on such comparisons.

**We rely on assumptions and estimates to calculate certain key operating metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.**

The numbers of MAUs of our apps, except the number of cookies recorded by mobile browsers or third-party apps that access *Meipai's* content, are tracked through the data services provided by third-party data tracking companies. While we have conducted sample testing to validate the methodology of the third-party data collection, we have not independently verified such data. Certain other key operating metrics, such as the number of photos generated, are calculated using our internal data that have not been independently verified by third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. In addition, our key operating metrics are derived and calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance. For example, MAUs for a specific app (other than *Meipai*) refer to the number of devices that activate the app during the calendar month in question, while total MAUs refers to the sum of the MAUs of all of our apps. Furthermore, the definition of MAUs for *Meipai* is different from that for our other apps, and refers to the sum of the number of devices that access the *Meipai* app and the number of cookies recorded by mobile browsers and third-party apps that access *Meipai's* content at least once during the calendar month in question. We are generally able to identify a device that accesses *Meipai* both through the *Meipai* app and mobile browsers or third-party apps during a given period, and such device is recorded as one MAU. However, in certain circumstances, we may not be able to identify such overlap, and in such cases those devices would be recorded as two MAUs, which might overstate our MAUs for *Meipai*. For details, see the section headed "Glossary of Technical Terms".

Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in data resources and methodology. Although we are in the process of developing our own internal tracking system, such system may not function correctly. If our business partners do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and our business partners may be less willing to allocate their resources or spending to us, which could negatively affect our business and operating results.

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**Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.**

We have devoted substantial resources to the development of our technology and knowhow, and treat them as trade secrets. In order to protect our technology and knowhow, we rely significantly on confidentiality provisions in the agreements with our employees and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

**Our business is sensitive to general economic conditions. A severe or prolonged downturn in the Chinese or global economy, including the economy in our overseas markets could materially and adversely affect our business and financial condition.**

Our business operations in China and the overseas markets where we operate are sensitive to global economic conditions. Since we derive, and expect to continue to derive, a significant portion of our revenue from China in the near future, our business and prospects may be affected by economic conditions in China. In addition, as we continue to expand our overseas operations in various countries and regions, we expect to also be affected by economic conditions in these countries and regions. Economic conditions are subject to events and factors beyond our control. Our user- and consumer-facing products such as smartphones are discretionary spending items for users and consumers, and as such they are affected by factors such as levels of disposable income, perceived future earnings and willingness to spend. For advertising customers, spending with us is affected by factors such as general market conditions, macroeconomic conditions and conditions in such advertisers' own industries. For example, the result of the June 2016 referendum by British voters to exit the European Union has and is expected to continue to cause volatility and uncertainty in the global markets, which may lead to, among other things, negative impact on the willingness of consumers and advertising customers to spend, which may adversely affect our results of operations. In addition, any renewed financial turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects.

**We may be subject to product liability or warranty claims that could result in significant direct or indirect costs, or we could experience greater returns than expected, which could harm our business and operating results.**

We generally provide a one-year warranty on the smartphones that we sell, which allows consumers to have their purchases replaced, repaired or returned primarily depending on the time lapsed and the type of defects involved. The occurrence of any material defects in our products could make us liable for damages and warranty claims. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, warranty expenses were immaterial, representing less than 1% of our total cost of sales and operating expenses for each period. In addition, we could incur significant costs to correct any defects, warranty claims or other problems, including costs related to product recalls. Any negative publicity related to the perceived quality and safety of our products could affect our brand image, decrease retailer, distributor and consumer demand, and adversely affect our operating results and financial condition. Also, while our warranty is limited to repairs, returns and replacements, warranty claims may result in litigation, the occurrence of which could adversely affect our business and operating results.

**We have granted share options under our ESOP, and may grant additional share options or other share-based awards under the ESOP, the Share Award Scheme and the Share Option Scheme, which may result in increased share-based compensation expenses and dilution to the shareholding of existing shareholders.**

We have adopted our ESOP for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. As of June 30, 2016, options to purchase 10,805,824 ordinary shares of our Company remained outstanding. We have incurred share-based compensation expenses of nil, RMB8.5 million, RMB24.4 million and RMB19.9 million for the years

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ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, and we may grant additional share-based awards under the ESOP. In addition, we conditionally adopted the Share Award Scheme and the Share Option Scheme on November 25, 2016, under which we may grant additional share-based awards, including options. Any additional grant of share-based awards, including options, by us will further increase our share-based compensation expenses, and dilute existing shareholders' shareholding.

**We carry on business in Hong Kong under a Chinese name that is different from our Chinese name as registered in the Cayman Islands, which we use for our business in China, and as a result we may not be able to benefit from our well-known brand name in Hong Kong as in China. The use of our Chinese name as registered in the Cayman Islands in this prospectus and the use of it in the course of trade or business in Hong Kong may be challenged.**

We were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on September 26, 2016 under “美图公司” (美图公司) and our name “Meitu, Inc.”. On October 5, 2016, we were served a notice under section 780 of the Companies Ordinance in respect of our Chinese name registered under Part 16 of the Companies Ordinance, which was, in the view of the Registrar of Companies, “the same as” that of 美图有限公司 (Import Export Metro Limited), a name that already existed in the index of company names kept by the Registrar of Companies. So far as we are aware, 美图有限公司 (Import Export Metro Limited) was incorporated in Hong Kong on February 5, 1991. We have obtained approval from, and have registered with, the Registrar of Companies for adopting “美图之家” as our approved Chinese name for carrying on business in Hong Kong. As a result, we carry on business in Hong Kong under a name that is different from our Chinese name as registered in the Cayman Islands, which we use for our business in China, and we may not be able to benefit from our well-known brand name in Hong Kong as in China.

**Our business is subject to fluctuations, which may materially and adversely affect our business and operating results.**

Our business is subject to seasonality and other fluctuations. As a result, our results of operations may fluctuate from period to period. Our interim financial performance may not be meaningful due to the seasonality of our sales and period-to-period comparisons of our operating results may not be indicative of the overall trends in our business. The results of our smart hardware segment are subject to the fluctuations that may be caused by product launches. We typically experience an increase in smartphone sales when we launch new smartphone products. Advertising spending in China has historically been prone to fluctuation, reflecting overall economic conditions as well as budgeting and buying patterns, generally peaking during the fourth quarter of each year. In addition, we recently introduced live streaming on *Meipai* and expect to be subject to any seasonality or other factors causing fluctuations in the live streaming and the broader online entertainment market in China. Thus, our results of operations for one or more future interim periods or years may fluctuate and such fluctuations could be significant.

**We have not purchased any insurance to cover our main assets, properties and business and our limited insurance coverage could expose us to significant costs and business disruption.**

Insurance companies in China generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. To the best of our Directors' knowledge, no insurance products that have been specifically designed for protecting the risks related to the Contractual Arrangements have been made available on the market. In line with general industry practice in China, we have not purchased any insurance to cover our main assets, properties and business. Further, we do not maintain business interruption insurance or key-man life insurance. Any disruption in our network infrastructure or business operations, litigation or natural disasters may result in our incurring substantial costs and the diversion of our resources, and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

**We had accumulated losses during the Track Record Period.**

As of December 31, 2013, 2014, 2015 and June 30, 2016, we had accumulated losses of RMB80.3 million, RMB1.9 billion, RMB4.1 billion and RMB6.3 billion, respectively. This was primarily due to the accumulated

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fair value loss of the Preferred Shares of RMB23.5 million, RMB1.7 billion, RMB1.5 billion and RMB1.9 billion, as of December 31, 2013, 2014, 2015 and June 30, 2016, respectively. Assuming the Global Offering will be completed according to the timetable as set out in this prospectus with the indicative Offer Price ranging from HK\$8.50 to HK\$9.60, the estimated total fair value loss to be recorded in relation to the Preferred Shares in the year ending December 31, 2016 will be between RMB6.0 billion and RMB7.6 billion. Pursuant to the conversion terms set forth in the Existing Articles, all the Preferred Shares will be automatically converted into ordinary shares immediately prior to the completion of the Global Offering. As a result, the liabilities of the Preferred Shares will be derecognized and accounted as an increase in share capital and capital reserve immediately prior to the completion of the Global Offering. Please refer to Note 27 to the Accountant's Report in Appendix I to this prospectus for further information regarding the Preferred Shares. However, we cannot assure you that we will not have accumulated losses in the future resulting from similar transactions or otherwise, which will limit our ability to distribute dividends.

### Risks Relating to Our Contractual Arrangements

**If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.**

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications services, Internet cultural services and other related businesses, including the provision of Internet audio-visual program services and mobile game operations. In particular, under the Guidance Catalog of Industries for Foreign Investment, the operation of our apps, other than *Meipai*, and website falls into the value-added telecommunications services business and is considered "restricted" and the operation of mobile games and provision of audio-visual program services to the public through our *Meipai* app fall into the Internet cultural services business and are considered "prohibited". We are a company incorporated in the Cayman Islands. To comply with PRC laws and regulations, we conduct our Internet-related business in China through Meitu Networks, our consolidated affiliated entity, and its subsidiaries, based on a series of contractual arrangements by and among Meitu Home, our wholly-owned PRC subsidiary, Meitu Networks and its shareholders. As a result of these contractual arrangements, we exert control over Meitu Networks and its subsidiaries and consolidate or combine their operating results into our financial statements. Meitu Networks and its subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our Internet-related businesses.

In the opinion of our PRC Legal Advisor, Jingtian & Gongcheng, (i) the ownership structures of our Company, Meitu Home and Meitu Networks are in compliance with existing PRC laws and regulations, (ii) subject to the risks as disclosed in "— Risks Relating to Our Contractual Arrangements" and the section headed "Contractual Arrangements", the contractual arrangements between Meitu Home, on the one hand, and Meitu Networks, and/or its shareholders, on the other hand, are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, and (iii) the business operations of our Company, Meitu Home and Meitu Networks, as described in this prospectus, are in compliance with existing PRC laws and regulations in all material aspects. For certain non-compliance matters relating to licensing, see "Business — Legal Proceedings and Compliance". There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisor. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among Meitu Home, Meitu Networks and its shareholders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the contractual arrangements;
- revoke our business and operating licenses;
- require us to discontinue or restrict operations;

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- restrict our right to collect revenue;
- shut down all or part of our websites or services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to the Group's business.

Furthermore, any of the assets under the name of any record holder of equity interest in our consolidated affiliated entity Meitu Networks and its subsidiaries, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the contractual arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entity and its subsidiary or the right to receive their economic benefits, we would no longer be able to consolidate our consolidated affiliated entity and its subsidiary, thus adversely affect our results of operation.

**Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.**

The Ministry of Commerce of the People's Republic of China ("MOFCOM") published a discussion draft of the proposed Foreign Investment Law ("Draft Foreign Investment Law") in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. While MOFCOM solicited comments on the Draft Foreign Investment Law in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects. Please see "Contractual Arrangements — Development in the PRC Legislation on Foreign Investment" for further details.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise ("FIE"). Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a "negative list", to be separately issued by the State Council later, if the FIE is engaged in the industry listed in the negative list, which calls for market entry clearance by the MOFCOM.

Under the Draft Foreign Investment Law, variable interest entities, or consolidated affiliated entities, that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors.

Although the Draft Foreign Investment Law was released for consultation purposes, there is substantial uncertainty regarding the Draft Foreign Investment Law, including with respect to its final content (especially the provisions dealing with VIE structure), adoption timeline or effective date. Mr. Wu, our Chief Executive Officer, is a Chinese national and will be capable of exerting material influence on the Board and Shareholders' meeting of the Company by virtue of the Concert Party Agreement despite Mr. Wu and Mr. Cai owning less than 50% of the voting rights of the Company, and is therefore the "actual controller" of the Company. However, our PRC



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Legal Advisor advised that it is still unclear as at the Latest Practicable Date as to (i) what level of “actual control” is required to qualify as a domestic enterprise; (ii) how domestic enterprises operated by foreign investors under a contractual arrangement are to be regulated; and (iii) what businesses are to be classified as “restricted business” or “prohibited business” in the negative list under the Draft Foreign Investment Law.

If, upon its enactment, the current Draft Foreign Investment Law (i) does not recognize our structure under our Contractual Arrangements as domestic investment; (ii) does not provide any preferential treatment to investors from Hong Kong, Macau and Taiwan; (iii) requires Meitu Home to apply for access permission (准入許可), a government permit that allows foreign investors to invest in “restricted” and/or “prohibited” businesses on the negative list, our Contractual Arrangements may be regarded as invalid and illegal if we have not obtained such access permission. As a result, our Group would not be able to continue our business in China through the Contractual Arrangements. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities, please refer to “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this prospectus.

Given that the relevant government authorities have broad discretion in interpreting the foreign investment laws and there are uncertainties as to the three possible approaches proposed in the Explanatory Notes on the treatment of existing contractual arrangements before the Draft FIL becomes effective as further described in “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this prospectus, in the worst case scenario, the Contractual Arrangements may be regarded by the relevant government authorities as invalid and illegal and the Relevant Businesses (as defined in the “Contractual Arrangements” section) may be ordered by the relevant government authorities to be discontinued under the existing structure and may not be sustainable in the event that: (i) the operation of the Relevant Businesses were to be recognized on the “negative list”, (ii) our Contractual Arrangement were to not be deemed as a domestic investment by the relevant government authorities, and (iii) there were to be no special treatment for the investors from Hong Kong, Macau and Taiwan who control a domestic enterprise. As a result, we will not be able to operate the Relevant Businesses through the Contractual Arrangements and will lose our rights to receive the economic benefits of Meitu Networks and its subsidiaries under the Contractual Arrangements and the financial results of Meitu Networks and its subsidiaries will no longer be consolidated into that of our Group and we will have to derecognize their assets and liabilities according to the relevant accounting standards.

In addition, on September 3, 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) was promulgated and became effective on October 1, 2016. Please refer to “Regulations — Regulations Relating to WFOEs” for further details.

Furthermore, the undertakings given by Mr. Wu and Mr. Cai (as set out in the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment”) may impact our ability to finance our future expansion plans or use Shares as consideration for acquisitions or as a form of equity incentive for our management and employees. In addition, if such measures in the undertakings are impractical to be carried out, this may bring an adverse effect on our Contractual Arrangements. We also cannot assure you that these undertakings will not serve as a disincentive to parties proposing to acquire a material interest in our Shares or control of our Company, which may have a negative impact on the price and liquidity of our Shares.

**Our contractual arrangements may not be as effective in providing operational control as direct ownership and Meitu Networks or their shareholders may fail to perform their obligations under our contractual arrangements.**

Since PRC laws limit foreign equity ownership in value-added telecommunications services and Internet cultural services in China, we operate our Internet-related business in China through our consolidated affiliated entity Meitu Networks and its subsidiaries, in which we have no ownership interest and rely on a series of contractual arrangements with Meitu Networks and its shareholders to control and operate these businesses. Our



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revenue and cash flow from our Internet-related businesses are attributed to Meitu Networks and its subsidiaries. The contractual arrangements may not be as effective as direct ownership in providing us with control over Meitu Networks and its subsidiaries. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of Meitu Networks, which, in turn, could effect changes, subject to any applicable fiduciary obligations at the management level. However, under the contractual arrangements, as a legal matter, if Meitu Networks or its shareholders fails to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the shareholders of Meitu Networks were to refuse to transfer their equity interest in Meitu Networks to us or our designee when we exercise the call option pursuant to the contractual arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by Meitu Networks and its subsidiaries. As a result, we may be unable to consolidate Meitu Networks and its subsidiaries in our consolidated financial statements, which could materially and adversely affect our results of operations and financial condition.

**We may lose the ability to use and enjoy assets and licenses held by Meitu Networks and its subsidiaries that are important to the operation of our business if Meitu Networks or any of its subsidiaries declares bankruptcy or become subject to a dissolution or liquidation proceeding.**

Meitu Networks and its subsidiaries hold certain assets that are important to our business operations. The contractual arrangements with Meitu Networks and its shareholders contain terms that specifically obligate the shareholders of Meitu Networks to ensure the valid existence of Meitu Networks and that Meitu Networks may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate Meitu Networks, or should Meitu Networks or any of its subsidiaries declares bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

**Our contractual arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.**

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the contractual arrangements between Meitu Home and Meitu Networks were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on Meitu Networks' tax position. Such adjustments may adversely affect us by increasing Meitu Networks' tax expenses without reducing the tax expenses of Meitu Home, subjecting Meitu Networks to late payment fees and other penalties for under-payment of taxes. Our consolidated results of operations may be adversely affected if Meitu Networks' tax liabilities increase or if it is subject to late payment fees or other penalties.

**Shareholders of Meitu Networks may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.**

We conduct our value-added telecommunications services, Internet cultural services and other related businesses, and generate almost all of revenue from such businesses, through Meitu Networks and its subsidiaries. Our control over these entities is based upon the contractual arrangements with Meitu Networks and its shareholders that allow us to control Meitu Networks. These shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us if they believe it would further their own interest or

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if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Meitu Networks, the shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor.

In addition, these shareholders may breach or cause Meitu Networks to breach the contractual arrangements. If Meitu Networks or its shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control Meitu Networks and otherwise result in negative publicity. There is also substantial uncertainty as to the outcome of any such legal proceedings.

**We conduct our business operation in the PRC through Meitu Networks and its subsidiaries by way of the contractual arrangements, but certain of the terms of the contractual arrangements may not be enforceable under PRC laws.**

All the agreements which constitute the contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit our ability to enforce the contractual arrangements. In the event that we are unable to enforce the contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over Meitu Networks and its subsidiaries, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

The contractual arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Meitu Networks, injunctive relief and/or winding up of Meitu Networks. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Meitu Networks in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in Meitu Networks in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the contractual arrangements by Meitu Networks and/or their respective shareholders, and if we are unable to enforce the contractual arrangements, we may not be able to exert effective control over Meitu Networks, which could negatively affect our ability to conduct our business.

**If we exercise the option to acquire equity ownership of Meitu Networks, the ownership transfer may subject us to certain limitations and substantial costs.**

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”) promulgated by the State Council, foreign investors are not allowed to hold more than 50% of the equity interests of any company providing value-added telecommunications services, including ICP services. In addition, the main foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. Although we have taken many measures to meet the Qualification Requirements, we still face the risk of not satisfying the requirement promptly. If when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China, we may be unable to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification

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Requirements we may be ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the contractual arrangements, Meitu Home (or any subsidiary within our Group) has the exclusive right to purchase all or any part of the equity interests in Meitu Networks from the respective shareholders for a nominal price, unless the relevant government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request. Subject to relevant laws and regulations, the respective shareholders shall return any amount of purchase price they have received to Meitu Home. If such a transfer takes place, the competent tax authority may require Meitu Home to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

### RISKS RELATING TO DOING BUSINESS IN CHINA

**If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in China, or if we are required to take compliance actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.**

The Internet and mobile industries in China are highly regulated. We currently derive a significant portion of our revenue and cash flow from Meitu Mobile, our subsidiary, and Meitu Networks, our consolidated affiliated entity, and their respective subsidiaries. Meitu Mobile and Meitu Networks and Meitu Networks' subsidiaries are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the SARFT, the MOC, the MIIT, and the SCIO, jointly regulate major aspects of the Internet industry, including the mobile Internet and mobile games businesses. Operators must obtain various government approvals and licenses for relevant mobile business.

We have obtained approvals for the production of smartphones, the ICP licenses for provision of Internet information services, Online Culture Operating Licenses for audio-visual program services, and Online Culture Operating Licenses for the operation of online games, which are essential to the operation of our business and are generally subject to regular government review or renewal. Meipai Technology is required to hold a License for Transmission of Audio-Visual Programs through Information Network, a ICP license and an Online Culture Operating License for the operation of *Meipai*. During the Track Record Period, we had three instances of non-compliance with respect to the aforementioned licenses of Meipai Technology, two of which have been fully rectified and one of which we are in the process of rectifying. We cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. See “Business — Legal Proceedings and Compliance”.

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that were generated through the unlicensed Internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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**Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially and adversely affect our business and results of operation.**

A significant portion of our operations are conducted in China and substantially all of our revenue are sourced from China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Economic reforms have resulted in significant economic growth in China in the past few decades. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past few decades, the rate of growth has slowed down since 2012, and growth has been uneven across different regions and among various economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although the Chinese economy has grown significantly in the past decade, that growth may not continue and any slowdown may have a negative effect on our business. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China, could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our businesses, lead to reduction in demand for our products and adversely affect our competitive position.

**The PRC legal system embodies uncertainties which could limit the legal protections available to us.**

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The PRC legal system evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. Our PRC subsidiaries, Meitu Mobile and Meitu Home are wholly foreign-owned enterprise, as they were incorporated in China and are wholly owned by foreign investors. It is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to Internet-related industries, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

**Regulation and censorship of information disseminated over the Internet in China may adversely affect our business and subject us to liability for content posted on our platform.**

Internet companies in China are subject to a variety of existing and new rules, regulations, policies, and license and permit requirements. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any Internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. For example, in July 2016, the Ministry of Public Security launched a "Special Rectification Activities for Live Streaming Websites" campaign. Based on publicly available information, the campaign aims to eliminate illicit or pornographic information and content on live streaming websites by, among other things, holding liable individuals and corporate entities that facilitate the distribution of illicit or pornographic information and content. In April 2016, based on publicly available information, the Ministry of Culture of China investigated certain live streaming websites in China, which did not include *Meipai*, that are suspected of hosting videos or live streaming shows containing violent or pornographic content. For details of regulations on information security and censorship, see "Regulations — Regulations on Information Security and Censorship".

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We endeavor to eliminate illicit content from our apps. We have made significant investments and resources to monitor content that users post on *Meipai*. See “— Risks Relating to Our Business and Industries — Our business significantly depends on the strength and market perception of our brand, and our brand image may be adversely impacted by any negative publicity or misuse of our products”. In addition, government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. We cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumors that government actions or sanctions have been brought against us, our reputation and brand image could be harmed, we may lose users and business partners, our revenue and results of operation may be materially and adversely affected.

**We may be required to obtain prior approval from the CSRC for the listing and trading of our Shares on the Hong Kong Stock Exchange.**

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the SAIC, the CSRC, and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which became effective on September 8, 2006, and amended on June 22, 2009.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this offering is not required because (i) Meitu Home was incorporated as a foreign-invested enterprise without involving acquisition of the equity or assets of a “PRC domestic company”, as such term is defined under the M&A Rules, (ii) Meitu Home Beijing was incorporated as Meitu Home’s wholly-owned subsidiary and (iii) Meitu Mobile was incorporated as a PRC domestic company in February 2013 and became a sino-foreign equity joint venture in May 2014 in compliance with the M&A Rules. In July 2014, Meitu HK acquired the entire equity interest in Meitu Mobile, upon which Meitu Mobile was redesignated as a wholly foreign-owned enterprise of our Company, such that the M&A Rules are not applicable. Other than Meitu Home, Meitu Home Beijing and Meitu Mobile, all of our other PRC subsidiaries have been wholly owned by PRC citizens since their dates of incorporation, and as such, the M&A Rules are not applicable. As a result, we did not seek prior CSRC approval for this offering. However, we cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC Legal Advisor. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

**We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.**

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “EIT Law”), which became effective on January 1, 2008, an enterprise established outside China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform 25% enterprise income tax rate (the “EIT rate”), on its global income. Under the implementation rules of the EIT Law, “de facto management body” is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (“Circular 82”) that sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial)



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(《境外註冊中資控股居民企業所得稅管理辦法（試行）》) (“**SAT Bulletin 45**”), to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011 and revised on April 17, 2015. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities’ procedures.

Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within the PRC; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within the PRC. SAT Bulletin 45 specifies that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise.

Although Circular 82 and SAT Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general. If the PRC tax authorities determine that we were treated as a PRC resident enterprise for PRC enterprise income tax purposes, the 25% PRC enterprise income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

**PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.**

A number of PRC laws and regulations, including the M&A Rules, the Anti-monopoly Law (《反壟斷法》), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) promulgated by MOFCOM in August 2011 (the “**Security Review Rules**”), have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. These include requirements in some instances that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

**The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.**

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non — PRC Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》)(“**SAT**



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**Circular 698**) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company (an “**Indirect Transfer**”), and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax.

On March 28, 2011, the SAT released the SAT Public Notice (2011) No. 24 (“**SAT Public Notice 24**”), which became effective on April 1, 2011, to clarify several issues related to Circular 698. According to SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from disposition of the equity interests of an overseas holding company; and the term “does not impose income tax” refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the jurisdiction where the overseas holding company is a resident.

On February 3, 2015, the SAT issued 《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》 (“**SAT Circular 7**”), which abolished certain provisions in SAT Circular 698, as well as certain other rules providing clarification on SAT Circular 698. SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of PRC taxable assets. Under SAT Circular 7, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfers PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC enterprise income taxes and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling shares of an overseas listed holding company which holds such PRC taxable assets on a public market; and (ii) where there is an indirect transfer of PRC taxable assets, but if the non-resident enterprise had directly held and disposed of such PRC taxable assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

**Failure to obtain any preferential tax treatments or the discontinuation, reduction or delay of any of the preferential tax treatments that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.**

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, foreign-invested companies such as Meitu Home, and domestic companies such as our consolidated affiliated entity and its subsidiaries, are subject to a unified income tax rate of 25%. Various favorable income tax rates are, however, available to qualified enterprises in certain encouraged sectors of the economy. Companies that qualify as software enterprises are exempt from PRC income tax for two years and subject to a preferred income tax rate of 12.5% for the following three years, starting from the first profit making year. Meitu Home is a software enterprise, and is eligible for such preferential tax treatment commencing from its first profit-making year. Enterprises qualified as “high and new technology enterprise” are entitled to a preferential rate of 15%. Meitu Networks currently qualifies as a “high and new technology enterprise” until November 2016. We are in the process of renewing the “high and new technology enterprise” status of Meitu Networks in accordance with applicable PRC laws and regulations. However, if any of our PRC subsidiaries and consolidated affiliated entity and its subsidiaries that

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qualifies for preferential tax treatment fails to continue to qualify in a subsequent year, our income tax expenses would increase, which may have a material adverse effect on our net income and results of operations.

**You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our Shares.**

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

**The PRC government's pilot plan to replace the business tax with a VAT may subject us to pay more taxes, which could have a material adverse effect on our financial condition and results of operations.**

Pursuant to the PRC Provisional Regulations on Business Tax (《中華人民共和國營業稅暫行條例》), taxpayers providing taxable services falling under the category of service industry in China are required to pay a business tax at a normal tax rate of 5% of their revenues. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》). Pursuant to this plan and relevant notices, from January 1, 2012, a VAT was imposed to replace the business tax in the transport and shipping industry and some of the modern service industries in certain pilot regions. Under the pilot plan, a VAT rate of 6% applies to some modern service industries. On March 23, 2016, the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《關於全面推開營業稅改徵增值稅試點的通知》) was issued, pursuant to which the pilot plan for the replacement of business tax with VAT was expanded to all regions and industries as of May 1, 2016. While our PRC operational entities' main businesses are not currently subject to the higher VAT tax rate, we cannot assure you that they will not be subject to the higher VAT tax rate in the future.

**PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of Shareholders' loans or capital contributions after completion of the Global Offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises ("FIEs"), cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the SAFE or its local counterparts.

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Furthermore, any capital contributions we make to our PRC subsidiaries shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“Circular 19”), which will replace Circular 142 from June 1, 2015. Circular 19, however, allows foreign invested enterprises in China to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of a foreign invested company settled in RMB converted from foreign currencies remains not allowed to be used for investment in the security markets, offering entrustment loans or purchases of any investment properties, unless otherwise regulated by other laws and regulations. Circular 19 may limit our ability to transfer the net proceeds from the Global Offering to our PRC subsidiaries and convert the net proceeds into RMB.

**We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

The SAFE issued the Notice on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”), effective on July 4, 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“Circular 75”). Circular 37 requires PRC residents, including PRC individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity is referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with the SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfill the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

To the best of our knowledge, as at the Latest Practicable Date, our shareholders who are PRC residents as defined under the applicable provisions under Circular 75 or Circular 37 had registered with the SAFE in accordance with Circular 75. However, we may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents, and we cannot provide any assurance that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by the Circular 37 or other related rules in a timely manner. If any of our shareholders who is a PRC resident as determined by Circular 37 fails to fulfill the required foreign exchange registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries, which may adversely affect our business.

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**We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.**

We are a holding company, and we principally rely on dividends and other distributions on equity that may be paid by our PRC subsidiaries, namely Meitu Mobile and Meitu Home, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our ordinary shares and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC, such as Meitu Mobile and Meitu Home, may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of director of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

**Restrictions on the remittance of RMB into and out of the PRC and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.**

The PRC government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China. We receive a considerable portion of our revenue in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments to certain suppliers and payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of China.

**Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S.

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## RISK FACTORS

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dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. In June 2010, the People's Bank of China increased the flexibility of the exchange rate and between June 30, 2010 and December 31, 2013, the value of the Renminbi appreciated approximately 12.0% against the U.S. dollar, although the value of the Renminbi depreciated approximately 2.5% against the U.S. dollar in 2014. In August 2015, the People's Bank of China changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the U.S. dollar, and from December 31, 2015 through June 30, 2016, the value of the Renminbi further depreciated approximately 2.6% against the U.S. dollar. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

**It may be difficult to effect service of process upon us or our Directors or officers named in this prospectus who reside in China or to enforce non-PRC court judgments against them in China.**

Most of our assets are situated in China and most of our Directors and officers named in this prospectus reside in, and most of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in China any judgments obtained from non-PRC courts.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “Arrangement”) and revised on July 3, 2008, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the revised Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.



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## RISK FACTORS

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### **We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.**

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in China or any other market in which we do business could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations. We have not adopted any written contingency plans to combat any future natural disasters or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.**

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

#### **The trading price of our Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

#### **You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

#### **The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and Controlling Shareholders, could adversely affect the market price of our Shares.**

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.



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## RISK FACTORS

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**Our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.**

Immediately upon completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), our Controlling Shareholders will beneficially own approximately 39.43% of our issued Shares. Our Controlling Shareholders will be in a position to exert significant influence over the affairs of our Company and will be able to influence the outcome of any shareholders' ordinary resolutions, irrespective of how other shareholders vote. The interests of our Controlling Shareholders may not necessarily be aligned with the interests of our Shareholders as a whole, and this concentration of ownership may also have the effect of delaying, deferring or preventing a change in control of our Company.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this prospectus.**

This prospectus, particularly the section headed "Industry Overview", contains information and statistics relating to the mobile Internet and certain Internet-related industries. Such information and statistics have been derived from third-party reports commissioned by us, various government publications and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this prospectus being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. See "— Risks Relating to our Business and Industries — Differences in the assumptions and estimates adopted by the two industry consultants that we commissioned to prepare reports, and limitations on certain data available to them may impact the comparability of certain industry data". In any event, you should consider carefully the importance placed on such information or statistics.

**You should read the entire prospectus carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. The Group's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of the Group are primarily based outside Hong Kong. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Group and therefore would not be in the best interests of the Company and its Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely Mr. Ngan, our Chief Financial Officer and one of our joint company secretaries, and Mr. Cai, our founder, the Chairman, an executive Director and one of our Controlling Shareholders, as well as their alternate representative, Mr. He Songlin (何松林), our Vice President of Finance, to be the principal communication channel at all times between the Stock Exchange and the Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (including mobile phone numbers, office phone numbers, residential phone numbers (if any), email addresses and fax numbers) to each of the authorized representatives, to their alternate representative and to the Stock Exchange. This will ensure that each of the authorized representatives, the alternate representative and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are travelling;
- (c) all Directors who are not ordinarily resident in Hong Kong have, or can apply for, valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have retained the services of a compliance advisor, Guotai Junan Capital Limited (the "**Compliance Advisor**"), in accordance with Rule 3A.19 of the Listing Rules. The Joint Sponsors submit, on behalf of our Company, that the Compliance Advisor will serve as a channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Advisor has prompt access to our Company's authorized representatives and Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties. The Compliance Advisor will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Advisor in accordance with the Listing Rules.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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### WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note (1) to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note (2) to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he or she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company appointed Mr. Ngan and Ms. Lee Ka Man (李嘉文) (“**Ms. Lee**”) of Fair Wind Secretarial Services Limited as joint company secretaries of our Company on August 2, 2016. Ms. Lee is an associate member of the Hong Kong Institute of Chartered Secretaries and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Mr. Ngan is our Chief Financial Officer and is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of our Group. Between May 2012 and June 2015, Mr. Ngan has held the positions of Chief Operating Officer and Chief Financial Officer at Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484), a mobile games and webgames company listed on the Stock Exchange. Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his Bachelor of Science in Economics from the Wharton School, University of Pennsylvania in 2006. He has become a CFA Charterholder since 2010. Our Company believes that it would be in the best interest of our Company and the corporate governance of the Group to have as its joint company secretary a person such as Mr. Ngan who possesses the relevant experience of the Group’s financial, operational and investor relations matters. Mr. Ngan was also the joint company secretary of Forgame from February 2013 to November 2014.

Accordingly, while Mr. Ngan does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Ngan may be appointed as a joint company secretary of our Company.

The waiver was granted for a three-year period on the condition that Ms. Lee, as a joint company secretary of our Company, will work closely with, and provide assistance to, Mr. Ngan in the discharge of his duties as a joint company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules. The waiver will be revoked immediately if Ms. Lee ceases to provide assistance to Mr. Ngan as the joint Company secretary for the three-year period after Listing. In addition, Mr. Ngan will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules

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## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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during the three-year period from the Listing Date. Our Company will further ensure that Mr. Ngan has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. At the end of the three-year period, the qualifications and experience of Mr. Ngan and the need for on-going assistance of Ms. Lee will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Mr. Ngan, having benefited from the assistance of Ms. Lee for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information regarding the qualifications of Mr. Ngan and Ms. Lee.

### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see the section headed “Connected Transactions” in this prospectus.

### **WAIVER AND EXEMPTION IN RELATION TO THE ESOP**

Under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given (the “**Share Option Disclosure Requirements**”).

As at the Latest Practicable Date, our Company has granted options under the ESOP to 204 grantees, including employees, executives or officers of our Group and other individuals, to subscribe for an aggregate of 116,958,940 Shares, representing 2.77% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) on the terms set out in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” to this prospectus.

Our Company has applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) given that 204 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the ESOP in the prospectus on an individual basis would be costly and unduly burdensome for the Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;
- (b) as of the Latest Practicable Date, among all the grantees, six are members of the senior management or connected persons of our Company and the remaining 198 grantees are only employees of our

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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Group or other individuals, strict compliance with the Share Option Disclosure Requirements to disclose names, addresses, and entitlements on an individual basis in this prospectus will require more than 15 pages of additional disclosure that does not provide any material information to the investing public; and

- (c) material information relating to the options under the ESOP will be disclosed in this prospectus, including the total number of Shares subject to the ESOP, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the options granted under the ESOP, the aggregate number of grantees under the ESOP and the aggregate number of Shares underlying the options under the ESOP. Our Directors consider that the information that is reasonably necessary for the potential investors to make an informed assessment of our Company in their investment decision making process has been included in this prospectus, and adoption of alternative disclosure regarding the ESOP would not prevent the Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interests of the investing public.

The Stock Exchange has granted to us a waiver under the Listing Rules on condition that:

- (a) full details of the options under the ESOP granted to each of our Directors, members of the senior management of our Group and connected persons of our Company be disclosed in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” to this prospectus, on an individual basis, as required under the Share Option Disclosure Requirements;
- (b) for the remaining grantees, disclosure will be made for, on an aggregate basis, (1) their aggregate number of grantees and number of Shares underlying the options under the ESOP; (2) the consideration (if any) paid for the grant of the options under the ESOP; and (3) the exercise period and the exercise price of the options granted under the ESOP;
- (c) there will also be disclosure in this prospectus for the aggregate number of Shares underlying the options under the ESOP and the percentage of our Company’s total issued share capital represented by such number of Shares as of the Latest Practicable Date;
- (d) the dilutive effect and impact on earnings per Share upon full exercise of the options under the ESOP will be disclosed in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” to this prospectus;
- (e) a summary of the major terms of the ESOP will be disclosed in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” in this prospectus;
- (f) a full list of all the grantees (including those persons whose details have already been disclosed in this prospectus) who have been granted the options under the ESOP, containing all the particulars as required under the Share Option Disclosure Requirements, will be made available for public inspection in the section headed “Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection” in this prospectus;
- (g) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting the Company from the Share Option Disclosure Requirements; and
- (h) the particulars of the waiver will be disclosed in this prospectus.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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The SFC has agreed to grant to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on condition that:

- (a) full details of the options under the ESOP granted to each of our Directors, members of the senior management of our Group and connected persons of our Company and other grantees who have been granted options to subscribe for more than 2,000,000 Shares be disclosed in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” in this prospectus, on an individual basis, as required by paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) for the remaining grantees, disclosure will be made for, on an aggregate basis, (1) the respective number of grantees who are employees of our Group and other individuals, and the number of Shares underlying the options under the ESOP; (2) the consideration (if any) paid for the grant of the options under the ESOP; (3) the exercise period and the exercise price for the options granted under the ESOP;
- (c) a full list of all the grantees (including those persons whose details have already been disclosed in this prospectus) who have been granted the options under the ESOP, containing all the particulars as required in paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be made available for public inspection in the section headed “Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection” in this prospectus; and
- (d) the particulars of the exemption will be disclosed in this prospectus.

Further details of the ESOP are set forth in the section headed “Appendix IV — Statutory and General Information — Other Information — ESOP” in this prospectus.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public about us. The Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises the International Offering of initially 516,600,000 Offer Shares and the Hong Kong Public Offering of initially 57,400,000 Offer Shares, each subject to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus and without taking into account the Over-allotment Option. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date.

The Offer Price is expected to be fixed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, December 8, 2016 and, in any event, not later than Wednesday, December 14, 2016 (unless otherwise determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on or before Wednesday, December 14, 2016, the Global Offering will not become unconditional and will lapse immediately.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters and any of their respective directors, officers, employees, agents or representatives or advisors or any other persons involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for our Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" and in the related Application Forms.

Further information about the Underwriters and the underwriting arrangements is set out in the section headed "Underwriting".

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### RESTRICTIONS ON SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold directly or indirectly in the PRC or the United States.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the exercise of any options granted under the ESOP and any options that may be granted under the Share Option Scheme and Shares that may be granted under the Share Award Scheme, on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2015, being RMB741.8 million (equivalent to approximately HK\$836.4 million), is over HK\$500 million; and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the Listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering” in this prospectus.

### PROCEDURE FOR APPLICATION OF HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” and the related Application Forms.

### STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### COMMENCEMENT OF DEALINGS IN SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, December 15, 2016. Shares will be traded in board lots of 500 Shares each.

### SHARE REGISTRAR AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained in the Cayman Islands by our principal share registrar, Codan Trust Company (Cayman) Limited. All of the Shares issued pursuant to the Global Offering will be registered in the Company's branch register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712 — 1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

Dealings in the Shares registered in the register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. Unless otherwise determined by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to Shareholders whose names are listed in our register of members in Hong Kong, by ordinary post, at the Shareholders' risk.

### PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of us, the Over-allotment Option Grantor, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisors or any other party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated.

### EXCHANGE RATE

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translations of Renminbi into Hong Kong dollars in this prospectus are based on the rate of RMB1.00: HK\$1.1275, being the PBOC Rate prevailing on November 18, 2016 and (ii) the translations of U.S. dollars into Hong Kong dollars are based on the rate of US\$1.00: HK\$7.7572, being the noon buying rate as set forth in the H.10 statistical release of the United States Reserve Board on November 18, 2016.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### **ROUNDING**

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

### **OVER-ALLOTMENT OPTION GRANTOR**

Please refer to “Appendix IV — Statutory and General Information — Other Information — Particulars of the Over-allotment Option Grantor” for information of the Over-allotment Option Grantor.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Mr. Cai Wensheng (蔡文胜)	75B, Sun Tower The Arch 1 Austin Road West Kowloon Hong Kong	Chinese (Hong Kong)
Mr. Wu Zeyuan (吳澤源)	Room 1104, No. 5 Huizhan Beili Siming District Xiamen City, Fujian Province PRC	Chinese
<b>Non-executive Directors</b>		
Dr. Guo Yihong (過以宏)	20916 Fargo Drive, Cupertino CA 95014 United States	American
Dr. Lee Kai-Fu (李開復)	No 22, 4th Floor Lane 154 Zhongcheng Road, Section 2 Shilin District, Taipei Taiwan	Taiwanese
<b>Directors</b>		
Mr. Gan JP (甘劍平) <sup>(1)</sup>	Room 3906 Jinmao Tower No. 88 Century Boulevard Pudong New District Shanghai PRC	American
Mr. Tan Hainan (譚海男) <sup>(2)</sup>	Flat B, 17th Floor Tower 4, Nicholson 109 Repulse Bay Road Hong Kong	American
<b>Independent Non-executive Directors</b>		
Mr. Ko Chun Shun Johnson (高振順) <sup>(3)</sup>	Flat 4602 Convention Plaza Apartments No. 1 Harbour Road Wanchai Hong Kong	Chinese (Hong Kong)
Mr. Zhou Hao (周浩) <sup>(3)</sup>	Room 1101, No. 57 855 Yangsi Road Pudong New District Shanghai PRC	Chinese



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Name	Address	Nationality
Ms. Lo Po Man (羅寶文) <sup>(3)</sup>	D11 Regalia Bay 88 Wong Ma Kok Road Stanley Hong Kong	Chinese (Hong Kong)

*Notes:*

- (1) Mr. Gan will resign and cease to be a Director upon Listing.
- (2) Mr. Tan will resign and cease to be a Director upon Listing.
- (3) Effective from the Listing Date.

Further information is disclosed in the section headed “Directors and Senior Management” in this prospectus.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

**Morgan Stanley Asia Limited**  
Level 46, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Credit Suisse (Hong Kong) Limited**  
Level 88, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**China Merchants Securities (HK) Co., Limited**  
48/F, One Exchange Square  
Central  
Hong Kong

#### Joint Global Coordinators

**Morgan Stanley Asia Limited**  
Level 46, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Credit Suisse (Hong Kong) Limited**  
Level 88, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**China Merchants Securities (HK) Co., Limited**  
48/F, One Exchange Square  
Central  
Hong Kong

**CCB International Capital Limited**  
12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Joint Bookrunners

#### **Morgan Stanley Asia Limited**

Level 46, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### **China Merchants Securities (HK) Co., Limited**

48/F, One Exchange Square  
Central  
Hong Kong

#### **CCB International Capital Limited**

12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

#### **CMB International Capital Limited**

Units 1803-4, 18/F, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

#### **UBS AG Hong Kong Branch**

52<sup>nd</sup> Floor, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

#### **AMTD Asset Management Limited**

Suite 1308, 13/F, AIA Central  
1 Connaught Road  
Central  
Hong Kong

#### **GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

### Joint Lead Managers

#### **Morgan Stanley Asia Limited**

Level 46, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**China Merchants Securities (HK) Co., Limited**

48/F, One Exchange Square  
Central  
Hong Kong

**CCB International Capital Limited**

12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**CMB International Capital Limited**

Units 1803-4, 18/F, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

**UBS AG Hong Kong Branch**

52<sup>nd</sup> Floor, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**AMTD Asset Management Limited**

Suite 1308, 13/F, AIA Central  
1 Connaught Road  
Central  
Hong Kong

**GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Head & Shoulders Securities Limited**

Room 2511, 25/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

**Futu Securities International (Hong Kong) Limited**

11/F, Bangkok Bank Building  
14-20 Bonham Strand West  
Sheung Wan, Hong Kong

**Legal Advisors to the Company**

*As to Hong Kong law and United States law*  
Skadden, Arps, Slate, Meagher & Flom and Affiliates  
42/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*As to PRC law*  
Jingtian & Gongcheng  
34/F Tower 3 China Central Place  
77 Jianguo Road, Chaoyang District  
Beijing  
PRC

*As to Cayman Islands law*  
Conyers Dill & Pearman  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

**Legal Advisors to the Joint Sponsors  
and the Underwriters**

*As to Hong Kong law and United States law*  
Kirkland & Ellis  
26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law*  
Global Law Office  
Units B/C, 26/F  
Tower 5 Dachong International Center  
No. 39 Tonggu Road  
Nanshan District  
Shenzhen 518055  
PRC

**Reporting Accountant and  
Independent Auditor**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22/F, Prince's Building  
Central  
Hong Kong

**Receiving Banks**

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

Standard Chartered Bank (Hong Kong) Limited  
15th Floor, Standard Chartered Tower  
388 Kwun Tong Road, Kowloon  
Hong Kong

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## CORPORATE INFORMATION

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<b>Headquarters</b>	1 — 3/F, Block 2 No. 6 Wanghai Road, Siming District Xiamen, Fujian PRC
<b>Principal Place of Business in Hong Kong</b>	Room 8106B Level 81 International Commerce Centre 1 Austin Road West Kowloon Hong Kong
<b>Registered Office in the Cayman Islands</b>	The offices of Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Company Website</b>	corp.meitu.com ( <i>the information contained on the website does not form part of this prospectus</i> )
<b>Joint Company Secretaries</b>	Mr. Ngan 10A Valverde 11 May Road Mid-Levels Hong Kong  Ms. Lee Ka Man (李嘉文) (ACS, ACIS) Fair Wind Secretarial Services Limited Flat B, 1/F., Neich Tower 128 Gloucester Road Wanchai Hong Kong
<b>Authorized Representatives</b>	Mr. Cai 75B, Sun Tower The Arch 1 Austin Road West Kowloon Hong Kong  Mr. Ngan 10A Valverde 11 May Road Mid-Levels Hong Kong
<b>Alternate Authorized Representative</b>	Mr. He Songlin 502, Block 1 No. 20 Lian Yue Road Siming District Xiamen, Fujian PRC
<b>Audit Committee</b>	Mr. Zhou Hao ( <i>Chairman</i> ) Mr. Ko Chun Shun Johnson Dr. Guo Yihong



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## CORPORATE INFORMATION

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<b>Remuneration Committee</b>	Mr. Ko Chun Shun Johnson ( <i>Chairman</i> ) Dr. Lee Kai-Fu Ms. Lo Po Man
<b>Nomination Committee</b>	Mr. Cai ( <i>Chairman</i> ) Mr. Zhou Hao Ms. Lo Po Man
<b>Principal Share Registrar and Transfer Office</b>	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712 — 1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Compliance Advisor</b>	Guotai Junan Capital Limited 27/F Low Block Grand Millennium Plaza 181 Queen's Road, Central Hong Kong
<b>Principal Banks</b>	The Hong Kong and Shanghai Banking Corporation Limited HSBC Main Building, 1 Queen's Road Central Hong Kong  China Merchants Bank (Off-shore Banking) 19th Floor, China Merchants Bank Tower No. 7088, Shennan Boulevard Shenzhen, Guangdong Province PRC

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## INDUSTRY OVERVIEW

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*Certain information, including statistics and estimates, set forth in this section and elsewhere in this prospectus have been derived from two industry reports, namely the iResearch Report and the Frost & Sullivan Report, commissioned by us in connection with the Global Offering and independently prepared by iResearch and Frost & Sullivan, respectively. We believe that the sources of such information are appropriate, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, neither we nor any other party involved in the Global Offering have independently verified such information, and neither we nor any other party involved in the Global Offering are giving any representation as to the accuracy or completeness of such information. As such, investors are cautioned not to place any undue reliance on the information, including statistics and estimates, set forth in this section or similar information included elsewhere in this prospectus. For a discussion of risks relating to our industries, please refer “Risk Factors — Risks Relating to Our Business and Industries”.*

### OVERVIEW

We currently offer a portfolio of innovative photo and community apps, Meitu smartphones and a mobile game. Historically, we focused on maintaining quality user experience and limited monetization of our user base. We began selling Meitu smartphones in 2013 as our first major monetization initiative. The strategy proved successful, and the sale of smartphones contributed a significant majority of our revenue during the Track Record Period. Going forward, we plan to diversify our monetization efforts and explore further monetization opportunities. As a result of the foregoing, we have included in this section discussions of the mobile Internet, photo app and short-form video platform markets and potential monetization opportunities such as online advertising, e-commerce and live streaming, in addition to discussions of the smartphones market.

### SOURCES OF INFORMATION

In connection with the Global Offering, we commissioned iResearch and Frost & Sullivan to conduct market research concerning certain Internet-related industries and China’s smartphone industry. We commissioned iResearch to conduct market research concerning the photo app, short-form video platform, e-commerce and live streaming markets because we believe that iResearch has specialized research capabilities and experience in tracking user data for Internet-related industries in China. We commissioned Frost & Sullivan to conduct market research concerning China’s smartphone market and the global mobile Internet and online advertising markets because we believe that Frost & Sullivan has specialized research capabilities and experience for the smartphone market and comparisons between China and international markets. Each of iResearch and Frost & Sullivan uses different assumptions and estimates, and limitations on certain data available to them may impact the comparability of certain industry data. See “Risk Factors — Risks Relating to Our Business and Industries — Differences in the assumptions and estimates adopted by the two industry consultants that we commissioned to prepare reports and limitations on certain data available to them may impact the comparability of certain industry data”.

#### *The iResearch Report*

iResearch is an independent market intelligence provider, which provides market research, information and advice to companies in various industries, including the Internet and information technology industry. We have agreed to pay a commission fee of approximately RMB400,000 for the iResearch Report, which is dated as of November 20, 2016. The iResearch Report was compiled using both primary and secondary research conducted in China. The primary research involved an online survey completed by a statistically significant random sample of individuals living in China from June 23, 2016 through July 4, 2016. The secondary research utilized information and statistics published by government departments, publications and studies by industry experts, public company annual and quarterly reports, iResearch’s other research reports, online resources and data from iResearch’s research database. iResearch integrates analyses from iUserTracker and mUserTracker, research systems regarding PC and mobile Internet-users’ online behavior, respectively.

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## INDUSTRY OVERVIEW

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iResearch's projection on the size of each of the Internet-related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information concerning, major photo app developers, short-form video platform operators, e-commerce companies and live streaming platform operators, and those companies' projections of their own results of operations from iResearch's interviews or communications with them, (iii) the projections of other industry experts, and (iv) iResearch's views and estimates of industry developments. iResearch's projection on the size of user base is based on certain assumptions, including (i) the expected growth rate of China's economy and GDP and (ii) the level of improvement of Internet infrastructure, Internet data cost and Internet speed in China, and takes into account other factors including historical data concerning the size of user base and user behavior. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

### *The Frost & Sullivan Report*

Frost & Sullivan is an independent global consulting firm that offers industry research and market strategies covering various industries including technology, media, telecom and consumer products. We have agreed to pay a commission fee of approximately RMB280,000 for the Frost & Sullivan Report, which is dated as of November 21, 2016. In preparing the Frost & Sullivan Report, Frost & Sullivan has conducted primary research, which involved discussion about the status of the China smartphone industry, global Internet, mobile Internet and online advertising industries with industry experts and leading industry participants. Frost & Sullivan has also conducted secondary research, which involved the review of public data published by official institutions, public company reports, independent research reports and data from Frost & Sullivan's own research database. Frost & Sullivan's projections on market sizes are based on its market forecasting methodology, which takes into consideration various factors, including (i) historical data, (ii) macroeconomic environment, (iii) key market drivers and restraints of the related market estimated by Frost & Sullivan, and (iv) expert opinions on the future development. Frost & Sullivan's projections on the market sizes of the China smartphone market, global mobile Internet and online advertising market are based on certain assumptions, including: (i) the stability of Global and China's social, economic and political environment; (ii) related key industry drivers remain relevant and applicable in the forecast period; and (iii) there will be no subversive changes happened to related industries. Frost & Sullivan's estimation of the market size of global online advertising market is also based on certain assumptions, including: (i) the expected growth of mobile Internet users in different countries; and (ii) the expected increase in usage frequency and average time spent on mobile Internet by mobile Internet users in China and different countries.

### *Directors' Confirmation*

After making reasonable enquiries, our Directors confirm that there has been no adverse change in the market information presented in the iResearch Report or the Frost & Sullivan Report since the date of each report which may qualify, contradict or impact the information in this Industry Overview section.

## MOBILE INTERNET

In recent years, mobile Internet adoption rate has grown rapidly around the world. According to the Frost & Sullivan Report, there were 619.8 million, 222.4 million, 72.1 million, 44.8 million and 22.3 million mobile Internet users in China, India, Brazil, Indonesia and Thailand as of December 31, 2015, respectively. According to the same report, as of December 31, 2015, the number of mobile Internet users as a percentage of total population in each of China, India, Brazil, Indonesia and Thailand was 45.1%, 17.2%, 35.3%, 17.5%, and 32.4%, respectively, compared to 75.1%, 74.8% and 62.3% in the U.S., EU and Japan, respectively, indicating significant growth potential for mobile Internet-related businesses in the aforementioned developing countries.

## INDUSTRY OVERVIEW

The following table sets forth the number of mobile Internet users and penetration rate in the indicated countries as of December 31 of each specified year.

### Mobile Internet user and penetration rate<sup>(1)</sup> in 2013-2020E

(in millions)

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
China .....	500.1	556.8	619.8	684.3	747.9	809.2	871.5	934.3
Penetration rate (%) <sup>(1)</sup> .....	36.8%	40.7%	45.1%	49.5%	53.9%	58.0%	62.2%	66.3%
India .....	137.3	184.7	222.4	262.8	309.3	366.5	438.3	525.4
Penetration rate (%) <sup>(1)</sup> .....	10.9%	14.5%	17.2%	20.1%	23.3%	27.3%	32.2%	38.1%
EU .....	345.4	363.7	381.7	399.2	415.9	432.8	450.2	468.6
Penetration rate (%) <sup>(1)</sup> .....	68.1%	71.6%	74.8%	78.2%	81.4%	84.6%	87.8%	91.3%
U.S. ....	200.2	220.9	241.6	259.7	273.1	286.8	300.2	313.1
Penetration rate (%) <sup>(1)</sup> .....	63.2%	69.2%	75.1%	80.1%	83.6%	87.1%	90.5%	93.3%
Brazil .....	50.8	62.3	72.1	81.6	90.0	98.4	107.1	115.8
Penetration rate (%) <sup>(1)</sup> .....	25.3%	30.7%	35.3%	39.6%	43.3%	47.0%	50.8%	54.6%
Indonesia .....	32.4	38.6	44.8	52.2	60.6	70.1	80.4	91.4
Penetration rate (%) <sup>(1)</sup> .....	13.0%	15.3%	17.5%	20.2%	23.1%	26.4%	29.9%	33.5%
Japan .....	71.4	75.6	78.9	81.6	84.0	86.3	88.5	90.6
Penetration rate (%) <sup>(1)</sup> .....	56.1%	59.5%	62.3%	64.7%	66.8%	68.9%	71.0%	72.8%
Thailand .....	16.2	19.9	22.3	24.5	26.9	30.2	33.9	38.2
Penetration rate (%) <sup>(1)</sup> .....	23.7%	29.0%	32.4%	35.5%	38.9%	43.6%	48.9%	55.1%

Source: Frost & Sullivan Report

Note:

(1) Penetration rate is defined as the number of mobile Internet users as a percentage of total population.

Meanwhile, smartphones have become more integral to people's daily lives. The increasingly sophisticated and diverse functionalities of smartphones, both in terms of hardware and software, have enabled people to easily generate, share and discover visual content, including photos and videos, and interact with friends and others anytime and anywhere. According to the iResearch Report, social networking and video sharing and viewing were among the most popular activities on mobile Internet in China. As people seek to express themselves and connect with each other through quality photos and videos, apps and platforms that enable creating, editing and sharing photos and videos have gained significant popularity in recent years.

### PHOTO APPS

People increasingly use online photo-sharing as shorthand for self-expression, an engaging way of communicating and socializing. According to the iResearch Report, in June 2016, approximately 70.5% of social network users in China shared at least one photo per week.

Photo apps that allow users to easily take and enhance their photos are particularly useful for spontaneous photo-sharing and adding instant color to online socializing. As a result, photo apps have resonated well with users and become an increasingly integral part of people's social lives online. According to the iResearch Report, approximately 21.3% of people who had shared photos on social networks in China indicated that they used photo apps to enhance photos every time before sharing them on social networks, while 40.6% indicated that they processed photos in a majority of instances before they shared such photos.

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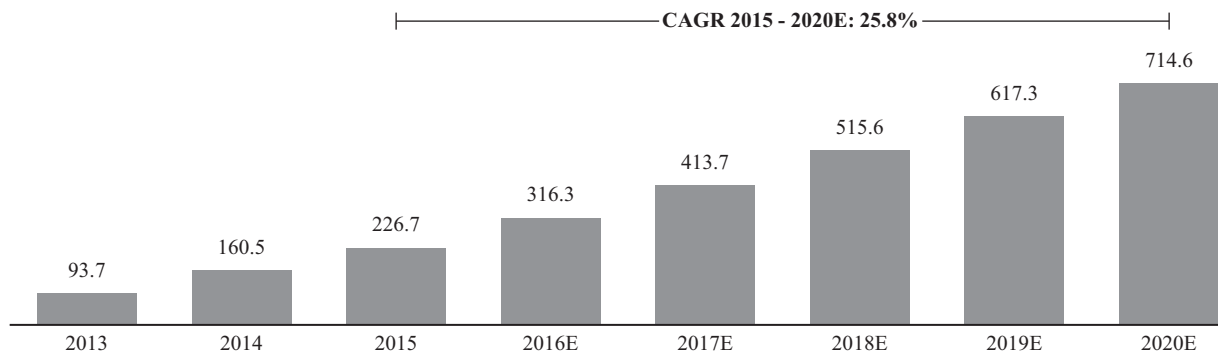
## INDUSTRY OVERVIEW

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The following chart sets forth the historical and estimated future size of China's photo app market as measured by the number of annual average MAUs.

### China Photo App Market Size

(Annual Average MAUs in millions)



Source: iResearch Report

Note: The number of annual average MAUs in the above chart equals the average number of MAUs of the twelve calendar months in each specified year. The number of MAUs of a calendar month for the photo app market refers to the number of devices that have accessed photo apps during that month.

According to the iResearch Report, innovative and easy-to-use functions and features, scale and first-mover advantage are critical for photo apps to be successful in China. According to the same report, the top five photo apps in China as measured by the average MAUs for the ten months ended October 31, 2016 were *BeautyCam* (美顏相機), *Meitu* (美圖秀秀), Tencent's *Pitu* (天天P圖), *Camera360* (相機360), and *MakeupPlus* (美妝相機), which had penetration rates<sup>(1)</sup> of 33.2%, 32.8%, 8.9%, 6.5% and 3.2%, respectively. The penetration rate of each of *BeautyCam* and *Meitu* was significantly higher than those of other photo apps due to their innovative features catered to the demand of their large user base and the significant data insights and technological capabilities that Meitu possesses, which allow ongoing optimization of *BeautyCam* and *Meitu*, among its other apps. *Meitu* and *BeautyCam* have transformed the way users process and enhance photos, and have played pivotal roles in precipitating the selfie phenomenon in China. According to a survey conducted by iResearch in June 2016, approximately 53.5% of the photos posted on major social networks in China were processed by Meitu's photo apps.

Photo apps, such as *Meitu* and *BeautyCam*, which have enjoyed significant success in engaging users over an extended period of time with innovative and easy-to-use features, are typically well-positioned to continue to maintain leadership in the industry in terms of both penetration rate and user mind share. The proprietary data that these apps collect result in critical insights for the respective developers, which, when combined with the developers' own technological and operational capabilities, allow continual optimization of the apps and user experience. However, as general photo apps do not require substantial upfront investment or sophisticated technological capabilities, there have been and potentially will be new entrants into the market, which may or may not divert or impact user base and user loyalty of existing photo apps.

### SHORT-FORM VIDEO PLATFORMS

As online video technology evolves, online video platforms have started to offer an increasing variety of ways for users to easily create, share and watch video content. In recent years, short-form videos have gained significant traction compared to licensed, professionally-produced long-form videos.

Short-form videos typically contain user-produced creative content. These videos, often seconds in duration, are easily shared and accessed across the mobile Internet as they require relatively less time commitment both in creation and viewing, as well as lower bandwidth and data usage compared to other online

<sup>(1)</sup> Penetration rate of a photo app equals the number of average MAUs of such photo app for the ten months ended October 31, 2016 as a percentage of the estimated number of average MAUs for the photo app industry in China for the year ending December 31, 2016.



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## INDUSTRY OVERVIEW

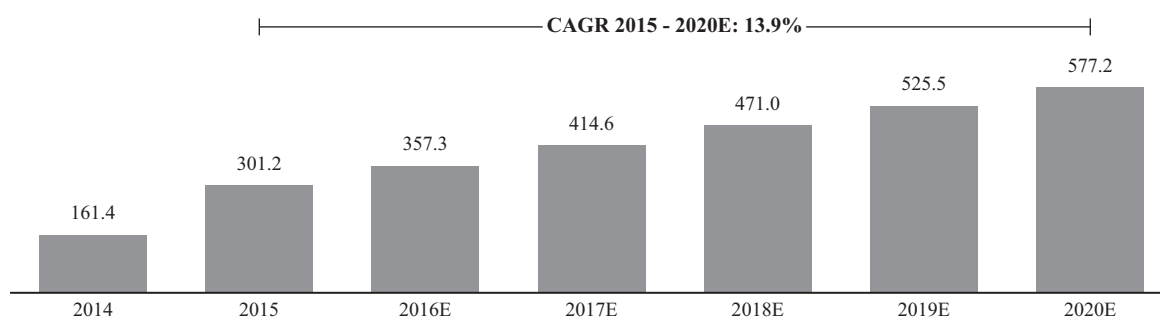
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video formats. These characteristics have allowed a number of short-form video platforms to rapidly amass large communities of active and engaged users. In particular, public figures such as celebrities and KOLs frequently generate content on short-form video platforms to connect with their followers, attracting a large number of highly engaged users.

The rapidly expanding short-form video market in China is generally viewed as being at an early developmental stage with significant growth potential. Users can choose to access short-form video platforms via the relevant short-form video apps or through social network apps such as Weibo, Weixin/WeChat and mobile browsers. As a result, short-form video platforms' potential influence and monetization opportunities are not limited to in-app users, but also extend to audiences outside of short-form video apps. The following chart sets forth the historical and estimated future size of China's short-form video platform market as measured by the number of annual average monthly active devices.

### China Short-form Video Platform Market Size

(Annual Average Monthly Active Devices in millions)



Source: iResearch Report

Note: The number of monthly active devices for a short-form video platform in the above chart equals the number of devices that have accessed the short-form video platform's content through (i) the short-form video platform's own app, (ii) mobile browsers or (iii) other apps, at least once during a calendar month. If a given device accessed the short-form video platform's content through more than one means as aforementioned in a calendar month, such device will be counted as one monthly active device. The number of annual average monthly active devices in the above chart equals the average number of monthly active devices of the twelve calendar months in each specified year.

According to the iResearch Report, a broad range of engaging contents, user-friendly functions as well as quality short-form video creators such as influential public figures and organizations on the platform determine the sustainability of a short-form video platform's business. According to the same report, the top five short-form video platforms in China as measured by the number of average monthly active devices that accessed the relevant short-form video platform's own app for the ten months ended October 31, 2016 were *Kwai* (GIF 快手), *Meipai* (美拍), *VivaVideo* (小影), *Miaopai* (秒拍), and *Xiaokaxiu* (小咖秀), which had penetration rates<sup>(1)</sup> of 64.2%, 21.3%, 4.1%, 3.6% and 3.4%, respectively. *Meipai* appeals to a large number of users with its broad range of lifestyle content on its platform, proprietary recommendation engine and community features that encourage interactions among users, live streaming hosts and short-form video creators. According to the iResearch Report, *Meipai*'s broad range of content, including those in relation to fashion, traveling, gourmet and celebrities, are particularly attractive to users in tier-one and tier-two cities in China, especially when compared to other leading short-form video platforms. On the other hand, given the size of user base is an important factor for a short-form video platform's success, platforms that have strategic collaboration with other leading Internet companies could potentially benefit from synergies with respect to user acquisitions. For example, *Xiaokaxiu* and *Miaopai* have been enjoying such synergies through their relationship with Weibo, a major social media in China.

<sup>(1)</sup> Penetration rate of a short-form video platform equals the number of average monthly active devices that accessed such short-form video platform's own app for the ten months ended October 31, 2016 as a percentage of the estimated number of average monthly active devices that access one or more short-form video platforms in China via such platforms' own apps for the year ending December 31, 2016.

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## INDUSTRY OVERVIEW

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### OPPORTUNITIES FOR PHOTO APPS AND SHORT-FORM VIDEO PLATFORMS

Photo apps and short-form video platforms with large user bases are well-positioned to provide a range of services to their users and business partners, including online advertising, e-commerce and live streaming, among others.

#### *Online Advertising*

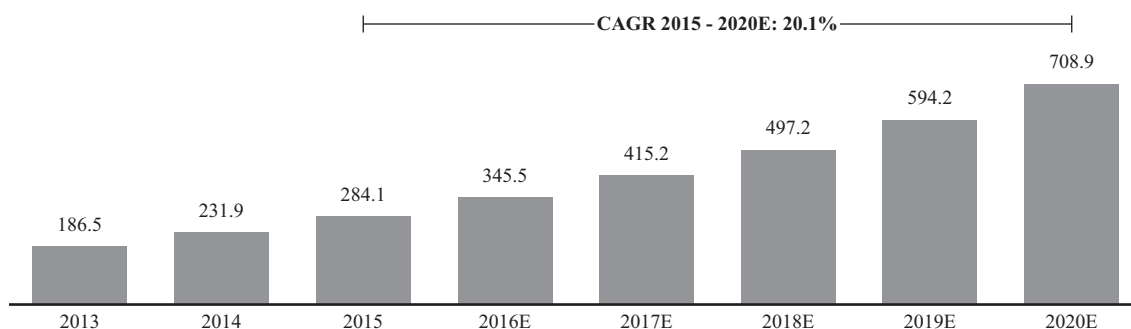
Online advertising presents increasingly attractive opportunities for advertisers, and advertising in China is expected to continue to shift from traditional media to online media to optimize advertising exposure to users and return on the marketing efforts. According to the Frost & Sullivan Report, online advertising market size in China as measured by advertising spending on online media was RMB284.1 billion in 2015 and is expected to achieve RMB708.9 billion in 2020, representing a CAGR of 20.1%. According to the same report, the percentage of online advertising spending out of total advertising spending in China increased from 28.7% in 2013 to 33.6% in 2015, and is expected to reach 44.8% in 2020. In particular, female consumers in China increasingly purchase products online, presenting significant potential for online advertising of female-related goods. Online advertising spending for the cosmetics, skin care, and personal care sectors in China is expected to grow from RMB33.7 billion in 2015 to an estimated RMB125.1 billion in 2020, representing a CAGR of 30.0%, according to the Frost & Sullivan Report.

The following chart sets forth the historical and estimated future size of China's online advertising market in terms of advertising spending.

#### **China Online Advertising Market Size**

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(RMB in billions)



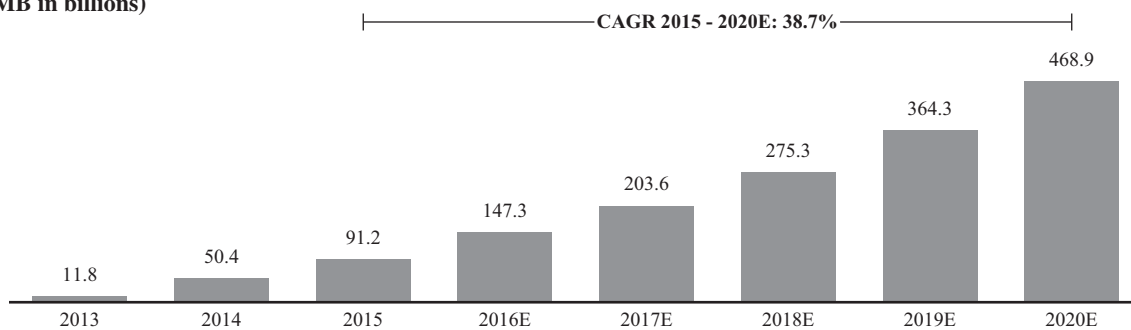
Source: Frost & Sullivan Report

Mobile advertising has been a key driver for the growth of China's online advertising market. The following chart sets forth the historical and estimated future size of the mobile advertising market in China in terms of advertising spending.

#### **China Mobile Advertising Market Size**

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(RMB in billions)



Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, China's mobile advertising market size in terms of advertising spending was approximately RMB91.2 billion in 2015 and is expected to reach RMB468.9 billion in 2020, representing a CAGR of 38.7%. We believe that China's mobile advertising market has significant growth potential, as it is relatively underpenetrated compared to the mobile advertising markets in developed countries such as the U.S. and Japan. According to the Frost & Sullivan Report, in 2015, average mobile advertising spending on each mobile Internet user in China was RMB147.1, as compared to RMB639.9 in the U.S. and RMB732.6 in Japan, respectively.

Photo apps and short-form video platforms provide effective channels for mobile advertising. The content on such platforms is usually viewed by users as relevant and closely associated with daily life, making users more receptive to the information in the advertisements displayed on such platforms. In addition, advertising on short-form video platforms benefits from the fact that the online KOL-led fan economy is a new and fast-evolving phenomenon in China's e-commerce and digital marketing space. In particular, KOLs can be effective in spurring online entertainment spending and shopping demand, due to their close connections with their fans. According to the Frost & Sullivan Report, in 2015, the top ten online KOLs on YouTube on average generated revenue of more than US\$5 million globally. Top-tier KOLs in China on average generated annual revenue of over RMB10 million in 2015, according to the same Report.

### *E-Commerce*

In China, e-commerce categories such as cosmetics, skin care products and apparel present tremendous opportunities. According to the iResearch Report, the GMV of China's online retail market was RMB3.8 trillion in 2015 and is expected to reach RMB10.5 trillion in 2020, representing a CAGR of 22.5%. Specifically, the GMV of China's online retail market for cosmetic and skin care products reached RMB182.3 billion in 2015, and is expected to reach RMB548.2 billion in 2020, representing a CAGR of 24.6%. Additionally, the GMV of China's online retail market for apparel reached RMB816.5 billion in 2015 and expected to reach RMB1,798.5 billion in 2020, representing a CAGR of 17.1%.

According to the iResearch Report, the GMV of China's mobile retail market was approximately RMB2.1 trillion in 2015 and is expected to reach RMB7.9 trillion in 2020, representing a CAGR of 30.1%. In 2015, the GMV of China's mobile retail market was 55.5% of the GMV of China's overall online retail market, and that percentage is expected to reach 75.0% in 2020, according to the iResearch Report.

The following table sets forth historical and estimated future GMV of China's online and mobile retail markets.

### **China Online Retail Market Size**

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2015-2020E CAGR
Online retail GMV (RMB in trillions) .....	1.9	2.8	3.8	5.0	6.2	7.5	8.9	10.5	22.5%
Mobile retail GMV (RMB in trillions) .....	0.3	0.9	2.1	3.4	4.5	5.5	6.6	7.9	30.1%
Online retail GMV for cosmetic and skin care products (RMB in billions).....	90.2	133.6	182.3	239.1	299.4	370.6	453.4	548.2	24.6%
Online retail GMV for apparel (RMB in billions).....	427.2	609.9	816.5	999.0	1,200.0	1,391.2	1,588.8	1,798.5	17.1%

Source: iResearch Report

According to the iResearch Report, the overall mobile retail market in China is primarily dominated by a few major e-commerce platforms, with Alibaba's mobile retail commerce platforms contributing 80.6% of the total market in terms of GMV for the six months ended June 30, 2016, followed by the mobile retail commerce platforms operated by JD, Vipshop, Suning and Guomei, which contributed 7.5%, 2.5%, 1.1% and 0.6% of the

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## INDUSTRY OVERVIEW

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total market in terms of GMV, respectively. Certain of these platforms, such as those operated by Alibaba and JD, generally offer a broad range of products and target a wide variety of consumers. As consumer adoption of online shopping has increased significantly in recent years and as consumers have developed more specific preferences for products and services, e-commerce platforms focusing on specific categories or demographics are presented with opportunities to address these demands. In addition to product categories and demographic focus, e-commerce platforms that leverage social and community features to engage consumers are also expected to echo well with users who are highly active on online social networking platforms and media. Compared to traditional e-commerce platforms, social e-commerce platforms can potentially capitalize on various attributes of social communities, including viral content, KOL influence and frequent user interaction. Companies with highly active user base are thus presented with significant e-commerce opportunities. For example, Meitu is well-positioned to target its female user base and offer female-related products, such as cosmetics, skin care products and apparel.

### *Live Streaming*

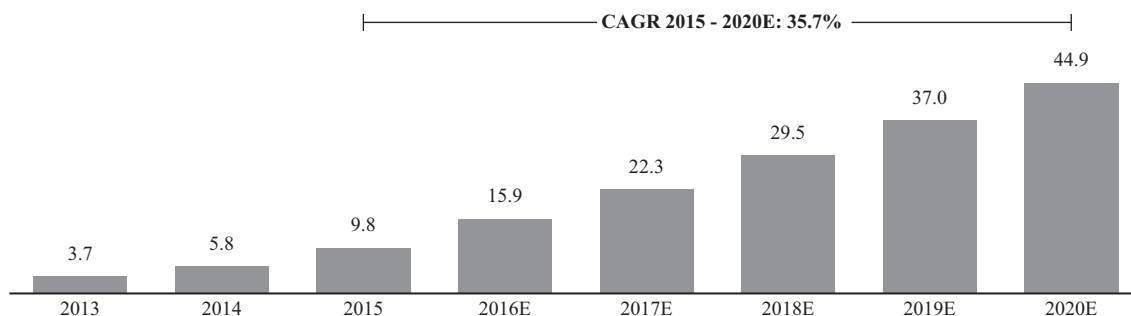
Live streaming video platforms invite real-time interactions among users and with show hosts. Hosts of live streaming services create video content, such as improvisational comedy, live singing and dancing and real-time broadcast of events that drive higher user engagement levels due to their spontaneity, immediacy and authenticity. A large number of live streaming videos are hosted by KOLs who create original, quality content with popular appeal. The interactive nature of live streaming videos, coupled with the devoted fan bases of KOL hosts, has created significant monetization opportunities such as in-app purchases of virtual gifts and membership subscriptions. As users develop purchase habits on live streaming video platforms, the number of paying users and average spending per user are both expected to increase.

The following chart sets forth the historical and estimated future size of China's live streaming platform market as measured by revenue, which includes revenue generated through membership subscription, advertising and other value-added services provided by platforms hosting live streaming videos.

### **China Live Streaming Market Size**

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(RMB in billions)



Source: iResearch Report

Different platforms offering live streaming videos in China have successfully adopted different strategic focuses on a range of themes or target audience groups. Some of these platforms concentrate on specific themes such as singing and dancing acts, while others may focus on fashion and makeup tips from celebrities and KOLs. A live streaming platform that offers a broad spectrum of content addressing various interests and demographics is expected to better attract a large user base and capitalize more diverse monetization opportunities and achieve and maintain a more sustainable business model.

## INDUSTRY OVERVIEW

### SMARTPHONES

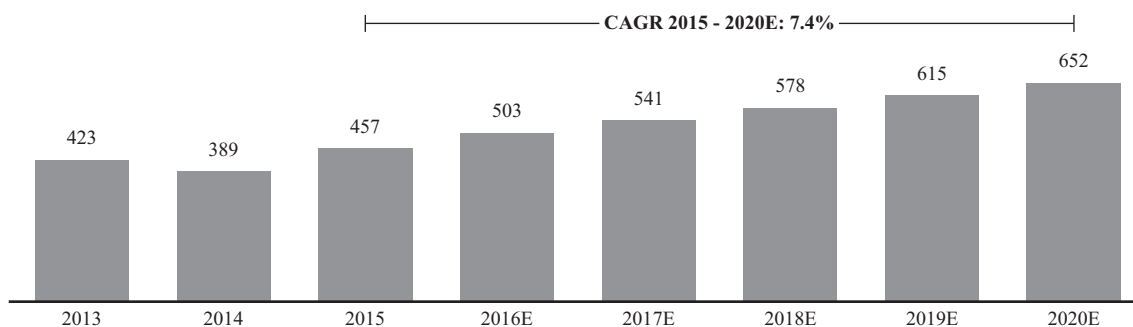
#### *China's Smartphone Market*

According to the Frost & Sullivan Report, smartphone shipments in China grew from 423 million units in 2013 to 457 million units in 2015 and are expected to increase further to 652 million units in 2020, representing a CAGR of 7.4% from 2015.

The following chart sets forth the historical and estimated future size of China's smartphone market by shipment.

#### **China Smartphone Market Size by Shipment**

(in million units)



Source: Frost & Sullivan Report

#### *Smartphone Components and Materials*

Historically, a significant majority of our revenue was generated from the sale of smartphones. Main components and materials for smartphones, ranked in order of cost as a percentage of our total cost of sales, include displays, processors, memory chips, and front and rear cameras. According to the Frost & Sullivan Report, the prices of the major components of mid-ranged smartphones remained relatively stable from 2013 to 2015. The prices of displays, processors and memory chips have slightly decreased, while prices of cameras have slightly increased during the same period, which demonstrates the increasing emphasis on photo-taking quality of smartphones.

The following table sets forth the historical average prices of displays, processors, memory chips, and front and rear cameras for mid-range priced smartphones. These smartphones, which were sampled based on their prices, typically have front cameras of over 8 megapixels and rear cameras of over 13 megapixels. The prices of such smartphones range from RMB1,500 to RMB3,500 per unit.

Component	Year Ended December 31,		
	2013	2014	2015
	(RMB/unit)		
Display .....	186.4	181.9	173.7
Processor .....	132.8	125.6	112.1
Memory Chip .....	91.8	92.3	87.3
Front Camera .....	94.8	99.6	103.5
Rear Camera .....	98.7	102.6	105.2

Source: Frost & Sullivan Report

The prices of our main components and materials, including prices of displays, processors, memory chips, and front and rear cameras, as measured by cost as a percentage of our total cost of sales, were relatively stable



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## INDUSTRY OVERVIEW

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during the Track Record Period. Historically, there have not been any fluctuations in the prices of our main components and materials that materially affected the selling prices of our smartphones.

Our smartphones have cameras with higher resolutions compared to other smartphones with similar prices. For the years ended December 31, 2013, 2014 and 2015, the average price of cameras with 20 megapixels or more was RMB124.6, RMB131.2 and RMB136.4, respectively, according to the Frost & Sullivan Report.

### *Competitive Landscape of China's Smartphone Market*

China's smartphone market is large, with certain players occupying significant market shares. Leading smartphone brands in China include Huawei, Oppo, Vivo, Xiaomi and Apple, which had market shares of 16.0%, 15.0%, 13.2%, 10.2% and 8.1%, respectively, in terms of the number of smartphone units shipped in China in the ten months ended October 31, 2016, according to the Frost & Sullivan Report. Smartphone shipment in China for the ten months ended October 31, 2016 totaled 379.6 million units, according to the same report.

According to the Frost & Sullivan Report, product innovation, brand value, pricing and distribution network are critical for smartphone companies' success in China. As Chinese consumers become increasingly sophisticated in smartphone selection, smartphones that are specifically designed with differentiating functionalities are expected to gain more popularity in the market. Meitu smartphones, although with relatively small shipment volume as compared to those of the aforementioned smartphone brands, have differentiated themselves from others by enabling consumers to take high-quality selfies. Compared to smartphones targeting the mass market, Meitu smartphones are designed to generate high-quality selfies with built-in proprietary image processing algorithm and specialized image processors. Meitu smartphones distinctively feature higher resolution cameras, auto-beautification functions, high-image quality in low-light conditions and ergonomic design for selfie-taking. Due to the strong Meitu brand and their specific value proposition, Meitu smartphones have established their reputation as specialized for high-quality selfie-taking, and have earned strong customer loyalty.

Meitu positions its smartphones as products that satisfy specific users' desire for high-quality selfies and does not intend to compete with major smartphone developers, such as Huawei, Oppo, Vivo, Xiaomi and Apple. As a result, Meitu smartphones typically have lower production volume, especially when compared to major smartphone developers' products. In addition, Meitu outsources its manufacturing to OEMs, while large smartphone developers typically have strong manufacturing capabilities and self-operated retail channels, which give them broader and stronger control over supply chain management. Compared with these large smartphone developers, smartphone developers relying more heavily on OEMs and distributors and retailers are exposed to more third-party risks, including change or loss of raw material suppliers and distributors.

As we specialize in the sale of smartphones designed for high-quality selfies, we believe that a more balanced insight can be gained into our smartphones' competitive position by comparing ourselves with other developers of smartphones designed for specialized uses, such as smartphones with particularly high megapixel cameras, integrated with sophisticated image processing capabilities, rather than the smartphone market as a whole. However, as of the date of this prospectus, no market share data is available for any of such specialized smartphones, as most smartphone companies offer many different models and do not typically disclose sales and shipment figures for individual models.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OVERVIEW

Our business commenced in 2008 with the launch of *Meitu* (美圖秀秀), a smart and simple, user-friendly product that allows one-click enhancement of photos. Our product portfolio has since expanded to include smartphones, the sale of which generated a significant majority of our revenues during the Track Record Period, and a portfolio of innovative photo and community apps.

Mr. Wu and Mr. Cai are the founders of our Company. Historically, our business operations in the PRC were conducted through two companies, Meitu Networks and Meitu Mobile. Meitu Networks (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co. Ltd (廈門數字情緣網絡科技有限公司)), was established in the PRC on June 18, 2003 by Mr. Wu in collaboration with, Mr. Cai Chongzhen and Ms. Mei Feng, both of whom are Independent Third Parties. At the time of establishment, Mr. Wu, Mr. Cai Chongzhen and Ms. Mei Feng's equity interests in Meitu Networks were 47%, 33% and 20%, respectively. Together, they invested approximately RMB1 million from their personal finances to fund the incorporation and initial operations of Meitu Networks, which was initially engaged in business operations unrelated to those that we commenced in July 2008. Mr. Cai first acquired an interest in Meitu Networks when both Mr. Cai Chongzhen and Ms. Mei Feng ceased to hold their interest in Meitu Networks on July 11, 2008. In October 2008, we launched our first product, *Meitu*, a photo-enhancing application for PC through Meitu Networks. Following a series of equity transfers that were legally completed in January 2014, Meitu Networks was held by Mr. Wu and Mr. Cai as to 48% and 52%, respectively.

Following the success of *Meitu*, our Company's first product, Meitu Mobile was established on March 1, 2013 in the PRC and held by Mr. Wu, Mr. Cai and Xiamen Longling as to 45%, 30% and 25%, respectively. Through Meitu Mobile, we launched our first Meitu smartphone in June 2013.

In late 2013, we effected a series of changes to consolidate our interests in Meitu Networks and Meitu Mobile and attracting further external investors to support our growing business. Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on July 25, 2013, and is the holding company of our Group. On October 14, 2013, we established Meitu Home as a wholly foreign-owned enterprise in the PRC whose entire equity interest was, and remains, held by Meitu HK (a wholly-owned Hong Kong subsidiary of our Company). On December 10, 2013, we entered into separate sets of contractual arrangements with Meitu Mobile and Meitu Networks (and their respective equity holders), respectively. The effect of the Old Contractual Arrangements was to gain contractual control over Meitu Networks and Meitu Mobile and enable us to consolidate their financial results with those of our Group. On June 13, 2014, Meitu Mobile was acquired by Meitu HK for a total consideration of RMB20 million through entering a share transfer agreement based on arm's length negotiation as part of a reorganization from its then shareholders, Mr. Wu, Mr. Cai, Xiamen Longling and Mr. Wang Chi Lam (an Independent Third Party who became a shareholder on May 16, 2014), thereby becoming our directly-owned subsidiary on July 28, 2014, and the Old Contractual Arrangements ceased to have effect with respect to Meitu Mobile. For more details, please see the paragraph headed "The Corporate Restructuring" in this section.

Mr. Cai, our founder, Chairman and executive Director, is an entrepreneur and well-known angel investor in the Internet and technology industry. Mr. Cai established 265.com Inc. in 2004 and subsequently sold 265.com Inc. to Google in 2007. Since then, Mr. Cai has become an influential figure in the Internet start-up community. Mr. Cai has invested in various technology start-ups in the PRC including 58.com Inc., Baofeng Group Co. Ltd. (暴風集團股份有限公司) and Feiyu Technology International Company Ltd.

Mr. Wu, our founder, Chief Executive Officer and executive Director, has been involved in the Internet industry since 2000. Mr. Wu created and launched social networking platform, 520.com, in the PRC. Mr. Wu began developing and researching photo-editing software in 2008.

We were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on September 26, 2016 under the Chinese corporate name "美图公司 (美圖公司)". On October 5, 2016, we were served a notice under section 780 of the Companies Ordinance in respect of our Chinese corporate name registered under Part 16 of the Companies Ordinance, which was, in the

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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view of the Registrar of Companies, “the same as” that of a name that already existed in the index of company names kept by the Registrar of Companies. We have obtained approval from, and have registered with, the Registrar of Companies for adopting “美圖之家” as our approved name for carrying on business in Hong Kong on October 28 and November 7, 2016, respectively.

### BUSINESS MILESTONES

The following is a summary of our Group’s key business development milestones:

Date	Event
June 2003	Meitu Networks (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co., Ltd. (廈門數字情緣網絡科技有限公司)) established
October 2008	The current Meitu business commenced with the launch of our first product, <i>Meitu</i> , on PC
February 2011	Mobile version of <i>Meitu</i> launched as our first app
January 2013	Launched <i>BeautyCam</i> , our second major app
June 2013	First Meitu smartphone model was launched
July 2013	Meitu, Inc. incorporated in the Cayman Islands
February 2014	Total MAUs exceeded 100 million
May 2014	Launched <i>Meipai</i> , our video community app
October 2014	Our apps achieved over 1 million total users in each of ten overseas countries and regions
November 2015	Launched our first premium series smartphone, Meitu V4
January 2016	Launched live streaming function on <i>Meipai</i>
April 2016	Our apps achieved over 1 million total users in each of 20 overseas countries and regions
June 2016	Started to offer paid virtual gifts on <i>Meipai</i>
October 2016	Recorded total MAUs of over 455 million

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, date of incorporation and date of commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are shown below:

Name of company	Principal business activities	Date of incorporation
Meitu Networks	Development of photo apps, and a video and live streaming community (through Meitu Networks' subsidiaries)	June 18, 2003
Meitu Mobile	Production, promotion and sales of smartphones	March 1, 2013
Meitu HK	Sales of mobile communications products, purchases of foreign sourced materials and promotion of our Group's apps	August 12, 2013
Meitu Home	Development of computer software and related consultation and services	October 14, 2013
Meitu Technology (US)	Localization and marketing of our Group's products in the United States	April 1, 2015

### MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

#### 1. Shareholding changes of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on July 25, 2013 as the ultimate holding company of our Group. Upon its incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 shares with a par value of US\$0.0001 each.

- (i) Upon its incorporation on July 25, 2013, our Company issued a total of 100,000,000 ordinary shares with a par value of US\$0.0001 each for total consideration of US\$10,000 in the following manner to reflect the interests of Mr. Wu and Mr. Cai in Meitu Networks and Meitu Mobile:

Name	Number of ordinary shares with a par value of US\$0.0001 each
Osiris International Cayman Limited <sup>(1)</sup> .....	1
Baolink Capital <sup>(1)(2)(5)</sup> .....	23,999,999
Longlink Capital <sup>(3)(5)</sup> .....	31,000,000
Xinhong Capital <sup>(4)(5)</sup> .....	30,000,000
Ultra Colour <sup>(6)</sup> .....	15,000,000

*Notes:*

- (1) The one share issued to Osiris International Cayman Limited, an Independent Third Party, was subsequently transferred to Baolink Capital on the same day.
- (2) Baolink Capital owns 24,000,000 ordinary shares with a par value of US\$0.0001 each including the one share transferred from Osiris International Cayman Limited. Baolink Capital was previously wholly-owned by Ms. Wang, the spouse of Mr. Cai. Ms. Wang transferred her entire equity interest in Baolink Capital because she has never been involved in the business of our Group and she has been accustomed to act in accordance with the instructions of Mr. Wu and Mr. Cai.
- (3) The entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.
- (4) The entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu.
- (5) Pursuant to the Concert Party Agreement, the Concert Group has confirmed that its members have been acting in concert since the inception of our Company and at any prior period of time where any member of the Concert Group held interests in any

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

companies or entities that now comprise our Group. For details, please see the paragraph headed “Concert Party Agreement” in this section.

- (6) The entire interest of Ultra Colour is held by Ultra Colour Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai Rongjia, the son of Mr. Cai.
- (ii) On October 30, 2013, the authorized share capital of our Company was changed from US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each to US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each, consisting of 488,888,889 ordinary shares of a par value of US\$0.0001 each and 11,111,111 Original Series A Preferred Shares by the re-designation of 11,111,111 authorized and unissued ordinary shares of US\$0.0001 each into 11,111,111 Original Series A Preferred Shares. On October 30, 2013, the Company issued a total of 11,111,111 Original Series A Preferred Shares (which were subsequently reclassified as “Series A-1 Preferred Shares” on January 24, 2014) to Innovation Works Development Fund, L.P., Innovation Works Development Fund II, L.P. and Innovation Works Parallel Fund II, L.P. at a price of US\$0.45 per share for total consideration of US\$5 million.
- (iii) On December 10, 2013, the Company issued a total of 100,000,000<sup>(1)</sup> ordinary shares with a par value of US\$0.0001 for total consideration of US\$10,000 in the following manner:

Name	Number of new ordinary shares issued with a par value of US\$0.0001 each
Baolink Capital .....	24,000,000
Longlink Capital .....	31,000,000
Xinhong Capital Limited .....	26,666,667
Ultra Colour .....	18,333,333

*Note:*

- (1) In addition to the 100,000,000 ordinary shares with a par value of US\$0.0001 issued to the above shareholders on December 10, 2013, the Company also issued 11,111,111 ordinary shares with a par value of US\$0.0001 to Sina Hong Kong Limited, an Independent Third Party, at nominal value to reflect its interest in Meitu Networks and then we subsequently repurchased such shares from Sina Hong Kong Limited on January 24, 2014 for a total consideration of US\$8 million in order to recognize Sina Hong Kong Limited’s disposal of its entire investment in Meitu Networks. The repurchased shares were then cancelled immediately. The consideration was determined at arm’s length negotiation taking into account the value of the Group at the material time.

- (iv) On January 24, 2014, the authorized share capital of our Company was reclassified into US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each, comprising of 432,713,451 ordinary shares of a par value of US\$0.0001 each, 11,111,111 Series A-1 Preferred Shares, 41,730,994 Series A-2A Preferred Shares and 14,444,444 Series A-2B Preferred Shares. On January 24, 2014, the Company repurchased 3,333,333 ordinary shares with a par value of US\$0.0001 each from Ultra Colour for a total consideration of US\$2.4 million in order to reflect the partial disposal of Ultra Colour’s interest in the Group, and the shares so repurchased were cancelled immediately. The consideration was determined at arm’s length negotiation taking into account the value of the Group at the material time.

On January 24, 2014, the Company issued a total of 41,730,994 Series A-2A Preferred Shares for a total consideration of US\$44.6 million and 14,444,444 Series A-2B Preferred Shares for a total consideration of US\$10.4 million.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As a result, the shares were held in the following manner:

Name	Type and number of shares
Innovation Works Development Fund, L.P. ....	5,555,556 Series A-1 Preferred Shares <sup>(1)</sup> 1,043,275 Series A-2A Preferred Shares
Innovation Works Development Fund II, L.P. ....	5,272,222 Series A-1 Preferred Shares <sup>(1)</sup> 990,068 Series A-2A Preferred Shares
Innovation Works Parallel Fund II, L.P. ....	283,333 Series A-1 Preferred Shares <sup>(1)</sup> 53,207 Series A-2A Preferred Shares
IDG-Accel China Growth Fund III L.P. ....	18,509,991 Series A-2A Preferred Shares 6,744,111 Series A-2B Preferred Shares
IDG-Accel China III Investors L.P. ....	1,312,231 Series A-2A Preferred Shares 478,111 Series A-2B Preferred Shares
Qiming Managing Directors Fund III, L.P. ....	605,688 Series A-2A Preferred Shares 220,682 Series A-2B Preferred Shares
Qiming Venture Partners III, L.P. ....	19,216,534 Series A-2A Preferred Shares 7,001,540 Series A-2B Preferred Shares

*Note:*

(1) 11,111,111 Original Series A-1 Preferred Shares were originally issued to Innovation Works Development Fund, L.P., Innovation Works Development Fund II, L.P. and Innovation Works Parallel Fund II, L.P. on October 30, 2013 for a total consideration of US\$5 million which were subsequently reclassified as Series A-1 Preferred Shares.

- (v) On May 28, 2014, the authorized share capital of our Company was changed from US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each, comprising of 432,713,451 ordinary shares of a par value of US\$0.0001 each, 11,111,111 Series A-1 Preferred Shares, 41,730,994 Series A-2A Preferred Shares and 14,444,444 Series A-2B Preferred Shares to US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each, comprising of 380,110,410 ordinary shares of a par value of US\$0.0001 each, 11,111,111 Series A-1 Preferred Shares, 41,730,994 Series A-2A Preferred Shares, 14,444,444 Series A-2B Preferred Shares and 52,603,041 Series B Preferred Shares by the re-designation of 52,603,041 authorized and unissued ordinary shares of US\$0.0001 each into 52,603,041 Series B Preferred Shares. On May 28, 2014, the Company issued a total of 52,603,041 Series B Preferred Shares for a total consideration of US\$114.5 million, in the following manner:

Name	Number of Series B Preferred Shares
Internet Fund II Pte. Ltd. ....	35,374,971
H Capital I, L.P. ....	1,378,246
Ceyuan Ventures III, L.P. ....	6,647,279
Ceyuan Ventures Advisors Fund III, LLC, ....	243,949
IDG-Accel China Growth Fund III L.P. ....	4,290,019
IDG-Accel China III Investors L.P. ....	304,133
Bright Ease Holdings Limited ....	4,364,444

- (vi) On January 6, 2015, our Company changed its authorized share capital to US\$60,000 divided into 600,000,000 shares with a par value of US\$0.0001 each by the creation of an additional 100,000,000 ordinary shares of US\$0.0001 par value each and the subsequent re-designation of 34,457,408 authorized and unissued ordinary shares of US\$0.0001 par value each into 34,457,408 Series C Preferred Shares, such that the authorized share capital became US\$60,000 divided into 600,000,000 shares with a par value of US\$0.0001 each comprising of 445,653,002 ordinary shares with a par value of US\$0.0001 each, 11,111,111 Series A-1 Preferred Shares, 41,730,994 Series A-2A Preferred Shares, 14,444,444 Series A-2B Preferred Shares, 52,603,041 Series B Preferred Shares, and 34,457,408 Series C Preferred Shares.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On the same day, the Company issued 34,457,408 Series C Preferred Shares for a total consideration of US\$190 million, in the following manner:

Name	Number of Series C Preferred Shares
Assets Eagle Global Limited .....	25,389,670
Internet Fund II Pte Ltd.....	4,624,547
Colour Leap Limited .....	1,722,870
IDG-Accel China Growth Fund III L.P. ....	846,745
IDG-Accel China III Investors L.P. ....	60,028
Qiming Venture Partners III, L.P. ....	879,067
Qiming Managing Directors Fund III, L.P. ....	27,707
H Capital I, L.P. ....	906,774

- (vii) On April 20, 2016, the authorized share capital of the Company was redesignated and reclassified into 431,337,212 ordinary shares with a par value of US\$0.0001 each, 11,111,111 Series A-1 Preferred Shares, 41,730,994 Series A-2A Preferred Shares, 14,444,444 Series A-2B Preferred Shares, 52,603,041 Series B Preferred Shares, 34,457,408 Series C Preferred Shares and 14,315,790 Series D Preferred Shares by the re-designation of 14,315,790 authorized and unissued ordinary shares of US\$0.0001 par value each into 14,315,790 Series D Preferred Shares.

On same day, the Company issued a total of 14,315,790 Series D Preferred Shares for a total consideration of US\$136 million in the following manner:

Name	Number of Series D Preferred Shares
Bright Ease Holdings Limited .....	368,421
Colour Leap Limited .....	157,895
Keywise MT .....	3,263,158
China Merchants Securities Investment Management (HK) Co., Limited .....	210,526
Harvest Investment Management Corporation .....	1,157,895
Bliss Moment Limited .....	736,842
Lucky Hand Global Limited .....	4,210,526
A Plus Global Holdings Ltd. ....	1,052,632
King Terrace Limited .....	3,157,895

For further details of the share subscriptions above, please see the paragraph headed “Pre-IPO Investments” in this section.

### 2. *Share Subdivision*

On November 25, 2016, our shareholders resolved, among other things that, subject to the Global Offering becoming unconditional, all the issued and unissued Preferred Shares will be reclassified and redesignated as ordinary shares of US\$0.0001 par value each, following which each issued and unissued ordinary share of US\$0.0001 par value each of the Company will be subdivided into 10 Shares of US\$0.00001 par value each such that the authorized share capital of the Company shall be US\$60,000 divided into 6,000,000,000 Shares of par value US\$0.00001 each and the issued share capital (including those Preferred Shares to be reclassified and redesignated as ordinary shares on the Listing Date) shall be US\$36,532.95 divided into 3,653,294,550 Shares of US\$0.00001 par value each.

### 3. *Concert Party Agreement*

The Concert Group, comprised of Mr. Wu, Mr. Cai and Ms. Wang (including where applicable any entities directly or indirectly controlled by them that directly hold the Shares), entered into the Concert Party Agreement

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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on August 17, 2016 pursuant to which the Concert Group has undertaken to vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and confirmed that they had acted in concert in respect of their equity interests in our Company since the incorporation of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group and, in the case of Ms. Wang, up until her ceasing to hold her interest in the Group. Ms. Wang (as the spouse of Mr. Cai) and her controlled entity, Baolink Capital, have been accustomed to act in accordance with the instructions of Mr. Wu and Mr. Cai, therefore, on January 28, 2016, she transferred all her Shares indirectly held through Baolink Capital to Mr. Cai. In addition, under the Concert Party Agreement and consistent with the practice adopted since the Company's inception, if the Concert Group is unable to reach unanimous consensus at any Board meetings and Shareholder meetings (as applicable), Mr. Wu will determine how to vote for and on behalf of the Concert Group.

#### 4. *ESOP*

The ESOP was adopted by the Board on February 15, 2014 and amended by resolution of the Board on November 18, 2015. The overall limit on the number of underlying Shares pursuant to the ESOP is 116,959,070 Shares after the Share Subdivision. The number of underlying Shares pursuant to the outstanding options granted under the ESOP amounts to 116,958,940 Shares (after taking into account the Share Subdivision to be conducted immediately prior to the Listing), representing approximately 2.77% of the issued Shares immediately following the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). As of the Latest Practicable Date, we have conditionally granted options to 204 participants under the ESOP. All the options under the ESOP were granted between February 15, 2014 and October 1, 2016 (both days inclusive) and the Company will not grant further options under the ESOP. The exercise price of all the options granted under the ESOP is US\$0.30 (being US\$0.03 after taking into account the Share Subdivision to be conducted immediately prior to the Listing). A summary of the principle terms of the ESOP is set forth in the section headed "Appendix IV — Statutory and General Information — Other Information — ESOP" in this prospectus. Please also see "Waiver from Strict Compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the ESOP" in this prospectus.

#### **BACKGROUND RELATING TO THE OLD CONTRACTUAL ARRANGEMENTS**

On June 18, 2003, Meitu Networks (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co., Ltd. (廈門數字情緣網絡科技有限公司)) was established in the PRC by Mr. Wu in collaboration with two Independent Third Parties, Mr. Cai Chongzhen and Ms. Mei Feng. At the time that Meitu Networks was established, Mr. Wu, Mr. Cai Chongzhen and Ms. Mei Feng's equity interest in Meitu Networks was 47%, 33% and 20%, respectively. Meitu Networks has since effected a series of equity transfers and was owned by Mr. Cai and Mr. Wu as to 52% and 48%, respectively, from January 9, 2014 onwards.

On March 1, 2013, Meitu Mobile was established in the PRC by Mr. Wu, Mr. Cai, and Xiamen Longling, who held 45%, 30% and 25% interests in Meitu Mobile, respectively. On May 19, 2013, the shareholders of Meitu Mobile resolved that Mr. Wu injected RMB4.5 million and Mr. Cai injected a further RMB5.5 million into the registered share capital of Meitu Mobile. The transaction was legally completed on May 31, 2013. As a result, the equity interest in Meitu Mobile was held by Mr. Wu, Mr. Cai and Xiamen Longling as to 45%, 42.5% and 12.5%, respectively. The pledges in relation to Meitu Mobile entered into originally by Mr. Wu, Mr. Cai and Xiamen Longling were all deregistered on April 8, 2014.

On October 14, 2013, Meitu Home was established as a wholly foreign-owned enterprise in the PRC with Meitu HK being its sole equity holder. The purpose of Meitu Home is to provide mobile and electronic communication products and network technology and related consultation and services.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our PRC operations, we commenced a series of reorganization

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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activities. On December 10, 2013, we entered into separate sets of contractual arrangements with Meitu Mobile and Meitu Networks (and their respective equity holders), respectively:

- Meitu Home, Meitu Mobile, Mr. Wu, Mr. Cai and Xiamen Longling entered into an exclusive option agreement, a shareholders' voting agreement and an equity pledge agreement. Meitu Home and Meitu Mobile entered into an exclusive consultation and services agreement. The registration of the equity pledge agreement of the Old Contractual Arrangements with respect to Meitu Mobile was completed on December 27, 2013.
- Meitu Home, Meitu Networks, Mr. Wu and Mr. Cai entered into an exclusive option agreement, a shareholders' voting agreement and an equity pledge agreement. Meitu Home and Meitu Network entered into an exclusive business cooperation agreement. The registration of the equity pledge agreement of the Old Contractual Arrangements with respect to Meitu Networks was completed on January 13, 2014.

Pursuant to the Old Contractual Arrangements, Meitu Home acquired effective control of Meitu Mobile and Meitu Networks, whereby its results were consolidated into those of our Group since December 27, 2013.

### THE CORPORATE RESTRUCTURING

Historically, our business operations were conducted through subsidiaries and variable interest entities owned or controlled by us. The corporate history and shareholding changes of our major operating subsidiaries are set out below.

Prior to the incorporation of the Company and completion of the Contractual Arrangements, our Group's business was primarily carried out through Meitu Networks and Meitu Mobile.

#### 1. *Acquisition of Meitu Mobile by Meitu HK*

On June 13, 2014, the shareholders, Mr. Wu, Mr. Cai, Xiamen Longling and Mr. Wang Chi Lam (an Independent Third Party who became a shareholder of Meitu Mobile on May 16, 2014), resolved to transfer their entire equity interests in Meitu Mobile to Meitu HK. On the same day, (i) Mr. Wu transferred his 45% equity interest in Meitu Mobile to Meitu HK for consideration of RMB9 million; (ii) Mr. Cai transferred his 42.5% equity interest in Meitu Mobile to Meitu HK for consideration of RMB8.5 million; (iii) Mr. Wang Chi Lam transferred his 10% equity interest in Meitu Mobile to Meitu HK for consideration of RMB2 million; and (iv) Xiamen Longling transferred its 2.5% equity interest in Meitu Mobile to Meitu HK for consideration of RMB500,000. The consideration were determined on an arm's length basis and legally completed on July 28, 2014. As a result, Meitu Mobile became a wholly foreign-owned enterprise of our Group and the Old Contractual Arrangements ceased to have effect with respect to Meitu Mobile as we held a direct equity interest in Meitu Mobile through Meitu Home.

#### 2. *The Contractual Arrangements in respect of Meitu Networks*

On December 20, 2015, Mr. Cai transferred 3% of his equity interest in Meitu Networks to Mr. Wu for consideration of RMB960,000 determined based on the then registered capital of Meitu Networks and 49% of his equity interest in Meitu Networks to Ms. Cai for a nominal consideration of RMB1. The transaction was legally completed on December 25, 2015. The entire equity interest in Meitu Networks is currently owned by Mr. Wu as to 51% and Ms. Cai as to 49%.

As a result of the above change, on December 25, 2015, the existing Contractual Arrangements were entered into in place of the Old Contractual Arrangements with respect to Meitu Networks. Mr. Wu's and Mr. Cai's share pledges in relation to Meitu Networks under the Old Contractual Arrangements with respect to Meitu Networks were deregistered on January 28, 2016 and December 17, 2015, respectively. Mr. Wu and Ms. Cai pledged their shareholding interests in Meitu Networks to Meitu Home. The pledges were registered on February 3, 2016. Due to applicable PRC laws and regulatory restriction on foreign ownership in the

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

telecommunications industry and restrictions on foreign investors to conduct value-added telecommunications services in the PRC, through the Contractual Arrangements, Meitu Home will assert management control over the operations of, and enjoy substantially all the economic benefits of Meitu Networks, and its subsidiaries, which in turn holds certain of the Group’s licenses and permits necessary to operate our business. Please refer to the section headed “Contractual Arrangements” for details of the Contractual Arrangements.

### 3. Restructuring of Meitu Huyu

On February 22, 2011, Meitu Huyu was established in the PRC as a wholly-owned subsidiary of Meitu Networks. Subsequent to the transfer of business as described below, Meitu Huyu’s main purpose is to conduct the research and development of our products.

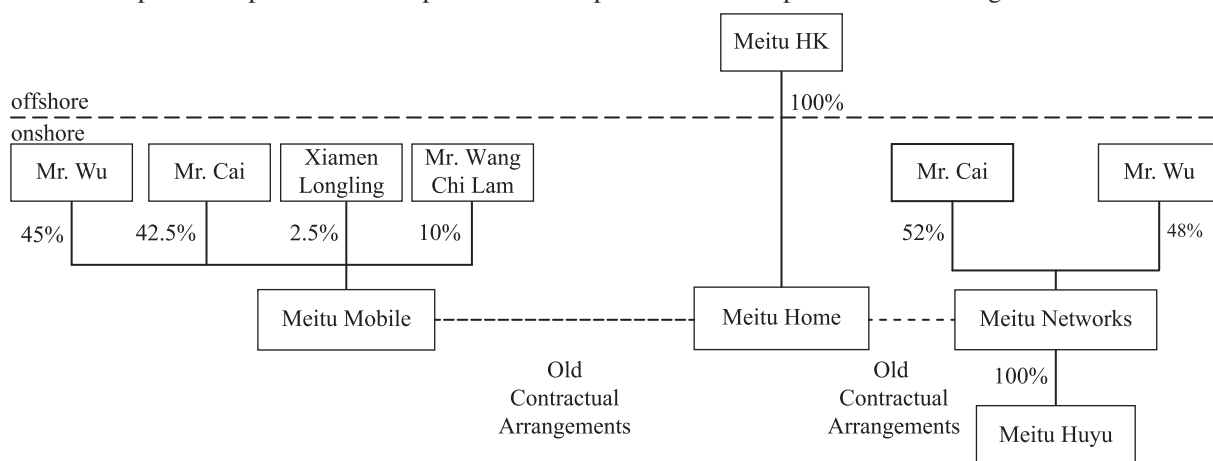
On July 27, 2016, Meitu Home Beijing was established in the PRC as a wholly-owned subsidiary of Meitu Home. Meitu Home Beijing was established for the purpose of operating the promotion business of Meitu Huyu that are not subject to any foreign investment restrictions under applicable PRC laws and ensuring that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange. As a result, as of the date of this prospectus, Meitu Networks, Meitu Huyu and its other subsidiaries will only engage in businesses subject to foreign investment restrictions under PRC laws and regulations.

On August 17, 2016, Meitu Home Beijing began the operation of the promotion business that are not subject to any foreign investment restrictions under applicable PRC laws and was transferred from Meitu Huyu. Please refer to the section headed “Contractual Arrangements” in this prospectus for details of the Contractual Arrangements.

### 4. Acquisition of Meipai Technology

In order to acquire certain licenses held by Meipai Technology, an inactive company established in the PRC on November 17, 2005, Meitu Network entered into an investment transfer agreement with its original shareholders on September 20, 2014. The original shareholders, Mr. Lv Zhiyong, Mr. Lv Zhiqiang and Mr. Liu Dong, were all Independent Third Parties. The consideration paid was RMB7 million, which was determined based on the then value of the assets held by Meipai Technology, and the transaction was completed on February 5, 2015. Meipai Technology was acquired to develop our audio-visual business.

A simplified corporate structure prior to the completion of the Corporate Restructuring is set out below:

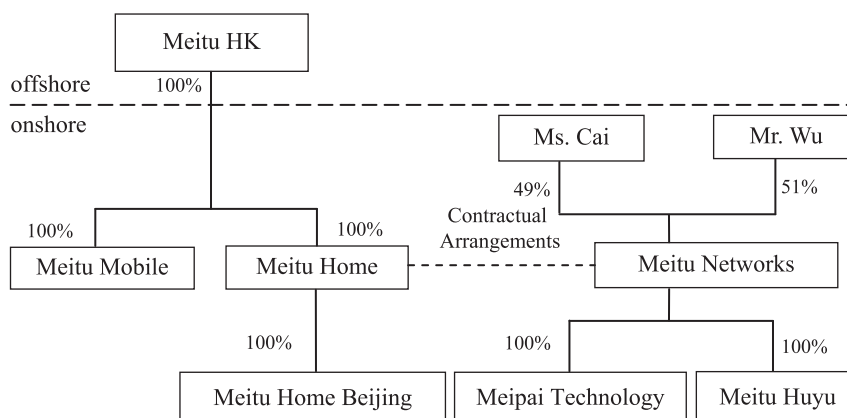


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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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A simplified corporate structure upon completion of the Corporate Restructuring is set out below:



Our PRC Legal Advisor has confirmed that all relevant approvals and permits in relation to the share transfers in respect of the PRC companies in our Group as described above had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations. Our PRC Legal Advisor confirms that the share transfers in respect of PRC companies have been properly and legally completed.

We did not conduct any major acquisitions, disposals or mergers throughout the Track Record Period. Over the Track Record Period, we have invested an aggregate of approximately RMB324 million in different companies in China and overseas that have technologies or businesses that supplement ours and benefit our business. Please refer to note 11 of “Appendix I — Accountant’s Report”. None of these companies are our subsidiaries and we do not consider any of these investments to be material, either individually or in aggregate.

### PRE-IPO INVESTMENTS

#### 1. Overview

Our Company underwent five rounds of Pre-IPO Investments:

- On October 22, 2013, the Company and Mr. Wu, among others, entered into the Series A-1 Preferred Share Purchase Agreement with the Series A-1 Preferred Shareholders, pursuant to which the Series A-1 Preferred Shareholders agreed to subscribe for total 11,111,111 Series A-1 Preferred Shares (which were subsequently reclassified as “Series A-1 Preferred Shares” on January 24, 2014) at a price of US\$0.45 per share for total consideration of US\$5 million. The allotment of Series A-1 Preferred Shares was completed on October 30, 2013.
- On January 16, 2014, the Company and Mr. Wu, among others, entered into the Series A-2 Preferred Share Purchase Agreement with the Series A-2 Preferred Shareholders, pursuant to which the (i) Series A-2A Preferred Shareholders agreed to subscribe for total 41,730,994 Series A-2A Preferred Shares at a price of US\$1.06875 per share for total consideration of US\$44.6 million, and (ii) Series A-2B Preferred Shareholders agreed to subscribe for total 14,444,444 Series A-2B Preferred Shares at a price of US\$0.72 per share for total consideration of US\$10.4 million. The allotment of Series A-2 Preferred Shares was completed on January 24, 2014.
- On May 28, 2014, the Company and Mr. Wu, among others, entered into the Series B Preferred Share Purchase Agreement with the Series B Preferred Shareholders, pursuant to which the Series B Preferred Shareholders agreed to subscribe for total 52,603,041 Series B Preferred Shares at a price of US\$2.17668 per share for total consideration of US\$114.5 million. The allotment of Series B Preferred Shares was completed on May 28, 2014.
- On January 6, 2015, the Company and Mr. Wu, among others, entered into the Series C Preferred Share Purchase Agreement with the Series C Preferred Shareholders, pursuant to which the Series C

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Preferred Shareholders agreed to subscribe for total 34,457,408 Series C Preferred Shares at a price of US\$5.51405 per share for total consideration of US\$190 million. The allotment of Series C Preferred Shares was completed on January 6, 2015.

- On April 19, 2016, the Company and Mr. Wu, among others, entered into the Series D Preferred Share Purchase Agreement with the Series D Preferred Shareholders, pursuant to which the Series D Preferred Shareholders agreed to subscribe for total 14,315,790 Series D Preferred Shares at a price of US\$9.50 per share for total consideration of US\$136 million. The allotment of Series D Preferred Shares was completed on April 20, 2016.

The basis of determination for the consideration for the Pre-IPO Investments were from arm's length negotiations between our Company, the Pre-IPO Investors and our founders after taking into consideration the timing of the investments and the status of our business and operating entities.

In connection with the Pre-IPO Investments, the Pre-IPO Investors entered into the Shareholders' Agreement at the time of their relevant investment.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The below table is a summary of the capitalization of the Company.

Shareholders	Ordinary shares with a par value of US\$0.0001 each	Series A-1 Preferred Shares					Series A-2A Preferred Shares		Series A-2B Preferred Shares		Series B Preferred Shares		Series C Preferred Shares		Series D Preferred Shares		Ownership percentage as of the date of this prospectus <sup>(1)</sup>	Ownership percentage as of the Listing Date <sup>(2)</sup>
		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Baolink Capital <sup>(3)</sup>	48,000,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	13.14%	11.35%
Longlink Capital <sup>(3)</sup>	62,000,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	16.97%	14.67%
Xinhong Capital <sup>(3)</sup>	56,666,667	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	15.51%	13.40%
Ultra Colour <sup>(3)</sup>	30,000,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8.21%	7.10%
Innovation Works Development Fund, L.P.	—	5,555,556	1,043,275	—	—	—	—	—	—	—	—	—	—	—	—	—	1.81%	1.56%
Innovation Works Development Fund II, L.P.	—	5,272,222	990,068	—	—	—	—	—	—	—	—	—	—	—	—	—	1.71%	1.48%
Innovation Works Parallel Fund II, L.P.	—	283,333	53,207	—	—	—	—	—	—	—	—	—	—	—	—	—	0.09%	0.08%
IDG-Accel China Growth Fund III L.P.	—	—	18,509,991	6,744,111	—	—	—	—	—	—	—	—	—	—	—	—	8.32%	7.19%
IDG-Accel China III Investors L.P.	—	—	1,312,231	478,111	—	—	—	—	—	—	—	—	—	—	—	—	0.59%	0.51%
Qiming Venture Partners III, L.P.	—	—	19,216,534	7,001,540	—	—	—	—	—	—	—	—	—	—	—	—	7.42%	6.41%
Qiming Managing Directors Fund III, L.P.	—	—	605,688	220,682	—	—	—	—	—	—	—	—	—	—	—	—	0.23%	0.20%
Internet Fund II Pte. Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10.95%	9.46%
H Capital I, L.P.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.63%	0.54%
Ceyuan Ventures III, L.P.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1.82%	1.57%
Ceyuan Ventures Advisors Fund III, LLC	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.07%	0.06%
Bright Ease Holdings Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1.30%	1.12%
Assets Eagle Global Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.95%	6.01%
Colour Leap Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.51%	0.44%
Keywise MT	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.89%	0.77%
Bliss Moment Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.20%	0.17%
China Merchants Securities Investment Management (HK) Co., Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.06%	0.05%
Harvest Investment Management Corporation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.32%	0.27%
Lucky Hand Global Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1.15%	1.00%
A Plus Global Holdings Ltd.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.29%	0.25%
King Terrace Limited	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.86%	0.75%
Other public Shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	13.58%
<b>Total</b>	196,666,667	11,111,111	41,730,994	14,444,444	52,603,041	34,457,408	14,315,790	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Notes:

- (1) Based on the assumption that each Preferred Share will be converted into one ordinary share of US\$0.0001 par value upon the Global Offering becoming unconditional and the options granted under the ESOP are not exercised. All Preferred Shares will automatically be converted into ordinary shares upon Listing.
- (2) Assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.
- (3) Baolink Capital, Longlink Capital, Xinhong Capital and Ultra Colour are not Pre-IPO Investors. Please refer to the corporate structure chart in the section headed "Relationship with our Controlling Shareholders;" for more information.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### 2. *Principal terms of the Pre-IPO Investments and Pre-IPO Investors' Rights*

The below table summarizes the principal terms of the Pre-IPO Investments:

	Series A-1 Preferred Shareholders	Series A-2 Preferred Shareholders	Series B Preferred Shareholders	Series C Preferred Shareholders	Series D Preferred Shareholders
Cost per Preferred Share paid	US\$0.45	US\$1.06875 (Series A-2A Preferred Shares)  US\$0.72 (Series A-2B Preferred Shares)	US\$2.17668	US\$5.51405	US\$9.50
Date of the agreement	October 22, 2013	January 16, 2014	May 28, 2014	January 6, 2015	April 19, 2016
Date on which investment was fully settled	November 7, 2013	January 28, 2014	June 12, 2014	January 9, 2015	June 20, 2016
Discount to the Offer Price <sup>(1)</sup>	96.1%	90.8% (Series A-2A Preferred Shares)  93.8% (Series A-2B Preferred Shares)	81.3%	52.7%	18.6%
Lock-Up Period	Any equity securities of the Company held by the Pre-IPO Investors will be subject to lock-up for a maximum period of 180 days from the date of this prospectus or the Price Determination Date as may be requested by the Underwriters. Please refer to “Underwriting — Undertakings by other Shareholders” for details of the lock-up arrangement undertaken by the Pre-IPO Investors.				
Use of Proceeds from the Pre-IPO Investments	We utilized the proceeds for the development and operation of the business of the members of the Group, including but not limited to, personnel recruitment, new business and product development, technology infrastructure, office utilities and marketing. As at the Latest Practicable Date, approximately 50% net proceeds from the Pre-IPO Investments by the Pre-IPO Investors were utilized.				
Strategic benefits of the Pre-IPO Investors brought to our Company	At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the Pre-IPO Investors' investments in our Company and the Pre-IPO Investors' knowledge and experience.				

*Note:*

- (1) The discount to the Offer Price is calculated based on the assumption that the Offer Price is HK\$9.05 per Share, being the mid-point of the indicative Offer Price range of HK\$8.50 to HK\$9.60, on the basis that 4,227,294,550 Shares are expected to be in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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In addition to the terms described above, the holders of the Preferred Shares have been granted the following special rights, each of which shall automatically terminate immediately prior to Listing when the Preferred Shares are converted into ordinary shares of US\$0.0001 par value:

### Conversion Rights

#### Optional conversion

At the option of the holder of Preferred Shares, a Preferred Share may be converted into fully-paid and non-assessable shares based on the then applicable conversion price.

#### Automatic conversion

The Preferred Shares shall be automatically converted into fully-paid, non-assessable shares based on the then applicable conversion price (i) immediately prior to the closing of a QIPO or (ii) (A) on the date specified on a written request for such conversion from the holders of no less than eighty-five (85%) of outstanding Series A Shares (calculated on an as-converted basis) with respect to the conversion of the Series A Preferred Shares, or (B) on the date specified on a written request for such conversion from a majority of the Series B Preferred Shareholders, Series C Preferred Shareholders and/or Series D Preferred Shareholders with respect to the Series B Preferred Shares, Series C Preferred Shares and/or Series D Preferred Shares (as applicable).

The necessary parties to the Shareholders' Agreement have agreed that the Global Offering is a QIPO and all Preferred Shares will be automatically converted into Shares upon Listing.

#### Anti-dilution protection

The initial conversion ratio for each Preferred Share to ordinary share of US\$0.0001 par value shall be 1:1. The conversion ratio, which shall be initially be based on the issue price of the Preferred Shares, shall be adjusted from time to time by customary events such as share dividends, subdivisions, combinations or consolidations of ordinary shares, other distribution reclassification, exchange and substitutions, including, among others, in the event of an issuance of new securities below the applicable conversion price. The adjustment to the conversion ratio of the Preferred Shares is not linked to the Offer Price or the market capitalization of our Company upon Listing and is in line with the principles and requirements promulgated by the Stock Exchange.

### Dividend rights

The Preferred Shareholders are entitled to receive dividends, prior and in preference to any declaration or payment of any dividend on the shares or any other class or series of shares at the rate of 8% of the original issue price of the relevant Preferred Shares as applicable (as adjusted for any subdivisions, consolidations, bonus issues, reclassifications and the like) per annum on each Preferred Share payable in U.S. dollars and annually when, as and if declared by the Board.

### Redemption rights

Each Preferred Shareholder is entitled to require and demand that we redeem all or part of its Preferred Shares at any time after the occurrence of any of the following events, whichever is earlier: (i) the fourth (4th)

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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anniversary date of the Series D Issue Date (as defined in the Existing Articles), if no QIPO occurs on or prior to such date; (ii) any material violation of applicable laws and regulations or any material breach of any provisions in the Existing Articles, the applicable Pre-IPO Investment Agreement, or any Ancillary Agreements (as defined in the applicable Pre-IPO Investment Agreement) by any Group Company, any holder of shares, Mr. Wu or Mr. Cai; (iii) any act of any Group Company, any holder of shares, Mr. Wu or Mr. Cai that will or is reasonably expected to result in a material adverse effect on any Group Company and/or the business operations of any Group Company; or (iv) (A) in the case of a Series D Preferred Shareholder, any Series A Preferred Shareholder, Series B Preferred Shareholder or Series C Preferred Shareholder has requested the Company to redeem its respective Preferred Shares; (B) in the case of a Series C Preferred Shareholder, any Series A Preferred Shareholder or Series B Preferred Shareholder has requested the Company to redeem its respective Preferred Shares; or (C) in the case of a Series B Preferred Shareholder, any Series A Preferred Shareholder has requested the Company to redeem its Preferred Shares. For the avoidance of doubt, Series A Preferred Shareholders have no right to require and demand that we redeem all or part of its Preferred Shares under clause (iv).

The redemption price for each such Preferred Share shall be equal to (i) 100% of the original issue price for such Preferred Share, plus (ii) 8% per annum interest on the original issue price for such Preferred Share, accrued during the period from the issue date of such Preferred Share until the date on which the redemption price is paid in full for such Preferred Share and (iii) any accrued but unpaid dividends thereon.

Each of the Pre-IPO Investors has by way of a waiver letter dated August 16, 2016 agreed that to confirm and better reflect their mutual understanding that the redemption rights above only be exercisable in circumstances that would render a QIPO incapable of being consummated and to irrevocably, unilaterally and unconditionally suspend their redemption rights to require the Company to redeem the Preferred Shares until the earlier of (i) March 31, 2017 or (ii) such date on which the Board resolves to discontinue the Company's application for the Listing. As such, these redemption rights will not survive upon the Listing since they only exist in the absence of a QIPO, which the Global Offering is currently expected to be, and our shareholders have conditionally adopted the Articles effective from the Listing Date consistent with the requirements of the Listing Rules that do not contain these rights.

### Information and inspection rights

The Pre-IPO Investors have the right to receive certain financial statements and other information about our Company. The Pre-IPO Investors have the right to inspect the Group's facilities, examine its books of accounts and records and discuss each member of the Group's affairs with its directors, officers, employees, legal advisors and other personnel.

### Liquidation rights

The Preferred Shareholders are entitled to receive an amount equivalent to their initial investment plus all declared but unpaid dividends in preference to any other Shareholders in the event of any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Right to elect director and participation in Board and Board committee	<p>The holders of the first and second largest number of Series A-2 Preferred Shares are each entitled to appoint one director (the “<b>Series A Directors</b>”) to the Board and the holders of a majority of the outstanding Series B Preferred Shares (calculated on as-converted basis) are entitled to appoint one director (the “<b>Series B Director</b>”, together with the Series A Directors, the “<b>Preferred Directors</b>”) to the Board. Moreover, each of the audit committee, the compensation committee and other committees of the board shall include each Preferred Director.</p> <p>The Pre-IPO Investors also have the right to appoint a non-voting observer to the Board and its committees and any boards of the Company’s affiliates. Dr. Guo Yihong, being one of the Series A Directors appointed to the Board on January 24, 2014 by IDG-Accel China Growth Fund III L.P. and IDG-Accel China III Investors L.P. (who collectively hold 8.91% of our Company as at the date of this prospectus), the holders of the largest number of Series A-2 Preferred Shares, will remain as a non-executive Director upon Listing. Mr. Gan JP, being the other Series A Director appointed to the Board on January 24, 2014 by Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P. (who collectively hold 7.65% of our Company as at the date of this prospectus), the holders of the second largest number of Series A-2 Preferred Shares Mr. Tan Hainan, being the Series B Director appointed to the Board on May 28, 2014 by Internet Fund II Pte. Ltd., the majority holder of the Series B Preferred Shares. Mr. Gan JP and Mr. Tan Hainan will resign and cease to be Directors upon Listing because the special rights granted to the Pre-IPO Investors will be terminated upon Listing.</p>
Pre-emptive right	<p>Each Pre-IPO Investor shall have the pre-emptive right to purchase up to a pro rata share of any new securities which our Company may propose to issue.</p>
Right of first refusal and co-sale	<p>If any of Xinhong Capital, Longlink Capital, Baolink Capital or Ultra Colour (collectively the “<b>Original Shareholders</b>” and each an “<b>Original Shareholder</b>”) proposes to transfer any securities of our Company (the “<b>Offered Shares</b>”) held by it to any third party prospective buyer, the Pre-IPO Investors have a right of first refusal to purchase all the Offered Shares on a pro rata basis on the terms and conditions stated in the transfer notice given by the transferring Original Shareholders. In the event that the Pre-IPO Investors do not exercise their right of first refusal with respect to all of the Offered Shares, the Pre-IPO Investors who exercised their rights of first refusal have the right to participate in the sale of the remaining Offered Shares on the same terms and conditions as set forth in the transfer notice given by the transferring Original Shareholder.</p>
Drag-along obligations	<p>If holders of more than 50% of the outstanding ordinary shares (the “<b>Dragging Holders</b>”) propose a Drag-along Sale (as defined below) in which the implied valuation of the Company immediately prior to such transaction is (A) at least US\$5 billion if such transaction is completed on or prior to April 20, 2018, or (B) at least US\$6 billion if such transaction is completed after April 20, 2018 and on or prior to April 20, 2020, then upon written notice from the Dragging Holders requesting them to do so, each of the shareholders other than the Dragging Holders shall (i) vote, or give its written consent with respect to, all the securities of the Company directly or indirectly held by him in favor of such proposed Drag-along Sale and in</p>

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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opposition of any proposal that could reasonably be expected to delay or impair the consummation of any such proposed Drag-along Sale; (ii) refrain from exercising any dissenters' rights or rights of appraisal under applicable law at any time with respect to the proposed Drag-along Sale; and (iii) take all actions reasonably necessary to consummate the proposed Drag-along Sale.

**“Drag-along Sale”** means (i) a sale, lease, transfer or other disposition of all or substantially all of the assets of the Company or any Group Company, (ii) a transfer or an exclusive licensing of all or substantially all of the intellectual property of the Group Companies, (iii) a sale, transfer or other disposition of the issued and outstanding share capital of the Company or any Group Company, in which the Shareholders of the Company or shareholders of such Group Company immediately before such transaction own less than fifty percent (50%) of the voting power of the surviving company immediately after such transaction (excluding any transaction effected solely for tax purposes or to change the Company's domicile), or (iv) a merger, consolidation or other business combination of any Group Company with or into any other business entity in which the existing shareholders of such Group Company immediately prior to such merger, consolidation or business combination do not retain a majority of the voting power in the surviving entity.

### Veto rights

Certain corporate actions require the approval of the holders of at least a majority of the Pre-IPO Investors. These corporate actions include, among others, (i) any merger, consolidation or other reorganization in which 50% or more of our voting power is transferred, (ii) the sale or other disposition of all or substantially all of our assets, (iii) the appointment or change of our auditor, (iv) adoption or amendment of the Existing Articles, (v) any change of business presently conducted by us, and (vi) any acts that will have or is reasonably expected to have any dilutive or detrimental effect on shareholding percentages of the Pre-IPO Investors.

Certain corporate actions require the approval of at least a majority of the Preferred Directors. These corporate actions include, among others, (i) approval of annual business plan, (ii) any declaration, set aside or payment of a dividend or other distribution by the Company, (iii) any appointment or removal of the Chief Executive Officer, Chief Financial Officer, Chief Operation Officer, Chief Technology Officer or other senior officers of the Company, or any increase in compensation of any of the foregoing senior officers by more than forty percent (40%) in a twelve (12) month period, (iv) establishment, amendment and implementation of any bonus and incentive plan (including the ESOP) for the senior management, officers and employees of the Company, and any issuance or grant of any Restricted Shares, incentive shares or options under the ESOP, and (v) creation, or authorization of the creation, or issuance of any debt security and any other debt financing instruments.

### 3. *Public Float*

Immediately prior to completion of the Global Offering, Internet Fund II Pte. Ltd. will hold approximately 10.95% equity interest in our Company. Upon the completion of the Global Offering (assuming the Over-allotment Option and options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), the Pre-IPO



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Investors (including Internet Fund II Pte. Ltd.) will collectively hold a total of 39.90% of the Shares of the Company and no individual Pre-IPO Investor (including Internet Fund II Pte. Ltd.) will hold 10% or more of the enlarged issue share capital of the Company. As a result, the Shares held by the Pre-IPO Investors will count towards the public float. All the Pre-IPO Investors are Independent Third Parties of our Group.

#### 4. *Information about the Pre-IPO Investors*

Innovation Works Development Fund, L.P., Innovation Works Development Fund II, L.P., and Innovation Works Parallel Fund II, L.P. are venture capital funds managed by Innovation Works Management Limited, a fund management company focusing on Internet, mobile Internet, technology and education industries.

IDG Accel China Growth Fund III L.P. and IDG-Accel China III Investors L.P. are venture capital funds managed by IDG Capital with a primary purpose of investing in growth stage companies in China, focusing on companies in the information, technology, media, healthcare, energy, clean technology and non-technology consumer businesses and services related industries, including, but not limited to, companies engaged in software, Internet, telecom, media and managed healthcare business. As of the date of this prospectus, IDG Accel China Growth Fund III L.P. and IDG-Accel China III Investors L.P. collectively hold 8.91% of our total issued and outstanding ordinary shares (assuming that each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and the options granted under the ESOP are not exercised).

Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P. are venture capital funds managed by Qiming Venture Partners, focusing on investments in companies in the media and Internet, information technology, consumer and retail, healthcare and clean technology sectors across China. As of the date of this prospectus, Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P. collectively hold 7.65% of our total issued and outstanding ordinary shares (assuming that each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and the options granted under the ESOP are not exercised).

Internet Fund II Pte. Ltd. is an investment company managed by Tiger Global Singapore Pte. Ltd., a company based in Singapore which holds a capital markets service license to conduct fund management activities focusing on Internet, mobile Internet, technology and education industries.

H Capital I, L.P. is a private equity fund registered in the Cayman Islands, focusing on Internet, mobile Internet and education industries.

Ceyuan Ventures III, L.P. and Ceyuan Ventures Advisors Fund III, LLC are private equity funds focused on early stage and growth stage companies.

Bright Ease Holdings Limited and Colour Leap Limited are investment holding companies and indirect wholly-owned subsidiaries of FIH Mobile Limited, whose shares are listed on the Stock Exchange (Hong Kong Stock Exchange Stock Code: 2038) and is an indirect subsidiary of Hon Hai Precision Industry Co. Ltd., which is commonly known as Foxconn Technology Group. As of the date of this prospectus, Bright Ease Holdings Limited and Colour Leap Limited collectively hold 1.81% of our total issued and outstanding ordinary shares (assuming that each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and the options granted under the ESOP are not exercised).

Assets Eagle Global Limited is a special purpose vehicle established and managed by China AMC Capital Management (BVI) Limited, which is a wholly-owned subsidiary of China Asset Management (Hong Kong) Limited focusing on Internet, mobile Internet, technology and education industries.

Keywise MT is wholly owned by Keywise Greater China Opportunities Master Fund. Keywise Capital Management (HK) Limited is the investment advisor of the Keywise Greater China Opportunities Master Fund.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Bliss Moment Limited is an investment holding company, which China Merchants Securities Investment Management (HK) Co., Limited holds one Class A share. China Merchants Securities Investment Management (HK) Co. Limited is a wholly-owned subsidiary of China Merchants Securities International Company Limited. As of the date of this prospectus, Bliss Moment Limited and China Merchants Securities Investment Management (HK) Co. Limited collectively hold 0.26% of our total issued and outstanding ordinary shares (assuming that each Preferred Share is converted into one ordinary shares of US\$0.0001 par value immediately prior to the Global Offering and the options granted under the ESOP are not exercised).

Harvest Investment Management Corporation is an investment holding company and a wholly-owned subsidiary of Harvest Capital Co., Ltd, which was founded in 2006 and is Chinese private equity fund focused in the consumption and service sector.

Lucky Hand Global Limited, a company owned by Independent Third Party Investors, is an investment holding company registered in British Virgin Islands, focusing on Internet and mobile Internet industries.

A Plus Global Holdings Ltd. is an investment holding company and a company owned by Independent Third Party Investors, focusing on internet and mobile Internet industries.

King Terrace Limited, a company owned by Independent Third Party Investors, is a company incorporated in the British Virgin Islands with investment as its main business. It is a company advised and managed by Lianjie Asset Management (Cayman) Limited, an affiliated company of King Terrace Limited, which is principally engaged in managing investments for a family office.

### COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

The Joint Sponsors confirm that the investment by the Pre-IPO Investors is in compliance with the Guidance Letter HKEx-GL29-12 issued on January 2012 by the Stock Exchange, Guidance Letter HKEx-GL43-12 issued in October 2012 and updated in July 2013 by the Stock Exchange and Guidance Letter HKEx-GL44-12 issued in October 2012 by the Stock Exchange.

### PRC REGULATORY REQUIREMENTS

Our PRC legal advisor has confirmed that the share transfers, reorganizations, acquisitions and disposals in respect of the PRC companies in our Group as described above have been properly and legally completed and all regulatory approvals have been obtained in accordance with PRC laws and regulations.

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this offering is not required because (i) Meitu Home was incorporated as a foreign-invested enterprise without involving acquisition of the equity or assets of a “PRC domestic company”, as such term is defined under the M&A Rules, (ii) Meitu Home Beijing

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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was incorporated as Meitu Home's wholly-owned subsidiary; and (iii) Meitu Mobile was incorporated as a PRC domestic company in March 2013 and became a sino-foreign equity joint venture in May 2014 in compliance with the M&A Rules. In July 2014, Meitu HK acquired the entire equity interest in Meitu Mobile, upon which Meitu Mobile was redesignated as a wholly foreign-owned enterprise of our Company, such that the M&A Rules are not applicable. Other than Meitu Home, Meitu Home Beijing and Meitu Mobile, all of our other PRC subsidiaries have been wholly owned by PRC citizens since their dates of incorporation, and as such, the M&A Rules are not applicable.

### SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), promulgated by SAFE and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”) became effective on July 14, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

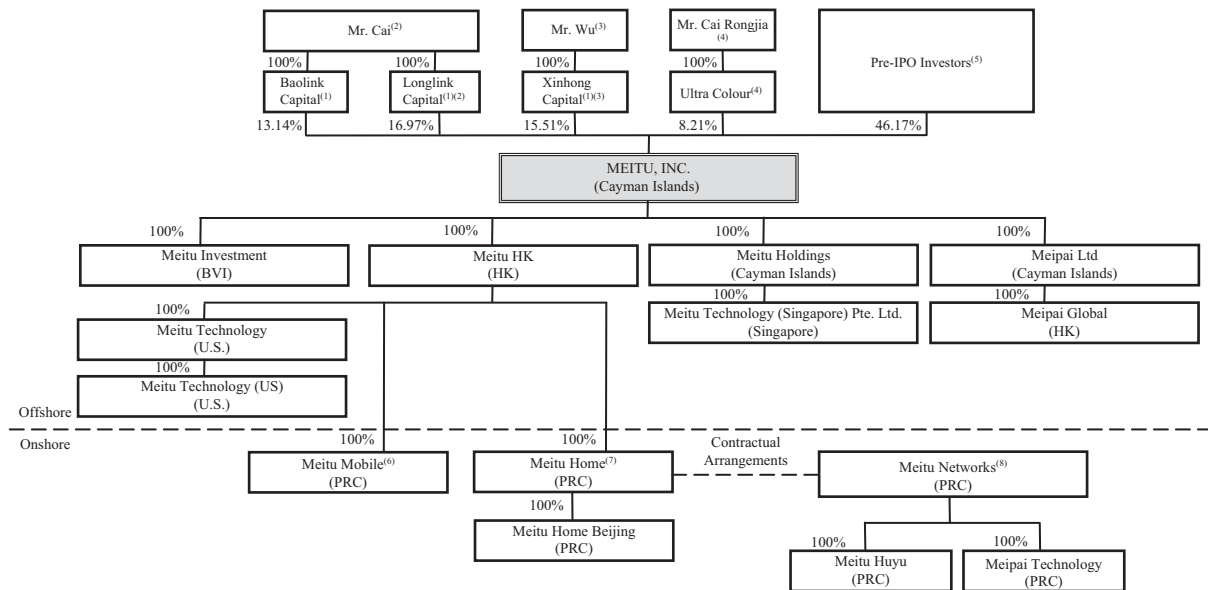
Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, our shareholders (as PRC Residents as defined under the applicable provisions under SAFE Circular 37 or 75) have completed the registration under the SAFE Circular 75 on June 30, 2014.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following diagram illustrates the corporate and shareholding structure of our Group immediately prior to the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme):



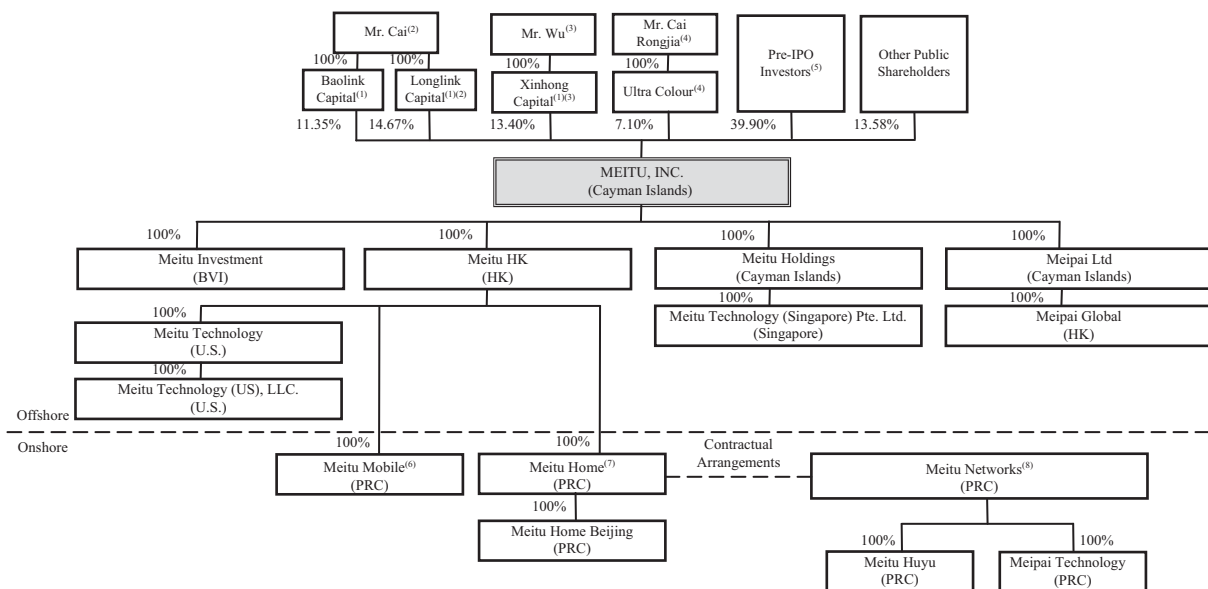
### Notes:

- (1) Pursuant to the Concert Party Agreement, the Concert Group has confirmed that its members have been acting in concert since the inception of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group.
- (2) The entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.
- (3) The entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu.
- (4) The entire interest of Ultra Colour is held by Ultra Colour Limited which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai Rongjia, the son of Mr. Cai.
- (5) The remaining interest is owned by the Pre-IPO Investors. Please see the table in “— Pre-IPO Investment — Overview” in this prospectus.
- (6) Meitu Mobile established two branches offices, namely Xiamen Meitu Mobile Technology Co., Ltd. Shenzhen Branch (廈門美圖移動科技有限公司深圳分公司) and Xiamen Meitu Mobile Technology Co., Ltd. Shenzhen Longhua Branch (廈門美圖移動科技有限公司深圳龍華分公司) on September 27, 2013 and September 1, 2014, respectively.
- (7) Meitu Home established a branch office, Xiamen Home Meitu Technology Co., Ltd. Shenzhen Branch (廈門美圖之家科技有限公司深圳分公司) on March 31, 2016.
- (8) Meitu Networks is owned by Mr. Wu as to 51% and Ms. Cai as to 49%, but its results are consolidated by the Group for accounting purposes. Please refer to the section headed “Contractual Arrangements” for further details. Meitu Networks established a branch office, Xiamen Meitu Networks Technology Co., Ltd. Shanghai Branch (廈門美圖網科技有限公司上海分公司), on May 21, 2015 and a branch office, Xiamen Meitu Networks Technology Co., Ltd. Hangzhou Branch (廈門美圖網科技有限公司杭州分公司), on July 4, 2016.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following diagram illustrates the corporate and shareholding structure of our Group immediately following the completion of the Share Subdivision and the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme):



### Notes:

- (1) Pursuant to the Concert Party Agreement, the Concert Group has confirmed that its members have been acting in concert since the inception of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group.
- (2) The entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.
- (3) The entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu.
- (4) The entire interest of Ultra Colour is held by Ultra Colour Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai Rongjia, the son of Mr. Cai.
- (5) The interest is owned by the Pre-IPO Investors. Please see the table in the section headed “— Pre-IPO Investment — Overview” in this prospectus. All of the Pre-IPO Investors will count towards the public float upon Listing.
- (6) Meitu Mobile established two branches offices, namely Xiamen Meitu Mobile Technology Co., Ltd. Shenzhen Branch (廈門美圖移動科技有限公司深圳分公司) and Xiamen Meitu Mobile Technology Co., Ltd. Shenzhen Longhua Branch (廈門美圖移動科技有限公司深圳龍華分公司) on September 27, 2013 and September 1, 2014, respectively.
- (7) Meitu Home established a branch office, Xiamen Home Meitu Technology Co., Ltd. Shenzhen Branch (廈門美圖之家科技有限公司深圳分公司) on March 31, 2016.
- (8) Meitu Networks is owned by Mr. Wu as to 51% and Ms. Cai as to 49%, but its results are consolidated by the Group for accounting purposes. Please refer to the section headed “Contractual Arrangements” for further details. Meitu Networks established a branch office, Xiamen Meitu Networks Technology Co., Ltd. Shanghai Branch (廈門美圖網科技有限公司上海分公司), on May 21, 2015 and a branch office, Xiamen Meitu Networks Technology Co., Ltd. Hangzhou Branch (廈門美圖網科技有限公司杭州分公司), on July 4, 2016.

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### OVERVIEW

We have been transforming the way our users create and share beauty since the launch of our first product, *Meitu*, in 2008. Centered around our core design philosophy of “*smart and simple*”, our portfolio of innovative photo and community apps had been activated on over 1.1 billion unique devices globally as of October 31, 2016 and precipitated the selfie phenomenon in China. Today, “Meitu” is not only used as a verb for “*enhancing images*”, but is also a brand that represents beauty, trendiness and youthfulness. To better meet our users’ demands for higher quality selfies, we launched Meitu smartphones in 2013. Meitu smartphones integrate proprietary image processing algorithms and specialized image processors which generate high-quality selfies. The sale of these smartphones was our first major initiative to monetize our user base. Revenue from the sale of smart hardware, which currently primarily comprises smartphones, grew rapidly over the Track Record Period, and represented 59.7%, 87.8%, 89.9% and 95.1% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

Fundamentally, we view ourselves as a mobile Internet company with our core asset being our massive, active and fast-growing user base. Across all of our apps, we engaged approximately 456 million total MAUs in October 2016. We have been repeatedly ranked among the top eight iOS non-game app developers globally in terms of number of downloads from June 2014 through October 2016, together with global Internet giants Alibaba, Apple, Baidu, Facebook, Google, Microsoft and Tencent, according to App Annie.

We believe our photo apps have become an important part of our users’ social lives online. Our users generated approximately 6.0 billion photos across our core photo apps in October 2016. In addition, approximately 53.5% of the photos posted on major social networks in China had been processed by our apps, according to a survey conducted by iResearch in June 2016.

We also have succeeded in building a vibrant video and live streaming community on *Meipai*. In October 2016, *Meipai* attracted approximately 110 million MAUs. User engagement has been increasing, as evidenced by the increase in average daily time spent per *Meipai* in-app user from 12.9 minutes in May 2014, when *Meipai* was first launched, to 33.8 minutes in October 2016. As of October 31, 2016, *Meipai* users had uploaded over 490 million videos with diverse subject matters. We aim to leverage our achievement in *Meipai* to transform our core photo apps into social communities to further enhance user engagement and stickiness.

Furthermore, we have been successful in establishing our presence overseas. We had more than 430 million overseas users as of October 31, 2016, including at least one million total users in each of 26 overseas countries and regions and in particular, more than 10 million total users in each of Brazil, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam. To further expand our global presence, we have launched localized apps and established local operations in major cities located in countries and regions with substantial user growth potential or cultural influence, such as New Delhi, Sao Paulo, Palo Alto, Singapore and Tokyo.

We believe the provision of relevant products, content and services will help us monetize our user base and enable us to create value for our users at the same time. We intend to continue to drive our near-term revenue growth through smartphone sales, since China’s large smartphone market continues to present significant opportunities. For the year ended December 31, 2015, approximately 457 million smartphone units were shipped in China, according to the Frost & Sullivan Report. Following our successful monetization through smartphones, we have also identified three other major opportunities for monetization:

- **Online Advertising.** Our portfolio of innovative apps provides a powerful medium through which advertisers can engage our massive user base. We view our value proposition as highly compelling, particularly to advertisers in female-related sectors, including but not limited to luxury goods, cosmetics and fast-moving consumer goods, as the majority of our users are females, whom we believe appreciate beauty. We are leveraging our proprietary technologies and big data analytical capabilities to upgrade our advertising infrastructure and offer more comprehensive and innovative advertising solutions to our business partners.



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According to the Frost & Sullivan Report, online advertising spending for the cosmetics, skin care and personal care sectors in China is expected to reach an estimated RMB125.1 billion in 2020, compared to RMB33.7 billion in 2015, representing a CAGR of 30.0%.

- **E-Commerce.** We believe our users' appreciation for beauty extends beyond their digital presence. In the first half of 2017, we plan to launch a social e-commerce platform that enables users to enjoy easy online shopping for authentic, branded, fashion-related merchandise. According to the iResearch Report, the GMV of China's online retail market is expected to increase from approximately RMB3.8 trillion in 2015 to RMB10.5 trillion in 2020, representing a CAGR of 22.5%. In particular, the GMV of China's online retail market for cosmetics and skin care products reached RMB182.3 billion in 2015, and is expected to reach RMB548.2 billion in 2020, representing a CAGR of 24.6%.
- **Internet Value-added Services.** While our users can access *Meipai*'s content and interact with other users and live streaming hosts for free, we have started to offer additional paid Internet value-added services to enrich user experience. For example, starting in June 2016, users could send paid virtual gifts, which can be in the form of flowers and emoji showing fan support, to live streaming hosts and short-form video creators, incentivizing such hosts and creators to add more content to the *Meipai* community and generate additional revenue. According to the iResearch Report, the live streaming market in China in terms of revenue is expected to increase from RMB9.8 billion in 2015 to RMB44.9 billion in 2020, representing a CAGR of 35.7%. Given our massive and highly active user base, we believe other IVAS, such as premium membership and mobile games, will also present significant monetization opportunities for us.

Our revenue increased from RMB85.9 million for the year ended December 31, 2013 to RMB488.0 million and RMB741.8 million for the years ended December 31, 2014 and 2015, respectively, representing a CAGR of 193.9%, and our revenue increased by 224.2% from RMB180.6 million for the six months ended June 30, 2015 to RMB585.5 million for the six months ended June 30, 2016. Our net loss was RMB25.8 million, RMB1.8 billion, RMB2.2 billion, RMB1.3 billion and RMB2.2 billion for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. Excluding the impact of fair value loss of the Preferred Shares and share-based payments, we had adjusted net loss of RMB2.3 million, RMB112.3 million and RMB710.5 million for the years ended December 31, 2013, 2014 and 2015, respectively, and RMB290.4 million and RMB257.6 million for the six months ended June 30, 2015 and 2016, respectively. See "Financial Information — Consolidated Income Statement" and "Financial Information — Non-IFRS Measure: Adjusted Net Loss". As of June 30, 2016, we had an accumulated loss of RMB6.3 billion, primarily due to our accumulated fair value loss of the Preferred Shares of RMB5.1 billion as of June 30, 2016. Excluding the impact of our accumulated fair value loss of the Preferred Shares of RMB5.1 billion and share-based payments of RMB75.4 million, our adjusted accumulated loss would have been RMB1.1 billion as of June 30, 2016. We expect to remain loss-making for the years ending December 31, 2016 and 2017.

We currently operate two business segments: (i) smart hardware and (ii) Internet services and others. Revenue from our smart hardware segment was RMB51.3 million, RMB428.4 million, RMB677.1 million and RMB556.8 million for the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016, respectively. For our Internet services and others segment, we had revenue of RMB34.6 million, RMB59.7 million, RMB74.7 million and RMB28.6 million for the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2016, respectively. Gross profit from our smart hardware segment was RMB18.4 million, RMB55.6 million, RMB125.2 million and RMB108.7 million for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. For our Internet services and others segment, we had gross profit of RMB31.2 million and RMB31.1 million for the years ended December 31, 2013 and 2014, respectively, and gross loss of RMB24.7 million and RMB34.2 million for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively. The gross loss of the Internet services and others segment for the year ended December 31, 2015 and the six months ended June 30, 2016 was due to the fact that RMB91.6 million, or 92.1%, and RMB57.7 million, or 91.8%, respectively, of the segment costs were attributable to *Meipai*, which did not generate significant revenue during the indicated periods and only began generating IVAS

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revenue in June 2016. Substantially all of the revenues from the Internet services and others segment were online advertising revenues generated from our photo apps, *Meitu* and *BeautyCam*, during the Track Record Period. We expect to generate profits from the Internet services and others segment when the advertisements placed on our apps, virtual items sold on *Meipai* and *Beauty Box*, and the sales volume of merchandise sold on our proposed e-commerce platform reach a level that is sufficient to cover the associated costs and expenses.

As of June 30, 2016, we had net liabilities of RMB6.6 billion. Excluding the liabilities of the Preferred Shares of RMB8.6 billion as of June 30, 2016, our adjusted net assets would have been RMB2.0 billion. All the Preferred Shares will be automatically converted into ordinary shares immediately prior to the completion of the Global Offering, and the liabilities of the Preferred Shares of RMB8.6 billion as of June 30, 2016 will be derecognized and accounted as an increase in equity upon the Listing and Global Offering. Assuming an Offer Price of HK\$8.50 per Share, being the low-end of the indicative Offer Price range, and estimated net proceeds of HK\$4.7 billion (equivalent to approximately RMB4.2 billion) for this Offering, upon the Listing and Global Offering, our net tangible assets attributable to owners of the Company would be RMB6.2 billion. Assuming an Offer Price of HK\$9.60 per Share, being the high-end of the indicative Offer Price range, and estimated net proceeds of HK\$5.3 billion (equivalent to approximately RMB4.7 billion) for this Offering, upon the Listing and Global Offering, our net tangible assets attributable to owners of the Company would be RMB6.8 billion.

### OUR MISSION AND VISION

Our mission is to make the world a more beautiful place. Our vision is to build an ecosystem around beauty and make everyone a user of Meitu products.

### OUR COMPETITIVE ADVANTAGES

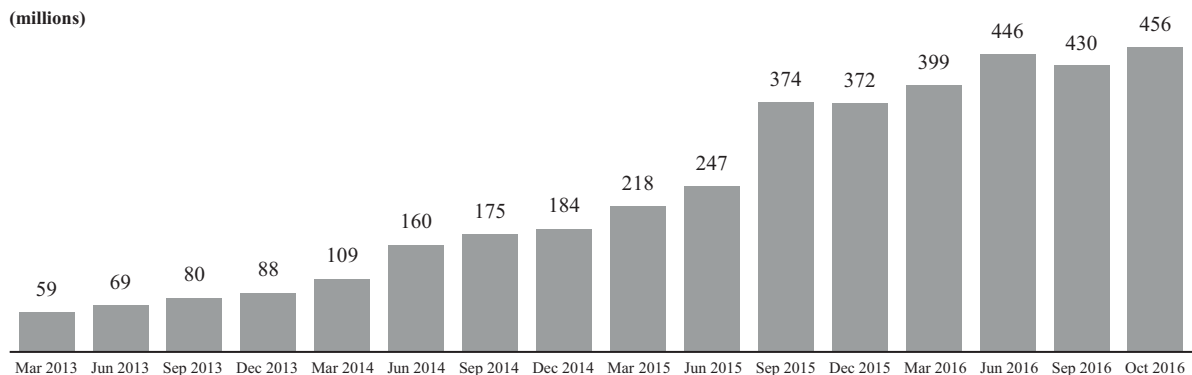
Our core asset is our massive user base, which we have successfully monetized while maintaining its growth. Our users also generate a wealth of data that we can analyze to gain proprietary insight into their behavior and improve our technological capabilities. Combined with our relentless focus on user experience, we have been able to repeatedly launch successful products. We believe we are well-positioned to further grow our user base in China and globally with our strong brand and platform synergies.

#### *Large and increasingly engaged user base*

We have built a large and increasingly engaged user base, the majority of which has been built through organic growth in China. The following chart shows the total MAUs for our apps for each of the months indicated.

#### Total MAUs for Our Apps

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Our user base is also becoming increasingly engaged as we continue to improve and upgrade our products and services. Our core photo apps generated approximately 6.0 billion photos in October 2016, compared to 4.4 billion, 2.4 billion and 0.8 billion in December 2015, 2014 and 2013, respectively. The average number of photos generated by our core photo apps per MAU increased from 10.4 in December 2013 to 18.2 in October 2016. In October 2016, our users on average accessed our core photo apps approximately 3.4 times a day. Similarly, our users have contributed a tremendous volume of content to the *Meipai* platform, having uploaded over 490 million videos on *Meipai* as of October 31, 2016.

### ***Proprietary data insights and leading technological capabilities***

Our proprietary data insights are critical for us to develop and continually optimize our products. For example, by analyzing large quantities of data regarding users' choice of filters, color tones and other re-touching features when they edit photos in *Meitu*, we have stayed at the forefront of user trends in photo-editing. Leveraging such insights, we have published over 130 versions of *Meitu* since its launch in 2011, with each version catering to the users' latest aesthetic and editing preferences. We believe this data-driven optimization approach has been important for the success of *Meitu* and subsequently, our other products.

The enormous amount of data generated from our user base also serves as a critical foundation for the research of our cutting-edge technology. For example, through calibrating millions of selfies, our facial recognition algorithm has become capable of identifying the positions and shapes of specific facial features swiftly and with precision.

We have also invested significantly in building our recommendation engine for *Meipai*. The engine makes personalized video recommendations based on each user's profile, which draws upon a variety of factors including demographics, interests and behavioral patterns. The recommendation engine not only increases *Meipai's* user engagement levels, but also serves as an integral component of the targeted advertising solutions that we plan to offer our advertising customers in the future.

We believe the user experience offered by both our apps and smart hardware products has been significantly enhanced through incorporation of these technologies. In 2010, we established a team to focus on researching new technologies relating to computer vision and image processing. We have developed a range of proprietary technologies, registered over 100 patents and held the copyright to 94 software programs as of June 30, 2016. We intend to broaden our research scope to machine learning, virtual reality and augmented reality to improve the functionality of our products.

### ***Strong brand recognition***

Our apps rank among Chinese users' top choices for creating, editing and sharing photos and videos. According to a survey conducted by iResearch in June 2016, approximately 95.3% of photo app users in China ranked at least one of our photo apps among their top three favorite photo apps, and approximately 62.4% of the short-form video platform users in China ranked *Meipai* among their top three favorite short-form video platforms. We have maintained our leading position among other popular competing apps such as Tencent's *Pitu* (天天P圖), *Baidu Motu* (百度魔圖) and *Camera360* (相機360). We believe such leadership has led to strong brand recognition, which is evidenced by the popularization of the word "*Meitu*" as a verb to mean "*enhancing images*" in China. According to a survey conducted by iResearch in June 2016, approximately 53.5% of the photos posted on major social networks in China were processed by our apps. The following table sets forth the rankings of certain of our apps (in color boxes) among the top ten iOS free photo and video apps in China by downloads in the indicated months, according to App Annie.

iOS App Store Top Ten Free Photo and Video Apps in China

Ranking	Jun 2013	Dec 2013	Jun 2014	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Oct 2016
1			Meipai		Meitu			
2	Meitu	BeautyCam	BeautyCam	Meitu	BeautyCam	Meitu	Meitu	BeautyCam
3		Meitu	Meitu	BeautyCam		SelfieCity		Meitu
4	BeautyCam			Meipai		BeautyCam	BeautyCam	
5			POMELO		Meipai			SelfieCity
6		Expression Factory				Meipai		
7								
8					MakeupPlus		SelfieCity	MakeupPlus
9				PosterLabs			Meipai	Meipai
10								

Source: App Annie

In addition, Meitu’s association with beauty, trendiness and youthfulness in the view of our users has allowed us to build a powerful and positive brand image, which enables us to form business relationships with a broad range of partners, from leading consumer brands to globally influential organizations. For example, leading cosmetics and lifestyle brands have launched advertising campaigns within our apps.

We believe the strength of our brand is a main driver for the organic growth of our large user base. We have successfully leveraged our brand to launch offline products such as Meitu smartphones. We believe the strength of our brand will continue to be our advantage as we launch new apps, services and smart hardware going forward.

**Established track record of successful products**

Our user-centric approach to product development has allowed us to launch popular apps repeatedly. Our team focuses on anticipating, meeting and exceeding our users’ expectations. We launched the PC version of *Meitu* in 2008 as a simple, user-friendly product enabling people to enhance photos with a single click. Building upon the success of *Meitu*’s PC version, we subsequently launched the mobile version of *Meitu* in 2011 as the smartphone penetration rate in China was increasing significantly. The mobile version of *Meitu*, which is also our first app, achieved early popularity and remains one of the most popular photo apps in China, with approximately 106 million MAUs in October 2016.

*Meitu*’s massive user base generates billions of user actions, which we utilize to analyze and predict trends in user preferences. These insights are highly valuable when developing other apps, and the success of our apps were built in part upon the massive data generated from previous apps. For instance, *BeautyCam*, a selfie-focused camera app that automatically beautifies selfies instantaneously, was conceived after we observed how often users edited and enhanced selfies through *Meitu*. *BeautyCam* had approximately 131 million MAUs in October 2016. In addition, we have been able to replicate our success beyond photo apps. In May 2014, we launched *Meipai*, our video and live streaming community. *Meipai* had approximately 110 million MAUs in October 2016.

**Strong platform synergies**

Our portfolio of apps, with hundreds of millions of MAUs, forms a strong platform for cross-promotion. This synergistic effect is particularly apparent during the launch of a new app, when cross-promotion of the new

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app using the traffic of our portfolio of apps generally helps increase the new app's popularity in its early stages of growth, driving further exposure and organic growth in the number of downloads. For example, one of our core photo apps, *SelfieCity*, became the top app as measured by downloads in the China iOS Photo and Video category in 46 out of the 60 days immediately after its launch. We believe the cross-promotion effort within our portfolio of apps was the major contributor to such success, as we had incurred minimal marketing expenses for *SelfieCity* during that period.

### ***Ability to attract overseas users***

We believe that the desire for beauty crosses both cultural and geographic boundaries, creating opportunities for growing our user base globally. Our total number of overseas users reached over 430 million as of October 31, 2016, representing more than 20% of our total users. As of October 31, 2016, we had more than one million total users from each of 26 overseas countries and regions. In particular, we had more than 10 million total users from each of Brazil, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam as of October 31, 2016.

We utilize our proprietary technology, data insights and operational expertise to improve our localization efforts. We assemble and maintain on-the-ground teams, research local aesthetic preferences and collaborate with strategic partners. These measures have helped us succeed in overseas markets.

### ***Proven success in monetization***

We believe our monetization initiatives can improve user experience, as long as the products or services offered are relevant to user preferences. In 2013, through analysis of usage data of our photo apps and market research, we observed that certain of our users desired higher quality selfies that may not be met solely through apps. We therefore launched Meitu smartphones, which are specifically designed to take high-quality selfies, as our first major initiative in monetizing our user base. This effort has proven to be successful, as our smart hardware segment, which primarily comprises the sale of Meitu smartphones, generated RMB667.1 million and RMB556.8 million of revenue for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively, just two years since we launched our first smartphone model in 2013. Our smart hardware segment had gross margins of 18.8% and 19.5% for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively. Our total MAUs and user engagement level continued to rise during the same period.

### ***Visionary and passionate management team with proven track record***

Our visionary and passionate management team is instrumental to our success. Our management team members focus on identifying with and serving our users. They have created and maintained a strong, loyal corporate culture for our Company that strives for innovation.

Our founder and Chairman, Mr. Cai, is a highly successful and renowned serial entrepreneur and angel investor. Mr. Cai's past investments include 58.com, Inc., a New York Stock Exchange-listed company, Baofeng Group Co., Ltd., a Shenzhen Stock Exchange-listed company, and Feiyu Technology International Company Ltd., a Hong Kong Stock Exchange-listed company. Mr. Cai is also the founder and chairman of Longling Capital Co., Ltd. Our founder and Chief Executive Officer, Mr. Wu is a successful entrepreneur who has been developing popular Internet-related products since 2000. Mr. Wu has created and launched one popular product after another, from 520.com to *Martian Translator* (火星文输入法), a software program for converting ordinary language into netspeak consisting of unconventional Chinese characters, to Meitu apps and smartphones. Mr. Wu is the chief architect of our product design.

## **OUR STRATEGIES**

We intend to expand our user base globally, increase the user engagement level and capitalize on potential monetization opportunities. We intend to further implement the following strategies to achieve these goals.

***Expand our global user base***

We plan to further increase the size of our user base both in China and overseas.

In China, we will continue to update our core apps with new features to further expand the apps' user base. We will also leverage our brand, proprietary technology and data insights to develop and launch new apps to attract new users.

For overseas markets, we will focus on launching either localized versions of existing apps or new apps tailored to serve local users' preferences, as appropriate. For example, *BeautyPlus*, the overseas version of *BeautyCam*, is equipped with an auto-beautification algorithm that produces varying effects based on different skin tones. Meanwhile, we will also continue to build our brand awareness in developed markets such as the U.S. and Europe through viral marketing on social networking platforms and strategic partnerships. We believe the influence of these developed markets extends beyond their respective regions and our increasing brand value in these markets would have a broader, positive impact on our global expansion initiative.

***Connect our users***

We believe that our products have become an important part of many users' social lives online, providing us with an opportunity to further connect our users with each other. We are in the process of integrating our registered user accounts across multiple apps into a unified account system, and intend to transform our core photo apps into user communities by incorporating more social and media features. We believe this will lead to a virtuous cycle: the resulting higher user engagement level would provide us with more opportunities to cross-promote our products and gather incremental user data for further product optimization and development. In addition to transforming our core photo apps by leveraging our proprietary data insights and expertise in visual content, we also intend to explore and develop more innovative social and community apps to connect our users and satisfy their various aspects of social needs. *Meipai*'s success as a vibrant video and live streaming community is a testament to our ability to build online user communities.

***Facilitate content creation and sharing***

We intend to continue to innovate and facilitate the creation and sharing of visual content. As part of this initiative, we aggregate and actively promote the sharing of visual content, including both professionally-produced and user-generated content. For example, *Meipai* recommends top videos as measured by the number of user upvotes in numerous content categories such as beauty, fashion and travel, and prominently promotes one-tap sharing of videos and following of host accounts. We intend to continually update our apps to allow for easier content creation and sharing by our users. We believe that the convenience offered will continue to improve user stickiness and provide us with opportunities to develop into a destination for creating and sharing visual content, including photos and videos.

***Increase monetization while creating value for our users***

We launched our smartphones in 2013 as our first major initiative to monetize our massive user base. Our average monthly revenue per MAU has increased to RMB0.22 during the six months ended June 30, 2016 from RMB0.08 during the year ended December 31, 2013. With our deep insight into the behavior and preferences of our users, the majority of whom are female, we believe we are particularly well-positioned to capitalize on the female economy, especially in China. Each of our monetization initiatives targets all of our users, which consisted of approximately 456 million MAUs in October 2016.

***Continue to launch innovative smart hardware***

We plan to continue to develop and launch stylish smartphones that are optimized for taking high-quality selfies. To this end, we plan to continue advancing both our software and hardware research and development capabilities, such as our facial recognition and beautification algorithms and our "3A" technologies (i.e. auto-exposure, auto-focus and auto-white-balance). In addition, we plan to increase the production volume of our



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smartphones and other smart hardware products. We currently plan to launch at least one new smartphone model for each of the first and second halves of 2017, each of which will continue to be targeted at users that pursue high-quality selfies. With approximately 75% of Meitu smartphone users being Meitu app users prior to their purchases of Meitu smartphones, according to a survey that we conducted in August 2016, we believe that a large user base could potentially drive additional Meitu smartphone sales. During the ten months ended October 31, 2016, we sold 646,446 smartphone units, compared to 387,775 units for the year ended December 31, 2015. We may also enter into new smart hardware categories that aim to make our users more beautiful, both in the virtual world and potentially in real life.

### *Offer innovative advertising solutions*

Our portfolio of apps provides a powerful medium through which advertisers can engage our massive user base. We believe our value proposition is highly compelling, particularly to advertisers in female-related sectors, including but not limited to luxury goods, cosmetics and fast-moving consumer goods, as the majority of our users are female whom we believe appreciate beauty. Leveraging our proprietary technologies and big data analytical capabilities, we are upgrading our advertising infrastructure to offer more comprehensive and innovative advertising solutions to our business partners, and expect to start rolling out an upgraded advertising platform by the end of 2016. For example, we plan to increase our advertisement inventory as well as offer targeted advertising solutions based on users' behavior, demographics and interests. We also intend to allow advertisers to place native advertisements in our photo apps and *Meipai* and facilitate more contextual advertising.

### *Build an e-commerce platform*

We believe our users' appreciation for beauty extends beyond their digital presence. We plan to launch a social e-commerce platform in the first half of 2017 that makes shopping for authentic, brand-name fashion merchandise an easy and enjoyable experience. The core of this platform is expected to be a community that connects our users, fashion KOLs and a wide variety of fashion brands: KOLs will be incentivized to share their experience in mixing and matching items from different brands, while users can discover new styles from photos and videos shared by these KOLs and purchase the featured items directly from the brands on our platform. This platform will initially focus on categories such as fashionable apparel, cosmetics and skin care products, as females comprise the majority of our user base.

In addition, we intend to explore other e-commerce opportunities by leveraging our large user base and our portfolio of photo apps. For example, we believe that some of our users are interested in having their photos imprinted on T-shirts, coffee mugs, phone cases and other items that they would like to personalize. We have started to work with third-party vendors to make these services and merchandise easily accessible to our users through a new feature called *Meiyin*. We are in the process of rolling out *Meiyin*, first in our *SelfieCity* app and then selectively in other apps whilst also expanding the range of merchandise that users will be able to customize with the feature.

### *Broaden Internet value-added services offerings*

Although our users can access *Meipai*'s content and interact with other users and live streaming hosts for free, we also offer additional Internet value-added services, or IVAS, to enrich user experience. For example, in June 2016, we started offering paid virtual gifts and emoji to *Meipai* users to promote better interaction with our live streaming hosts and short-form video creators. We enter into revenue-sharing arrangements with such hosts and creators regarding the revenue derived from the sale of virtual gifts. As a result of this arrangement, hosts and creators who receive virtual gifts from their audience will be incentivized to host more shows or upload more videos, thereby adding more content to the *Meipai* community. Given our massive and highly active user base, we believe other IVAS, such as premium membership, will also present significant monetization opportunities for us. In addition to IVAS on *Meipai*, we launched our first mobile game, *Beauty Box* in April 2016, from which we generate IVAS revenue through the sale of virtual items.

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### *Further develop data insights and technology capabilities*

Our proprietary data insights and leading technological capabilities enable us to innovate and optimize products on an ongoing basis. We intend to continue to invest in our powerful data analytics capabilities and cutting edge technologies. For example, we are in the process of exploring and developing visual content sharing technology that would allow users to share photos and videos across apps or among specific groups. We also plan to further develop our technology stack, including but not limited to facial recognition, machine learning, computer vision and augmented reality technologies to better understand and anticipate user behavioral trends, which in turn can be applied to the development of our apps, advertising business, e-commerce initiatives and IVAS offerings.

### *Pursue strategic investments and acquisitions*

We intend to continue to strategically invest in or acquire businesses that are complementary to our business. For example, we have made minority investments in a number of businesses specializing in different technologies and products that may be used to upgrade our products, including businesses focused on mobile 3D imaging and augmented reality glasses.

In the future, complementary businesses we plan to continue to invest in or acquire include businesses that: (i) possess cutting-edge technologies such as machine learning, computer vision, virtual reality, augmented reality and other technologies related to our business; (ii) have proven monetization models in Internet services, including but not limited to advertising, e-commerce and IVAS, that synergize with our plans to continue monetizing our user base; (iii) operate apps or social communities with meaningful user bases; or (iv) own quality entertainment intellectual property or produce quality video content, such as production houses, which can enrich our content and entertainment offerings. As of the Latest Practicable Date, we have not identified any potential acquisition targets.

## OUR BUSINESS

Our mission is to make the world a more beautiful place. To carry out this mission, in 2008, we launched *Meitu* (美圖秀秀) as a smart and simple, user-friendly product that enables one-click photo enhancement. We currently offer a portfolio of photo and community apps. We also offer Meitu smartphones that enable users to quickly snap quality, ready-to-share photos and videos. Historically, we primarily generated revenue from the sale of Meitu smartphones and online advertising services. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our smart hardware segment, which primarily comprises the sale of Meitu smartphones, contributed 59.7%, 87.8%, 89.9% and 95.1% of our total revenue, respectively, and online advertising services contributed to 40.2%, 11.9%, 9.8% and 4.4% of our total revenue, respectively. The sale of smartphones was our first major initiative to monetize our user base. We intend to further create value for our users, our business partners and our Company through different monetization efforts. For further details on our future plans for monetization, see “— Our Strategies”.

We currently operate two business segments, namely smart hardware and Internet services and others. Smart hardware currently comprises primarily the sale of Meitu smartphones, and Internet services and others comprises online advertising and the sale of virtual items on *Meipai* and in our mobile game. The following table sets forth a breakdown of revenue contributions from the two business segments for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,				For the Three Months Ended September 30,	
	2013		2014		2015		2015		2016		2016 <sup>(1)</sup>	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)											
	(unaudited)											
	(unaudited)											
Smart Hardware .....	51,305	59.7	428,360	87.8	667,122	89.9	138,780	76.8	556,847	95.1	609,569	97.1
Internet Services and Others .....	34,572	40.3	59,689	12.2	74,691	10.1	41,820	23.2	28,630	4.9	18,500	2.9
<b>Total</b> .....	<u>85,877</u>	<u>100.0</u>	<u>488,049</u>	<u>100.0</u>	<u>741,813</u>	<u>100.0</u>	<u>180,600</u>	<u>100.0</u>	<u>585,477</u>	<u>100.0</u>	<u>628,069</u>	<u>100.0</u>

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*Note:*

- (1) The revenues for the third quarter of 2016 as set forth in the above table are derived from our condensed consolidated financial information for the three months ended September 30, 2016, which has been reviewed by our Reporting Accountant, PricewaterhouseCoopers.

As of June 30, 2016, we had six core apps, namely *Meitu* (美圖秀秀), *Meipai* (美拍), *BeautyCam* (美顏相機), *BeautyPlus*, *SelfieCity* (潮自拍) and *MakeupPlus* (美妝相機). In October 2016, we had approximately 456 million total MAUs for our full suite of apps, including 106 million for *Meitu*, 110 million for *Meipai*, 131 million for *BeautyCam*, 43 million for *BeautyPlus*, 29 million for *SelfieCity* and 22 million for *MakeupPlus*. These six core apps accounted for more than 96.7% of our total MAUs in October 2016. We have also launched various other popular innovative apps such as *Expression Factory* (表情工廠), *POMELO* (柚子相機), *Meitu Tietie* (美圖貼貼), *Poster Labs* (海報工廠), *Air Brush* and *Airvid* (美拍大師). We have developed and launched more than 20 apps since 2011.

Since launching Meitu smartphones in 2013, we have successfully introduced two series of smartphones and five smartphone models. For the years ended December 31, 2013, 2014 and 2015, the six months ended June 30, 2016 and the four months ended October 31, 2016, we sold a total of 27,917, 277,595, 387,775, 289,079 and 357,367 Meitu smartphones, respectively, with average selling prices of approximately RMB1,834, RMB1,533, RMB1,699, RMB1,903 and RMB1,992 per unit, respectively. The gross margin from the smart hardware segment for the four months ended October 31, 2016 remained relatively steady as compared to that for the six months ended June 30, 2016.

We also sell advertising space in our apps, currently primarily in the form of icon ads and banner ads. During the Track Record Period, leading consumer and lifestyle brands have placed advertisements with us. Our online advertising revenue for the nine months ended September 30, 2016 was RMB34.4 million, and our online advertising revenue for the month ended October 31, 2016 was moderately higher than the monthly average revenue achieved in the three months ended September 30, 2016. Besides the sale of Meitu smartphones, which contributed a significant majority of our total revenue during the Track Record Period, *Meitu* and *BeautyCam* contributed most of our total revenue through online advertising during the Track Record Period.

We began generating IVAS revenue on *Meipai* in June 2016, allowing users to purchase virtual gifts, such as flowers, to show support to live streaming hosts and short-form video content creators. Since the launch of Internet value-added services on *Meipai* in June 2016, gross billings and revenue from *Meipai* amounted to RMB12.1 million and RMB9.9 million, respectively, as of September 30, 2016. Our gross billings and revenue from *Meipai* for the month ended October 31, 2016 were moderately higher than the monthly average gross billings and revenue achieved in the three months ended September 30, 2016, respectively.

We also operate *Beauty Box* (美美小店), a casual mobile game targeting female users, in cooperation with Forgame. The game was jointly developed by Forgame and us, and the iOS and Android versions were launched in April 2016 and June 2016, respectively. We offer the basic features of *Beauty Box* for free, and generate IVAS revenue when players purchase virtual items. Gross billings from *Beauty Box* for the month ended October 31, 2016 was moderately higher than the monthly average gross billings achieved in the three months ended September 30, 2016.

The following table sets forth our revenue from Internet services and others for the first three quarters of 2016.

	Q1 2016	Q2 2016	Q3 2016 <sup>(1)</sup>
	(in RMB thousands, unless otherwise stated)		
<b>Internet Services and Others</b>			
Revenue (unaudited) .....	19,051	9,579	18,500

*Note:*

- (1) The revenue for the Internet services and others segment for the third quarter of 2016 as set forth in the above table is derived from our condensed consolidated financial information for the three months ended September 30, 2016, which has been reviewed by our Reporting Accountant, PricewaterhouseCoopers.

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The following table sets forth certain financial and operating metrics for our Internet services business, mainly comprising online advertising, *Meipai IVAS* and *Beauty Box*, for the first three quarters of 2016.

	Q1 2016	Q2 2016	Q3 2016 <sup>(1)</sup>
	(in RMB thousands, unless otherwise stated)		
<b>Online Advertising</b>			
Revenue (unaudited) .....	18,070	7,833	8,512
Number of advertisers (in actual numbers).....	15	10	19
Number of advertising platforms connected (in actual numbers) .....	—	—	2
<b>Meipai IVAS<sup>(2)</sup></b>			
Gross billings.....	—	1,307	10,807
Revenue (unaudited) <sup>(3)</sup> .....	—	729	9,186
Total live streaming viewing time (in million minutes) <sup>(4)</sup> .....	131.2	905.4	1,898.6
Average monthly paying users <sup>(4)</sup> (in thousands) .....	—	58.0	137.6
<b>Beauty Box<sup>(5)</sup></b>			
Gross billings.....	—	1,480	1,418
Revenue (unaudited) <sup>(3)</sup> .....	—	830	432
Average monthly paying users <sup>(6)</sup> (in thousands) .....	—	5.8	9.5

*Notes:*

- (1) The revenues for the third quarter of 2016 as set forth in the above table are derived from our condensed consolidated financial information for the three months ended September 30, 2016, which have been reviewed by our Reporting Accountant, PricewaterhouseCoopers.
- (2) *Meipai* commenced live streaming services in January 2016 and started monetization through the sale of virtual items to users when they view live streaming shows or short-form videos in June 2016.
- (3) Differences between gross billings and revenue are primarily attributable to, (i) in the case of *Meipai*, the time gap between our receipt of gross billings from users and the eventual consumption of virtual items by users, and (ii) in the case of *Beauty Box*, distribution channel fees and revenue-sharing arrangements with the developer of *Beauty Box*, namely Forgame.
- (4) Total live streaming viewing time for each indicated period represents the total time spent by our users on viewing live streaming shows through the *Meipai* app during the indicated period. Total live streaming viewing time for the first quarter of 2016 represents data for March 2016 only, as we were in the process of developing our data analytics back-end for live streaming on *Meipai* in January and February 2016 after its launch in January 2016.
- (5) *Beauty Box* was launched in April 2016.
- (6) Average monthly paying users for each indicated period represents the average of the number of paying users for each month during that period.

### OUR PLATFORM AND ECOSYSTEM

We are building an ecosystem with our users and business partners as participants, offering our platform of products to serve our users' wide range of beauty-related needs and interests. Our large and expanding user community is increasingly using our products and services to facilitate their social lives online and to help them explore and consume visual content. Our ecosystem also offers business partners unique opportunities to reach and engage our large user base. We believe that our ecosystem allows us to specifically target and address different user demands and effectively increase our mind share and time share among users as well as create value for every ecosystem participant. We expect that such an ecosystem would also provide us with more opportunities to cross-promote our products, gather incremental user data for further product optimization and development and monetize our businesses in multiple ways. As a first major initiative in monetizing our user base, we began selling Meitu smartphones in 2013. During the Track Record Period, we generated a significant majority of our revenue from the sale of Meitu smartphones. Going forward, we plan to explore different monetization efforts to better serve our users, our business partners and our Company.







### Meitu Apps

Our portfolio of apps provides multiple entry points to, and forms the foundation of, our ecosystem. We developed our apps to enable users to conveniently edit and enhance their photos and videos, and all of our core apps enable users to easily share their created content on major social networking platforms and social media,

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enriching their self-expression and interactions with others. Through our apps, we have built strong brand recognition and user loyalty, which we believe to be critical to the success of Meitu smartphones, sales of which in turn contributed a significant majority of our historical revenue during the Track Record Period.

The following table is a summary of the launch dates and features of each of our core apps.

App Name	Launch Date <sup>(1)</sup>	Features	MAUs <sup>(2)</sup>
 <b>Meitu</b> (美圖秀秀)	October 2008 (PC version) February 2011 (mobile version)	Photo editor well known for its auto-retouch function, especially for portraits. <i>Meitu</i> also has a broad range of easy-to-use photo editing tools, such as “magic brush” to draw and “mosaic” to pixelate a picture for customized editing.	106 million
 <b>Meipai</b> (美拍)	May 2014	Video and live streaming community that enables users to easily create, share and discover video content.	110 million <sup>(3)</sup>
 <b>BeautyCam</b> (美顏相機)	January 2013	Camera app that facilitates the creation of flattering selfie photos and videos. It automatically beautifies photos and videos as they are taken, e.g. enhancing eyes, whitening teeth, removing blemishes and adjusting lighting, among other effects.	131 million
 <b>BeautyPlus</b>	May 2013	Overseas version of <i>BeautyCam</i> adapted to international markets.	43 million
 <b>SelfieCity</b> (潮自拍)	September 2015	Camera app primarily designed for users to enhance selfies with a wide range of artistic and trendy filters.	29 million
 <b>MakeupPlus</b> (美妝相機)	May 2015	Camera app that allows users to apply a wide variety of virtual makeup on portrait photos, either automatically or manually.	22 million

*Notes:*

- (1) The “launch date” means the date on which the app was uploaded to one or more app distribution channels for publicly available download.
- (2) MAUs in October 2016.
- (3) The 110 million *Meipai* MAUs in October 2016 was composed of 23 million *Meipai* in-app users and 87 million devices which accessed *Meipai* through mobile browsers or third-party apps.

### **Photo Apps**

*Meitu*, our first product, popularized our brand and remains a user favorite to this day. It provides professional and smart photo editing functions. For example, the auto-retouch function for portraits slims faces, smooths fine lines, cleans up complexions and blurs backgrounds. The auto-retouch function for scenery adjusts general lighting, sharpening details and making colors pop for scenery. *Meitu* also offers more customizable tools that provide users with additional control over their photo editing. *Meitu* was first launched as a PC software in October 2008 and as an app in February 2011.

The large number of users that *Meitu* has attracted generates significant proprietary user behavior data, based on which we have developed deeper understanding of users’ specific preferences and needs, which extends beyond photo optimization. Through the large amount of proprietary user behavior data we collected on *Meitu*, we also discovered our users’ desire to take flattering, trendy and interesting selfies that would be ready-to-share soon after they are taken. Therefore, we subsequently launched a series of camera apps, including *BeautyCam*, *SelfieCity* and *MakeupPlus*, and equipped them with automatic beautification functions as well as a broad range of trendy filters and effects that we believe selfie lovers would appreciate. We have achieved significant success with each of our core photo apps, evidenced by the high MAUs of these apps.

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Consistent with our strategy of expanding our global user base, we have also launched photo apps that are tailored to users in the targeted overseas markets. For example, *BeautyPlus*, an international version of *BeautyCam*, is currently available in eight languages including, among others, English, Japanese, Korean and Thai. Versions of *BeautyPlus* are designed in response to the predominant facial characteristics of local users, different cultures and makeup trends. Launched in May 2013, *BeautyPlus* had generated over 9.7 billion photos and has users from over 100 countries and regions as of October 31, 2016. We have also launched *AirBrush*, an international version of *Meitu*, which similarly focuses on beautification and is localized to better serve users across different regions. *AirBrush* was launched in October 2015 and is also available in seven languages.

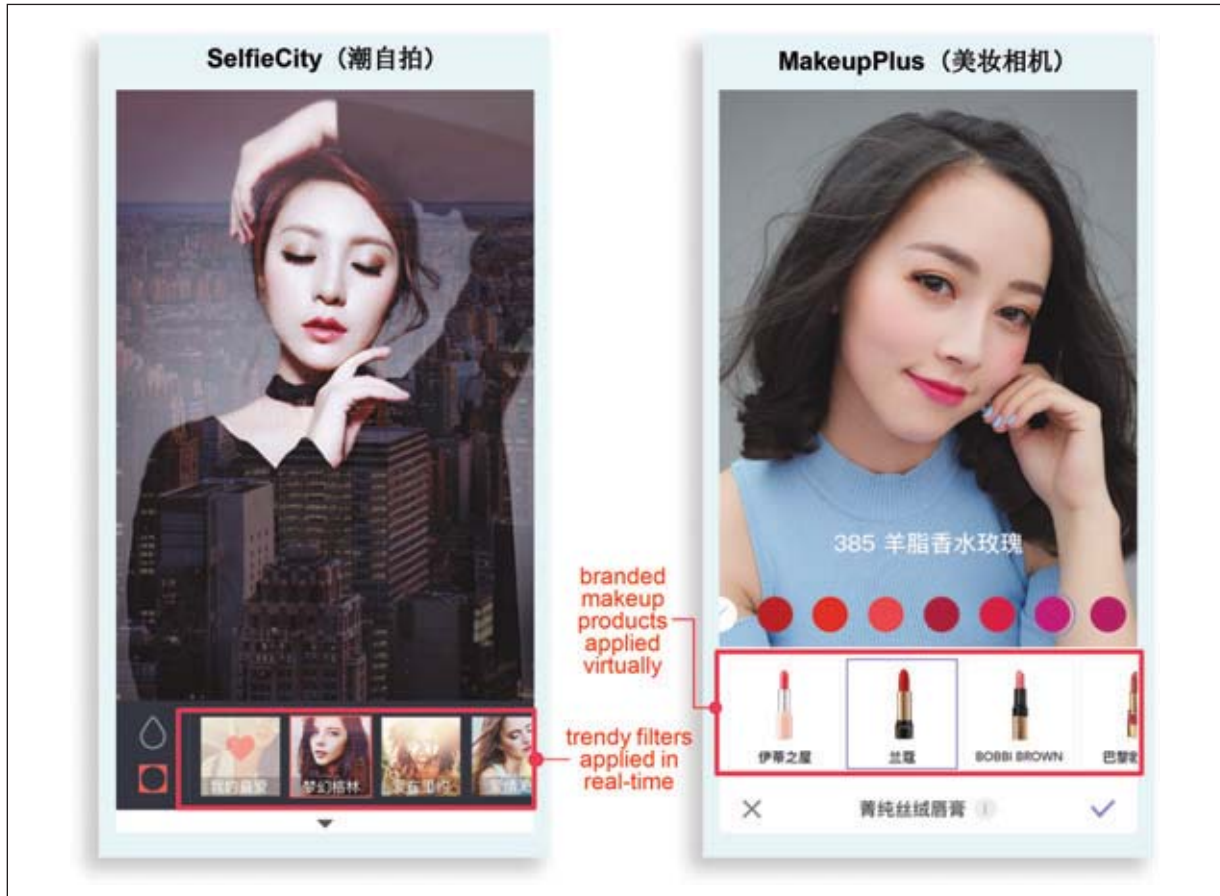
With our relentless focus on improving user experience and driving user engagement, we continue to offer various innovative features and relevant content in both our existing and new apps, which we believe will drive our long-term monetization potential. For example, *MakeupPlus* features informative makeup video tutorials, with step-by-step guides on how to achieve certain popular makeup effects. We are also in the process of exploring opportunities to cooperate with and promote a number of cosmetics brands by enabling users to virtually test their products. In addition, we intend to explore other e-commerce opportunities by leveraging our large user base and our portfolio of photo apps. For example, we believe that some of our users are interested in having their photos imprinted on t-shirts, coffee mugs, phone cases and other items that they would like to personalize. We have started to work with third-party vendors to make these services and merchandise easily accessible to our users through a new feature called *Meiyin*. We are in the process of rolling out *Meiyin*, first in our *SelfieCity* app and then selectively in other apps whilst also expanding the range of merchandise that users will be able to customize with the feature.



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The screenshots below illustrate the key features of select core photo apps.





*Video and Live Streaming Community*

*Meipai (美拍)*

*Meipai* is our video and live streaming community, designed for users to easily create, share and discover a broad range of video content. Building upon our success with our innovative photo apps and leveraging the user insights and expertise that we have developed in visual content, we created *Meipai* to provide users with more engaging ways to express themselves and interact with others. Millions of users, including influential KOLs, celebrities and public organizations, create short-form videos and live streaming shows on *Meipai* to tell stories, share experiences, promote themselves and broadcast live events. Since *Meipai*'s launch in May 2014, it has become an important video destination in China, aggregating content covering a broad spectrum of topics, such as beauty, fashion, music and travel. The breadth of content available on *Meipai* allows our users to easily explore and discover the specific content that fit their interests. According to the iResearch Report, *Meipai* ranked second among China's short-form video platforms as measured by the number of average monthly active devices that accessed the relevant short-form video platform's app for the ten months ended October 31, 2016.

*Meipai* is our first community app that enables a wide range of social interactions. Social engagement on *Meipai* comes in many forms. For example, any user can choose to follow the feed of any other user, comment on a feed with text or emojis or repost and share what they find interesting with their friends and followers. In October 2016, 4.6 billion "likes" were posted and 150 million interactions (including comments, shares and reposts of videos and live streaming shows) occurred on *Meipai*. As users can be followed by other users without requiring a reciprocal relationship, users can easily distribute their content to a broad audience across *Meipai*. In addition, our users often share videos on *Meipai* via social networking platforms and media, such as Weixin/ WeChat and Weibo, extending the reach and influence of the content on *Meipai* to an even broader audience. Of

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the 110 million *Meipai* MAUs in October 2016, 87 million devices accessed *Meipai* through mobile browsers or third-party apps. *Meipai* attracted over 7.9 billion video views in October 2016 and users had uploaded over 490 million videos on *Meipai* as of October 31, 2016. We also launched live streaming services on *Meipai* in January 2016, enabling hosts of live streaming shows to engage with users in real-time and important events to be broadcasted live. Users can interact with live streaming hosts and short-form video content creators by commenting on the content or by sending virtual gifts, each of which generally ranges from RMB0.9 and RMB520.

Since *Meipai*'s launch, more than 10,000 KOLs, 750 celebrities and 1,000 public organizations have chosen to connect with their followers and the general public through *Meipai*. For *Meipai*, a KOL refers to a user, including any celebrity, who has over 10,000 followers in the *Meipai* community. *Meipai* combines the following attributes at scale to create an engaging platform.

### Real-time

Real-time content allows our users to follow live events from around the world and connects our users digitally to global conversations as events unfold. It enables our users to engage with each other directly and instantly in the moment and on-the-go.

### Social/Public

Each of our users can actively engage the *Meipai* community by hosting their own live streams and creating their own short-form videos, in addition to participating in discussions with others through chat or by posting comments. Moreover, the *Meipai* platform allows celebrities and KOLs to easily connect with their fans and drive further interactions and conversations.

*EXAMPLE: TFBoys, one of the most popular teenage idol groups in China, broadcasted their first live stream on Meipai in June 2016. The stream attracted an audience of approximately 5.7 million and received more than 367 million "likes" and 5 million live chat messages.*



Public and Distributed

Content on *Meipai* extends its influence to include those who view *Meipai* videos through other social networking platforms and media and third-party apps. The public and distributed nature of *Meipai* makes it highly attractive to many brands and celebrities, who leverage the large user base and interactive features to effectively promote their products to a broad audience.

*EXAMPLE: L’Oreal Paris, a global skin care and cosmetics brand, hosts a channel on Meipai which covers L’Oreal-related celebrity news such as red carpet coverage of L’Oreal brand ambassadors as well as brand-promotion events and product launches. In May 2016, L’Oreal Paris live streamed a behind-the-scenes documentary about a popular singer/actress in China and her travel to and preparation for the 2016 Cannes Film Festival. The documentary attracted over 31 million “likes” from over 230,000 viewers.*



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*EXAMPLE: PepsiCo China has extensively promoted their brand and products on their official Meipai channel through different in-channel promotional events and fun video clips from celebrities and the general public. In 2015, PepsiCo China organized a video competition surrounding the theme of “Bring Happiness Home”, working with a famous Chinese director and soliciting original video submissions from users, receiving thousands of videos and compiling an innovative audience-created documentary out of the videos submitted.*





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### Fun

*Meipai* is a destination for our users to explore a broad range of interesting content. *Meipai* users can seek out specific types of content and share these and their own fun experiences with others.

*EXAMPLE: One of the most popular KOLs in China, Papi 酱, hosted a live show on Meipai on July 11, 2016, which received more than 126 million “likes”, approximately 708,000 live chat messages and nearly 2 million views.*





KOLs on *Meipai* offer a variety of content catering to diversified interests. Some examples are set forth below:



**Singers:** SKMVoiceCrack (SKM 破音) is a rap artist/KOL on *Meipai* who regularly broadcasts live streams and posts short-form videos of himself singing and chatting and generally interacting with fans. He has attracted over 2.2 million fans and received over 16.2 million “likes” on *Meipai*.



**Fashion:** HoneyCC is a KOL who regularly broadcasts live streams and posts short-form videos of comedy sketches and fashion as well as beauty and personal care tips on *Meipai*. She also leverages the *Meipai* platform to promote her Taobao storefront by posting videos introducing the latest products. She has attracted over 1.7 million fans and received over 4.6 million “likes” on *Meipai*.



**Culinary:** Yummy Rotisserie Chicken (香噴噴的小烤雞) is a KOL that hosts a cooking channel on *Meipai*, broadcasting live streams and posting short-form videos of himself introducing different cuisines and dishes and teaching how to cook different popular foods. He has attracted over 1.8 million fans and received over 6.0 million “likes” on *Meipai*.



**Kids:** Little Bamboo (小山竹) is one of the youngest KOLs on *Meipai*. She became popular after her parents posted family videos of her being generally adorable and talking fluently in local Northeastern Chinese dialect. Her channel has attracted over 1.3 million fans and received over 4.6 million “likes” on *Meipai*.

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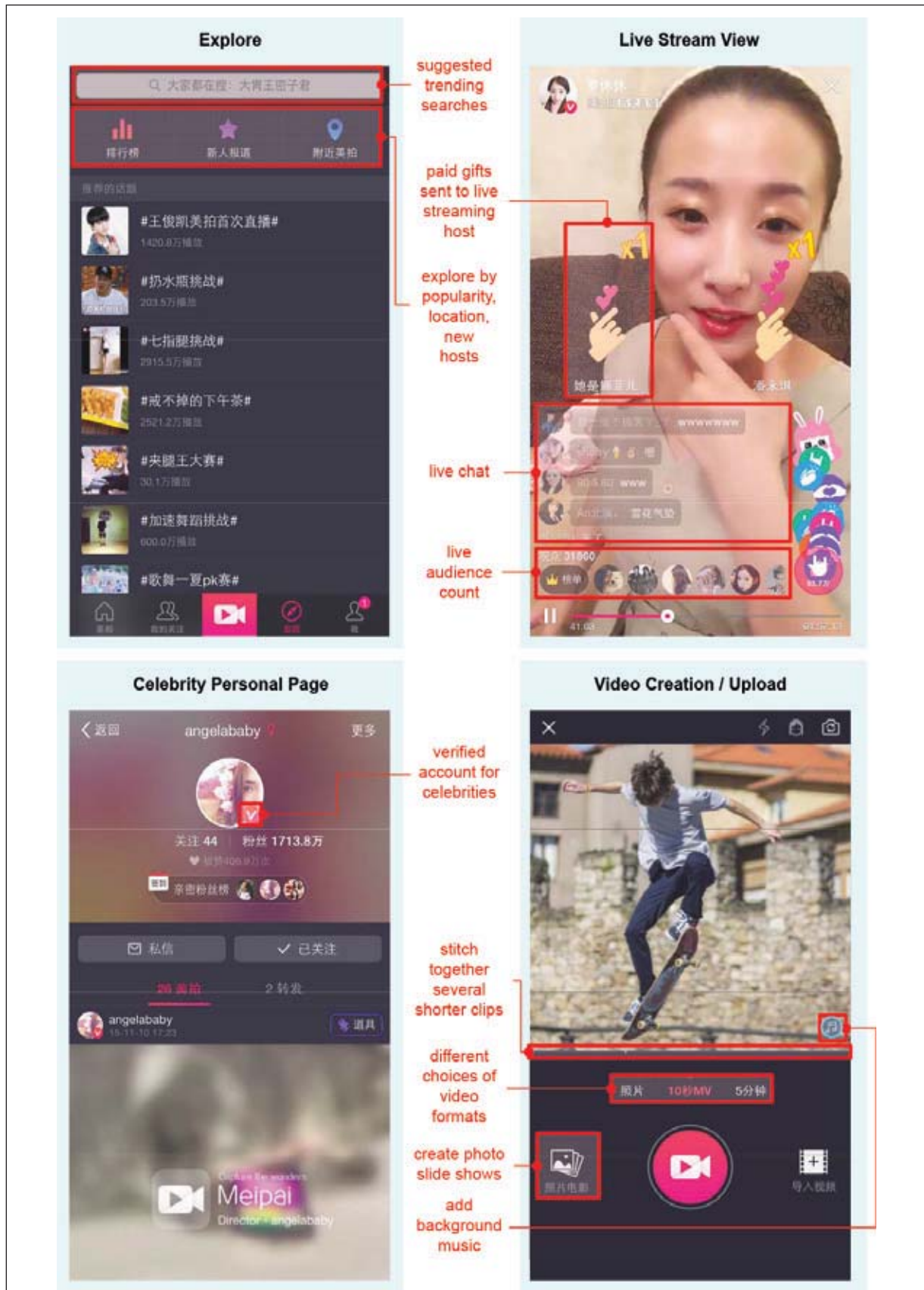
The influence of *Meipai* and its increasingly active user base presents significant monetization opportunities. With leading consumer and lifestyle brands, such as L’Oreal and PepsiCo China, as well as KOLs already leveraging *Meipai* to promote their image and products, we plan to integrate targeted advertising solutions that are relevant to our users’ interests, which we algorithmically identify according to their profile and behavior. We similarly intend to explore opportunities to offer beauty products, such as cosmetics and skin care products, to our *Meipai* users, by potentially working directly with brands and leading e-commerce platforms.

We typically enter into revenue-sharing arrangements with *Meipai* users and hosts regarding the revenue derived from the sale of virtual gifts. As a result of this arrangement, users and hosts who receive virtual gifts from their audience will be incentivized to host more shows or upload more videos, thereby adding more content to the *Meipai* community.

Our significant technological capabilities are critical to providing differentiated user experience. We algorithmically recommend curated content on the home screen of *Meipai* based on each user’s profile, preferences and location. We enable users, through our “Explore” function, to identify popular videos and content created by new, up-and-coming *Meipai* users. Meanwhile, consistent with our design philosophy — smart and simple — we equip our users with powerful video editing tools, enabling them to record and process video clips in-app. With a few taps on their smart phones, users can personalize their video with graphics, sound effects, filters and choose from a selection of background music. As of October 31, 2016, *Meipai* users had uploaded over 490 million user-generated videos with diverse subject matters.

*Meipai* users have become increasingly active since its launch in May 2014, with the average daily time spent per *Meipai* in-app user growing from 12.9 minutes in May 2014 to 33.8 minutes in October 2016. Since the launch of live streaming on *Meipai* in January 2016, 20.5 million live streaming shows have been hosted by our users and viewed 1.5 billion times as of October 31, 2016.

The following are Meipai screenshots showing some popular functionalities of the app.



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### Meitu Smart Hardware

Based on both market intelligence and insights into user behavior developed through our apps, we identified a market need for smartphones specifically designed for high-quality selfies. In response, in 2013, we launched our Meitu smartphones, which integrate a proprietary image processing algorithm and specialized image processors to generate high-quality selfies. Meitu smartphones proved to be a success and contributed to a significant majority of our revenue during the Track Record Period. Going forward, we plan to leverage our success with smartphones to explore and implement different monetization strategies.

### Meitu Smartphones

#### Smartphone Models

We currently offer two series of smartphones, the flagship M series and the premium V series. Both series have integrated software and hardware designed to enable users to easily take high-quality selfies. The premium V series generally has a larger screen size and relatively luxurious designs.

The table below sets forth the Meitu smartphone models we have introduced over the years and their respective time of launch, camera specifications and indicative retail price. Our product life cycle is such that we typically launch new smartphone models on an annual basis. We typically stop our production of an old model when we launch a new model of the same series. Meitu smartphones are currently available for sale in China, with a few selected models available in Hong Kong, Macau and Taiwan.

Meitu Smartphone Models	Camera Specification (megapixels)		Launch Time	Indicative Retail Price (RMB/unit)
	Front	Rear		
Meitu Kiss .....	8	8	June 2013	2,199
Meitu M2 .....	13	13	April 2014	2,199 (16G)/2,399 (32G)
Meitu M4 .....	13	13	April 2015	2,199
Meitu V4 .....	21	21	November 2015	3,499
Meitu M4s .....	13	13	December 2015	2,399
Meitu V4s .....	21	21	June 2016	3,499
Meitu M6 .....	21	21	June 2016	2,399

*Note:* Excludes limited editions.

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### *Beautifying Features, Functionalities and Specifications*

Both the hardware and software of Meitu smartphones are designed and integrated for optimizing the selfie-taking experience. The following are photos of our recently launched M6 model.



The distinctive selfie-related features of the latest V4 and M6 models include:

- *High-quality Cameras.* The V4 and M6 models are equipped with 21-megapixel front- and rear-facing cameras for high-resolution selfies.
- *Auto-beautification.* The default camera app can automatically beautify photos and videos as they are taken. In addition, our sophisticated facial detection technology can identify over 170 locations on each face for enhancement and editing.
- *High-Image Quality in Low-light Conditions.* Both V4 and M6 models are integrated with multiple proprietary technologies that enable the taking of selfies in low-light conditions, including (i) an image processor that allows clear photos to be taken in low-light environments, (ii) a front-facing smart LED light that casts soft, flattering fill light, and (iii) an auto color-balance algorithm that reconstructs real skin color in low light conditions.
- *Ergonomic Design for Selfie-taking.* A photo-taking button is ergonomically located on the right-hand side of each Meitu smartphone for quick selfie-taking.

To appeal to our target female user base, our smartphones are designed with a sleek exterior and are available in multiple trendy colors. Both the Meitu M6 and V4 models are 4G-enabled and have our photo apps built in. We also sell smartphone accessories such as earphones, smartphone cases and batteries.

We believe that the technological knowhow underlying Meitu smartphones cannot be easily replicated by our competitors because such knowhow cannot be acquired without rich experience and knowledge in how to optimally integrate hardware and software. In addition, our apps, which are powered by our proprietary technologies, are integrated into our Meitu smartphones.

### ***Smartphone Production, Logistics and Inventory Management***

#### *Smartphone Production*

We subcontract the production of our smartphones to manufacturers that specialize in the manufacture of electronic devices and that we believe are experienced and well-positioned to meet our volume, cost and strict



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quality requirements. For smartphone models launched in 2013 and 2014, we engaged an original design manufacturer to design, develop and manufacture our smartphones. In April 2015, we changed our smartphone business model from ODM to OEM, and started to engage Foxconn as our contract manufacturer. As we transitioned our smartphone business model from ODM to OEM, we started to source and procure a majority of our own components and materials, and design and develop Meitu smartphones in-house, for which we hired approximately 50 additional employees. Despite the transition, component and material costs continue to constitute a significant majority of the total cost of sales of our smartphones, and therefore our financial results have not been materially affected. The hiring of the 50 additional employees also did not have a significant impact on our financial results.

We believe that outsourcing manufacturing affords us greater scalability and flexibility than establishing and maintaining our own manufacturing facilities. We periodically evaluate the necessity and benefit of working with additional manufacturers to support our operations. In early 2016, in line with industry practice, we started to engage another contract manufacturer to produce our smartphones to reduce reliance on a single manufacturer. We believe that we are able to identify suitable alternative manufacturers within a short period of time, if necessary. In addition, we possess a number of patents and technologies in relation to our smartphone production, and do not rely on our manufacturers for extensive technical support. Further, we believe that our reliance on smartphone manufacturers will decline in the future, as we are also developing other smart devices and exploring other monetization opportunities, such as online advertising, e-commerce, live streaming and mobile games. We have not encountered any material delays in the production or delivery of smartphones from our contract manufacturers. As of the date of this prospectus, Foxconn, through Bright Ease Holdings Limited and Colour Leap Limited, two of our Pre-IPO Investors which are investment holding companies and Foxconn's indirect wholly-owned subsidiaries, indirectly owns approximately 1.81% of our total issued and outstanding ordinary shares (assuming that each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and assuming the options granted under the ESOP are not exercised).

Our OEM manufacturers produce smartphones using components and materials primarily sourced and procured by us. We procure components and materials based upon a forecasted production plan, which is updated on an ongoing basis. The components and materials procured by us are delivered to our contract manufacturers, who inspect the quality of the goods delivered based upon our specifications and quality standards. The contract manufacturers are required to provide us with daily updates about the production progress.

### *Logistics and Warehouse*

We have engaged third-party logistics service and warehouse providers for delivering and storing our finished smartphones and certain components and materials. The finished smartphones from our contract manufacturers are inspected by our quality control team and accepted by our third-party service providers at the manufacturers' production facilities. Finished smartphones that have passed quality inspections are then delivered by the service providers to their warehouses, packaged in accordance with our specifications and quality standards, and subsequently, upon our separate instructions, delivered to locations specified by our customers, including distributors, retailers and consumers. Our third-party logistics service and warehouse providers maintain insurance to insure our products stored at their warehouses.

### *Inventory and Fulfillment Management*

Our inventory includes (i) components and materials for smartphones and (ii) finished smartphones. We have a stringent inventory control policy to monitor our inventory levels and minimize obsolete inventory. We generally keep sufficient component stocks for one to three months for our smartphones, which we consider to be appropriate for our business and industry. However, to avoid any shortage of supplies, we may strategically keep a higher level of stock for certain components, such as camera sensors, which were in temporary short supply in 2015 due to an industry-wide shortage in China.



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### *Sales Channels for Meitu Smartphones*

We sold our smartphones primarily through direct sales channels to consumers in 2013, and started to sell our smartphones primarily through distributors and retailers starting in 2014. We strategically sell most of our smartphones to distributors and retailers in order to expand the market and geographical coverage of our products. Our distributorship model is consistent with the market practice for China's smartphone industry.

*Distributors and Retailers.* Our smartphones are primarily sold to distributors and retailers online and offline. Our distributors distribute our products to other sub-distributors and retailers in the regions where they operate, and our retailers, such as Suning Purchasing Center of Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司蘇寧採購中心) and Vipshop Holdings Limited, onsell our smartphones to end consumers. Our sales models with our distributors and retailers are principally the same. Our distributors and retailers are our customers rather than agents, because once we have sold and delivered our smartphones to our distributors and retailers, they may not return the products except for certain specified defects. During the Track Record Period, our distributors and retailers returned less than 0.6% of the smartphones sold due to product defects, which is at a level similar to that for direct sales.

#### *Distributors*

We currently sell our smartphones to seven distributors in China, Hong Kong, Macau and Taiwan. In 2013, we did not have any distributors and sold our smartphones through direct sales channels and retailers. The number of our distributors increased from one as of December 31, 2014 to seven as of June 30, 2016, in line with the expansion of our smartphone business. Our distributors are typically specialized in the distribution of smartphones and operate well-established local distribution networks. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our distributors accounted for approximately nil, 6.7% and 80.1% and 66.8% of our smart hardware revenue, respectively. The following table sets forth the number of our distributors as of the dates indicated:

	As of December 31,			As of June 30, 2016
	2013	2014	2015	
Distributors at the beginning of the period.....	–	–	1	5
Addition of new distributors .....	–	5	4	2
Termination of existing distributors .....	–	4	–	–
Net increase (decrease) in distributors .....	–	1	4	2
Distributors at the end of the period .....	–	1	5	7

In 2014, we introduced five distributors as a strategy to broaden our marketing reach and increase the smartphone sales volume. During the same year, we terminated our cooperation with four distributors with inadequate sales performance. In 2015 and the six months ended June 30, 2016, we engaged a total of six new distributors to diversify our sales channels.

We typically enter into a non-exclusive framework agreement with each distributor and sell our products to distributors on a per-order basis. The framework agreements generally have terms of between six months and one year, and do not contain renewal or termination clauses. None of the framework agreements has binding minimum purchase conditions, but they generally have non-binding minimum purchase conditions. Pursuant to the framework agreements, our distributors have the sole discretion in deciding the distribution channels and, subject to a price floor, distribution pricing, but they are required to report to us their distribution and procurement plans. Our distributors also report to us their inventory levels on a monthly basis. We generally do not grant our distributors any right of return unless our products have quality issues, and we do not have any obligation to repurchase our products from the distributors in any event. Further, we do not guarantee a minimum resale value of our products to the distributors. We typically require our distributors to pay us in advance of delivery of their purchase. We negotiate pricing terms with each of our distributors individually. The price of

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which we sell to distributors is lower than that we sell to end consumers through our direct sales channel. We agree with our distributors to provide one-year after-sale warranty and customer service to end consumers. See “— Customer Service and Warranties — Returns and Warranties and After-sale Services for our Smartphones”. See “Financial Information — Critical Accounting Policies — Revenue Recognition” for the revenue recognition policy for our sales of Meitu smartphones to distributors. We do not allow our distributors to trade under our name. We allow our distributors to use our brand name and logos only for the purposes of marketing our smartphones.

We rely on a limited number of distributors for the sale of our smartphones during the Track Record Period. Our largest customer for the year ended December 31, 2015 and the six months ended June 30, 2016 was a smartphone distributor, which accounted for approximately 45.1% and 50.5% of our total revenue, respectively. We do not currently plan to diversify our sales to distributors, because our sales volume is relatively small compared to the capacity of our distributors. We may diversify our sales to distributors if our sales volume increases significantly in the future.

### *Retailers*

As of June 30, 2016, we sold our smartphones to seven retailers in China. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our retailers accounted for approximately 9.7%, 75.4%, 1.6% and 7.7% of our smart hardware revenue, respectively.

Similar to our distributors, we generally require our retailers to pay us in advance of delivery of their purchase. We agree with our retailers to provide a one-year after-sale warranty and customer service to end consumers. See “— Customer Service and Warranties — Returns and Warranties and After-sale Services for our Smartphones”. See “Financial Information — Critical Accounting Policies — Revenue Recognition” for the revenue recognition policy for our sales of Meitu smartphones to distributors.

During the period from September 2013 to November 2014, we entered into a sales agreement with a retailer, who is an Independent Third Party, pursuant to which the retailer was allowed to return unsold products to us. The retailer did not return any products to us during the period.

### *Direct Sales*

We sell our smartphones directly to consumers through our official online store at [www.meitu.com/phone](http://www.meitu.com/phone). We direct consumers to our website through online and offline marketing as well as promotions carried out at tradeshows. We also sell our smartphones to consumers through our storefront on third-party marketplaces such as Tmall. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our direct sales channel accounted for approximately 90.3%, 17.9%, 18.3% and 25.5% of our smart hardware revenue, respectively.

### *Pricing of Meitu Smartphones*

We price our smartphones based on the cost of components and materials, anticipated demand for the new models, income levels of target users, mix of sales channels, the price of smartphones launched by our competitors, and historical sales volume of previous models of Meitu smartphones. Prices of the components and materials are generally based on prevailing market rates, which could differ based on order volume. The prices of our main components and materials, as measured by cost in terms of percentage of our total cost of sales, including displays, processors, memory chips, and front and rear cameras, were relatively stable during the Track Record Period. We do not have complete control over the pricing policies of our distributors and retailers, although we generally require the retail sale price to the consumers to be equal or higher than our indicative retail price for our smartphones. During the Track Record Period, there were no significant fluctuations in the average selling prices of our smartphones. Historically, there have not been any fluctuations in the prices of our main components and materials that materially affected the selling prices of our smartphones.

### *Cameras and Others*

We plan to launch a digital single-lens reflex/mirrorless digital camera with built-in photo and video editing and sharing functions in 2017.

### **E-commerce Marketplace**

We are currently building an e-commerce business. We expect to launch a social e-commerce marketplace platform that operates primarily under an agency model in the first half of 2017. As females constitute the majority of our user base, we plan to initially have the platform focus on categories such as apparel, cosmetics and skin care products before broadening our offerings. The core function of this platform is to provide a community that connects our users, fashion KOLs and a wide variety of fashion brands. We expect that KOLs will be incentivized to share with their followers on the platform how to mix and match clothing and accessories from different brands, while users can discover new styles from these KOLs and purchase the featured items directly from the brands. We may collaborate with leading e-commerce platforms to leverage their operational expertise, fulfillment services and supply chain. As of the date of this prospectus, we have built a team for engaging brands, brands' official distributors and KOLs for our proposed social e-commerce platform, and have hired additional research and development personnel to develop such e-commerce platform. In addition, we intend to explore other e-commerce opportunities by leveraging our large user base and our portfolio of photo apps. For example, we believe that some of our users are interested in having their photos imprinted on T-shirts, coffee mugs, phone cases and other items that they would like to personalize. We have started to work with third-party vendors to make these services and merchandise easily accessible to our users through a new feature called *Meiyin*. We are in the process of rolling out *Meiyin*, first in our *SelfieCity* app and then selectively in other apps whilst also expanding the range of merchandise that users will be able to customize with the feature.

An e-commerce business adopting an agency model typically refers to a marketplace that focuses on facilitating transactions between merchants and consumers and does not necessarily own logistics infrastructure or provide logistical arrangements for merchants or consumers. We do not plan to build our own logistics infrastructure, including warehouses and a delivery network, and currently intend to have our merchants make the necessary logistical arrangements for consumer purchases and bear the relevant expenses for warehousing and delivery services. As a result, we do not expect to incur significant capital expenditure as we expand our social e-commerce platform.

We intend to focus on facilitating transactions between merchants and consumers and to receive commission revenue from merchants when a transaction is completed. We do not intend to pay merchants to incentivize them to promote products on our platform. In addition, we do not intend to pay fixed fees to KOLs to promote sales of products on our e-commerce platform and instead intend to share revenue from the sale of merchandise with such KOLs. As of October 31, 2016, merchants representing more than 200 brands had expressed interest in promoting their products on our proposed social e-commerce platform. In addition, we intend to cross-promote our social e-commerce platform to our existing massive user base and do not plan to incur significant user acquisition expenses for this business. We have, however, assembled a dedicated team to develop the proposed social e-commerce platform. The team consisted of 48 staff as of October 31, 2016 and is expected to expand to approximately 120 staff by the end of 2017.

### **Advertising**

Through advertising, we offer information to our users regarding products and services that may enhance their lifestyle. We offer advertising space to brands that identify with or enhance our Meitu brand while appealing to our users, from luxury labels to popular apparel and food brands. We currently sell advertising space in our apps primarily in the form of icon ads and banner ads. Our apps may attract different kinds of advertisers depending on each app's distinctive functions. For example, cosmetics companies tend to target their advertisements at the users of *MakeupPlus*. We continually upgrade our advertising infrastructure to better serve our advertising customers.

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During the Track Record Period, we generated almost all of our online advertising revenue by selling advertising space in our apps to advertisers through advertising agencies, with which we enter into contracts for our online advertising services. Our advertising customers pay for their advertisements primarily on a cost-per-time basis, and can purchase advertising inventory across multiple locations in our apps through a contract-based process from our advertising team. During the Track Record Period, our advertising platform was primarily used for scheduling the display of advertisements in our apps.

Leveraging our proprietary technologies and big data analytical capabilities, we believe we have the opportunity to further innovate and update our advertising solutions. We currently plan to start rolling out an upgraded advertising platform by the end of 2016, which would enable the connection with programmatic advertising networks and would offer more advertisement inventory for advertisers whose offerings we believe would interest our users. We expect to sign new advertising agreements with existing and new customers after we have started rolling out the updated advertising platform by the end of 2016. We expect that the increased advertising inventory can be sold through programmatic advertising networks, which aggregate demand from extensive networks of advertisers and advertising agencies and match them with the supply from advertising publishers, such as our Company. As part of the preparation for the roll-out of the upgraded platform, we have connected our advertising platform to Facebook Audience Network and Google AdMob and started to generate revenue in the third quarter of 2016. In addition, we have been in discussions with a number of other advertising networks since the third quarter of 2016. By connecting our advertising inventory to these advertising networks, we expect to be able to broaden our reach to advertisers and more efficiently respond to their demands, including through proactive price adjustments, which we believe would drive demand for and increase the utilization of our advertising inventory.

In addition, we intend to allow advertisers to place native advertisements in our photo apps and *Meipai* and facilitate more contextual advertising. We are also in the process of developing a recommendation algorithm to promote cosmetics products from various brands to our users, based on their choice of virtual effects in our apps. We also plan to work with KOLs in promoting products from advertisers, as KOLs are usually effective in spurring online entertainment spending and shopping demand among their followers.

Set forth below are the expected operational and financial impacts on our Company of the various monetization initiatives (including e-commerce, online advertising and IVAS), if such monetization initiatives are successfully implemented at meaningful scale:

*E-commerce and online advertising.* For our proposed e-commerce business that will be operated primarily under an agency model and our online advertising business, the main costs of revenues would be bandwidth and server custody fees associated with the large and growing user base and increasing user activity in our apps that would potentially allow us to successfully promote and sell e-commerce products and display advertising at scale. The bandwidth and server custody fees associated with the portion of our online advertising business conducted through our core photo apps are relatively insignificant and do not vary directly with revenue, given that an increase in the level of user activity on such apps is not incrementally intensive on our bandwidth or server loads. The bandwidth and server custody fees associated with the portion of our potential online advertising business on *Meipai* and our proposed e-commerce business are more significant, given such costs would be highly correlated to the level of user activity on *Meipai* and on our e-commerce platform due to the higher bandwidth and server load that is generated when more users concurrently view online video content on our platform, and such costs do not vary directly with revenue. We plan to provide users with both photo and video content on our e-commerce platform to increase user engagement and promote product offerings.

The gross margin of our e-commerce and online advertising businesses would depend on the number of orders, price per order and the volume of merchandise sold on our proposed e-commerce platform or the volume of advertisements placed with us, as the case may be. The increase in price per order on our e-commerce platform will likely enhance the gross margin as it is more directly related to the price for each item ordered instead of user activity. The number of orders and the volume of merchandise sold, on the other hand, typically correlate to user activity and hence the relevant costs. In addition, the higher the volume of the advertisements placed on our photo apps, the higher the gross margin of our online advertising business, as the cost of revenue of

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our photo apps are relatively insignificant. Our e-commerce and online advertising businesses are expected to generate profits when their sales volume reach a level that is sufficient to cover the associated costs and expenses, after which the profit margin is expected to improve with increasing revenue and translate into better operating cash flows. Each of our monetization initiatives targets all of our users, which consisted of approximately 456 million MAUs in October 2016. We also expect to incur additional promotion and advertising expenses to promote our brands and conduct viral online marketing campaigns when we launch our e-commerce initiative and to increase the level of user engagement on our existing products.

We do not expect our e-commerce business or online advertising business to increase our overall risk profile. However, in the event that we operate a small part of our proposed e-commerce business by adopting a self-operated business model whereby we purchase merchandise from brands for resale on our platform, we may be subject to incremental inventory risk and higher working capital requirements.

IVAS. At present, our IVAS primarily include the sale of virtual items in *Beauty Box* and *Meipai*. The cost of revenue mainly comprises distribution channel fees, revenue sharing with game developers in relation to *Beauty Box*, revenue sharing with live streaming hosts and short-form video creators, and bandwidth and server custody fees in relation to *Meipai*. The amount of revenue sharing is expected to increase proportionally to the amount of revenue generated while the bandwidth and server custody fees associated with *Meipai* are expected to be highly correlated to the level of user activity on *Meipai*, which do not vary directly with revenue. The gross margin of our IVAS primarily depends on the number of paying users and revenue per paying user and the volume of virtual items sold in *Beauty Box* and *Meipai*. The increase in the revenue per paying user will enhance the profit margin as it is not related to user activities and hence bandwidth and server custody fees. IVAS is expected to generate profits when revenue of sales of virtual items reaches a level that is sufficient to cover the associated costs and expenses, after which the profit margin is expected to improve with increasing sales volumes of the virtual items in *Beauty Box* and *Meipai* and translate into better operating cash flows. We also expect to incur additional promotion and advertising expenses to specifically promote the virtual item functionality on *Meipai*. We do not expect our IVAS to increase our overall risk profile.

### Mobile Game



*Beauty Box* (美美小店)

Leveraging our in-depth understanding of our female users' preferences about fashion, apparel and makeup, we operate *Beauty Box*, a casual mobile game designed for female players. *Beauty Box* is available on iOS Apple Store and other Android app distribution channels in China. *Beauty Box* simulates the experience of dressing up and applying makeup on virtual characters. It is free to play, but players can purchase virtual items to enhance their in-game experience or accelerate their advancement in the game. We jointly developed the game with Forgame, a game developer in China, and Forgame and us operate the game as main operator and co-operator, respectively. For a description of the terms of our agreement with Forgame, see “— Product Development — Development of Mobile Games”



### Meitu Family



*Meitu Family* is a quirky family of cartoon characters designed to represent the innovative, fun spirit of our brand. We have created promotional videos and comics centered around *Meitu Family*. We intend to develop stickers and other products based on *Meitu Family*, using these cartoon characters as brand ambassadors. We view *Meitu Family* as important intellectual property as it helps us to establish our distinctive brand.

### Our Users

We have successfully attracted a large, expanding and loyal user base. We have experienced significant organic growth in China, primarily attributable to word-of-mouth introduction of our products by satisfied users to their friends and others, without us incurring direct marketing expenses. We engaged approximately 456 million total MAUs in October 2016, compared to approximately 372 million, 184 million and 88 million in December 2015, 2014 and 2013, respectively. We believe that as our quality products and services continue to satisfy our users, our user base will continue to expand with higher user engagement.

In addition, our users are also becoming increasingly active as we optimize our products to address their needs discovered through our proprietary and robust data analytics. The number of photos generated by our core photo apps was 6.0 billion in October 2016, compared to 4.4 billion, 2.4 billion and 0.8 billion in December 2015, 2014 and 2013, respectively. *Meipai*, our video and live streaming community, shared a similar trend: average daily time spent per in-app *Meipai* user has increased to 33.8 minutes in October 2016 from 12.9 minutes in May 2014, when *Meipai* was first launched.

### *Increasingly Global User Base*

A key part of our international expansion strategy is to focus on markets that share user or industry characteristics with China. These markets include countries and regions with similar growth potential in mobile



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Internet penetration rate (e.g. Brazil and India) or cultural background and standards of beauty (e.g. Thailand and Indonesia) as China. For certain markets with specific preferences, we focus on launching either localized versions of existing apps or new apps to serve local users' preferences, as appropriate. Since 2014, we have set up offices in seven countries and regions outside China, namely Brazil, Hong Kong, Singapore, India, Indonesia, Japan and the United States, and we have hired local teams to study the respective markets before designing or updating products to suit local users. In addition, for developed markets such as the U.S. and Europe, we continue to build our brand awareness through viral marketing on social networking platforms, as we believe the influence of these developed markets extends beyond their respective regions and our increasing brand value in these markets will have broader, positive impact on our global expansion initiative.

We have enjoyed significant success to date in our international expansion, with over 430 million overseas users as of October 31, 2016, which represents more than 20% of the total users of all our apps. We specifically designed *BeautyPlus* and *AirBrush* for overseas users, and the two apps had over 47 million MAUs combined in October 2016. As of October 31, 2016, we had more than one million total users from each of 26 overseas countries and regions, with more than 10 million total users from each of Brazil, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam.

### *User Profile*

Our business has a significant focus on serving the beauty-related needs of our users, a majority of whom are female, and we believe we are well-positioned to capitalize on the global female consumption economy. We believe that most females are interested in being able to easily take and edit selfies or other photos and videos anytime and anywhere.

We also believe the youthfulness of our user base is key to their willingness to engage with us and provide us with product feedback, helping us identify and develop new product features and opportunities. In addition, we continually work to broaden our offerings to serve users in other age groups.

## CUSTOMER SERVICE AND WARRANTIES

### *Customer Service for Apps*

In our ongoing efforts to maintain user satisfaction and improve our products and services, we maintain a dedicated customer service team of five employees that is focused on efficient problem-solving with the ultimate goal of increasing user satisfaction and user stickiness. For example, we frequently contact highly active users of one or more of our apps and organize online discussion groups to obtain feedback from them on how we can improve our existing apps or launch new apps to improve user experience. Our users also often voluntarily provide feedback to our customer service team, which helps us further improve our products and services or develop and launch new ones.

### *Returns and Warranties and After-sale Services for Smartphones*

We have engaged third-party service providers to provide after-sale services to the end consumers of our smartphones. Our end consumers can return new Meitu smartphones with or without cause within seven days of purchase. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we received returns of approximately 0.36%, 0.02%, 0.04% and 0.41% of the smartphones from our end users. Between eight to 15 days of purchase, users may have their smartphones replaced or repaired for specific types of defects or quality issues as required under the relevant laws and regulations. After the 15th day and within one year of purchase, users may only have their smartphones repaired for defects or quality issues. We do not allow our distributors and retailers to return the smartphones purchased from us unless there are quality issues. For the years ended December 31, 2013, 2014 and 2015 and six months ended June 30, 2016, our warranty expenses amounted to RMB0.7 million, RMB5.2 million, RMB7.6 million and RMB4.5 million, respectively.

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We have not experienced any customer complaints, product returns or product liability claims that materially and adversely affected our business during the Track Record Period and as of the Latest Practicable Date.

### SALES AND MARKETING

During the Track Record Period, we have, to a significant extent, relied on word-of-mouth among our satisfied loyal users to help us promote our products in China, including KOLs, celebrities, public organizations and ordinary users. Celebrities and KOLs are often held to a high standard of beauty and regularly present attractive and beautiful media on their social networking accounts to maintain engagement with their followers, and we believe our easy-to-use products suit their purposes well. Celebrities and KOLs who experiment with Meitu products and find them convenient and effective sometimes spontaneously promote us on their social networking platforms or during public appearances. Except for a few selected celebrities that we engage to promote our brand, products and services, KOLs and celebrities are not promoters appointed and paid by us.

#### Apps

While our apps have historically been popularized in China primarily through word-of-mouth, we have also marketed our apps in China and internationally through the following means:

- *Cross-Promotion.* We cross-promote our apps by reminding users of our other apps through strategically placed icons and in-app links.
- *Thematic Activities.* We organize a variety of activities centered around beauty and the latest trending topics to encourage users to upload and share their stories and photos on our platform. For example, we have organized a city-based photo event for air stewardesses to share their travel photos using *SelfieCity*, and we have held contests for the best makeup looks and costumes imitating characters of popular television shows.
- *Testimonials.* We actively invite KOLs to share their experience with our apps or post photos that have been retouched using our apps on social networking platforms. These testimonials reinforce the on-trend, youthful and vibrant image of our apps.
- *Distribution Channels.* We partner with app distribution channels and app recommendation websites, which would feature our apps on selected occasions and holidays. We also promote our apps using paid marketing services provided by app distribution channels, such as search engine marketing.

For each new international market that we enter, we first market our apps by employing both the promotional methods listed above and other methods that cater to local culture and user behavior, including purchasing performance-based advertising, encouraging user-generated content on social or other Internet media, cooperating with KOLs in promoting our apps on social networking platforms, and opening and maintaining official accounts with Facebook, Instagram and other local social platforms. After our apps gain traction locally, we can then rely on satisfied users to help spread the word about our products.

For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, our selling and marketing expenses amounted to RMB16.2 million, RMB121.0 million, RMB649.1 million and RMB196.8 million, respectively. For the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016, we paid a total of RMB3.9 million, RMB16.6 million and RMB10.9 million, respectively, to certain celebrities and brand ambassador(s) to promote our brand, smartphones and our apps through different channels.

#### Smartphones

Sales of our smartphones, which are currently available in mainland China and, for selected models, in Hong Kong, Macau and Taiwan, are partly driven by existing users of our apps or video and live streaming community. According to a survey we conducted in August 2016 of a statistically significant random sample of Meitu smartphone users, approximately 75% of our smartphones were purchased by our existing app users, and

approximately 87% of our current smartphone users indicated interest in buying our next smartphone model. In addition, we have engaged Angelababy (楊穎), a popular beauty icon and celebrity in China, as a brand ambassador for our Meitu smartphones. We also promote our smartphones by delivering viral online media content on Chinese-speaking social media. For example, our creative marketing team has released interesting videos with stories and themes centered around Meitu smartphones and *Meitu Family* characters, which helped to increase market recognition of and drive demand for our smartphones.



The promotion services for which we engage celebrities include, among others, ambassadorship for and promotion of our brand, products and services, and the designation of *Meipai* as the official short-form video app for concerts held by celebrities. Our agreements with the agents of such celebrities generally provide that promotional materials featuring such celebrities produced by us during the contract terms are owned by us, but the use of any promotional materials relating to such celebrities beyond the contract terms are prohibited. In particular, pursuant to our form agreement with brand ambassadors, we are entitled to use any edited videos produced under the agreement and any other agreed promotional materials relating to such brand ambassadors during the contract terms on designated media and within designated regions. Pursuant to our form agreement, brand ambassadors shall use their best efforts to enhance our brand, and shall attend publicity activities for our brand, products and services as agreed. The agreement can be terminated by either party if the other party commits a breach, subject to a cure period. The form agreement has a term of one year.

### **Mobile Games**

We market *Beauty Box* on a wide range of websites, search engines, mobile portals and apps in China to maximize our potential player base. We also cross-promote the game through our own apps and pay distribution channels to promote the game.

### **QUALITY CONTROL AND CONTENT MONITORING**

We have programmers with extensive app testing experience who systematically test our apps to ensure that they conform to our high-quality standards. We are also required under PRC laws and regulations, such as the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), to monitor content on *Meipai*. For details of relevant requirements under PRC laws and regulations, see “Regulations — Regulations on mobile Internet applications information services”. The review and monitoring of such content is conducted primarily by our internal team and two external vendors specialized in content monitoring, who screen content on *Meipai* against a filter list item by

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item. One of the vendors is an independent third party and the other is Xiamen Mei Xin Lian Network Technology Co., Ltd., our associate company in which we own 49% equity interest. The filter list is a compilation of content and behaviors that we have determined are likely to be indicative of inappropriate, politically-sensitive or illegal content or activities, having taken into account of relevant PRC laws and regulations. Our internal and third-party content management teams are aided by proprietary technologies designed to screen the content transmitted to *Meipai* around the clock on a real-time basis. Content identified as falling into the filter list would be immediately blocked or removed. In addition, we review any complaints alleging the inappropriate nature of content on *Meipai* and remove such content if appropriate.

The type of inappropriate content that we monitor includes but is not limited to statutorily prohibited content as well as copyrighted content. For statutorily prohibited content, we have adopted a combination of automated and manual screening procedures to monitor and remove content that is classified as being overly violent, overly bloody, associated with terrorism, pornographic in nature, or containing other similarly prohibited elements. As soon as we and our third-party content management teams detect any of the aforementioned elements, we immediately block and remove the prohibited content, freeze the uploading users' accounts and report the incident to competent public security or national security authorities if appropriate. During periods of heightened public sensitivity, such as when a large-scale emergency has occurred in a specific region of China, our third-party content management teams will monitor content uploaded specifically by users from around the affected areas or with elements pertaining to the event. In addition, we actively review and remove offending content reported by our users or upon receipt of notice from competent public security and national security authorities. For copyrighted content, we have established a content monitoring system and our third-party content management teams also specifically monitor and screen videos uploaded to *Meipai* for copyrighted content in accordance with industry practices and applicable PRC laws. Our third-party content management teams manually screen the content in accordance with our prescribed standard, which includes, among other things, the list of copyright-protected work products publicly available on the website of the National Copyright Administration of the PRC (中華人民共和國國家版權局). We immediately remove any content responsive to the list if a violation is found to have occurred. In addition, if a copyright holder asserts, with supportive evidence, his/her copyright to certain content available on *Meipai*, we will remove the disputed content within 48 hours of the claim and notify the uploading user of the reason for the removal, including the concern that the content might constitute copyright infringement.

For risks relating to our quality control and content monitoring, see “Risk Factors — Risks Relating to Our Business and Industries — Our business significantly depends on the strength and market perception of our brand, and our brand image may be adversely impacted by any negative publicity”.

As of June 30, 2016, we had a dedicated quality control team consisting of 13 engineers and technicians to carry out quality assurance procedures at various stages of the smartphone production process. We have on-demand access to each manufacturing facility, and our quality control team continually monitors the quality of incoming components and materials, as well as the production processes at our contract manufacturers' facilities, to ensure high-quality products. The finished smartphones manufactured by our contract manufacturers are inspected by our quality control team. We also require our contract manufacturers to maintain quality control over their logistics, warehousing, production and inspection procedures based on ISO9001 quality standards. We did not experience any material quality control issues for our smartphones during the Track Record Period and up to the Latest Practicable Date.

## PRODUCT DEVELOPMENT

### *App Development and Ongoing Optimization*

Our app development process is continually driven by user demands. We closely monitor user behavior and user preferences and respond to any changes or shifts by developing new apps or by adding new or optimized features in existing apps. To remain innovative, we encourage our employees to maintain close communications with our users to understand their needs, and provide our development teams with autonomy and freedom to explore new concepts in updating existing apps or creating new apps.

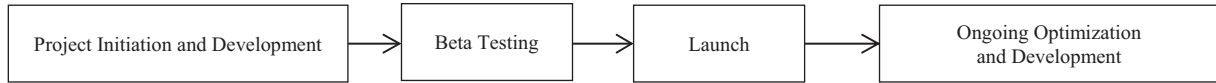
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### *Research and Development Process*

Our development process for a new app or a major new update for an existing app can be divided into the four general stages set forth in the chart below. The first three stages usually take three to six months, while the final stage for optimization and development remains ongoing to help retain the relevance and popularity of each app.



- **Project Initiation and Development**

We initiate the development of a new app or update to an existing app in response to user demands. Among other initiatives to keep up with user demands, we leverage our big data analytics capabilities to closely monitor changes in user behavior and user preferences, including the usage of each app function, trends and changes in other operating metrics such as the number of new users, time spent in-app and number of photos generated. Once we discover unmet user needs gathered through various channels, we develop a prototype for several rounds of testing with small groups of our users. We then form a project team comprising personnel from our research and development, financial, legal and technology teams to conduct an in-depth feasibility study. If we find that a new app or new update is feasible in all respects, our research and development and technology teams will proceed to formulate steps in the development, internal tests and launch of the new app or new update.

This stage usually takes several weeks for a new version of an existing product and several months for a brand new app or function. In the case of localization of an app to an overseas market, we allow additional time for our technology teams to work closely with local teams to understand user needs and translate such needs across language and cultural divides into an effective product.

- **Beta Testing**

After completing the project initiation and development stage, we then conduct internal tests to resolve any major technological issues and software bugs that may exist in the test version. We subsequently make the new or updated app available to a limited number of randomly-selected users for trial, continually monitoring and analyzing user behavior through our proprietary data analytics engine and soliciting user feedback in order to optimize the app's performance. The resulting app is then beta tested among users who agree to take part in the testing. Such users can download the product under testing through a designated website or our apps.

- **Launch**

We consider an app to be officially launched when we upload it on one or more app distribution channels and make it publicly available for download.

- **Ongoing Optimization and Development**

We continually monitor and analyze user behavior in the app and continue to optimize the app's functions and performance based on user feedback. We periodically release new versions of our apps with improved features, and each new version usually takes anywhere from approximately two weeks to two months to develop and launch, depending on the complexity of the improved features.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, we had approximately 68, 139, 250 and 336 app development personnel, respectively. Most of our software programmers and testing engineers have bachelor's or graduate degrees. We plan to continue to expand our app development team by recruiting from leading universities and from competitors in the market.



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### *Research and Development for Smartphones*

We identify user needs for our smartphones by gaining understanding of our app users and their behavior, based on which we design smartphones focused on high-quality selfies. We also endeavor to improve various aspects of our smartphones, such as hardware specifications, operating system and battery performance, in order to further enhance user experience. We decide the launch schedule of new models based on product life cycle and market demand. We currently plan to launch at least one new smartphone model for each of the first and second halves of 2017.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, we had 37, 93, 131 and 148 smartphone research and development personnel, respectively, most of whom have bachelor's degrees or above.

### *Development of Mobile Games*

*Beauty Box*, the mobile game that we currently operate, was developed by Forgame, a game developer in China. Pursuant to the five-year joint game operation agreement between us and Forgame dated August 12, 2015, Forgame will publish and mainly operate and provide continuing technological support and updates to *Beauty Box*, and we will mainly market the game. Revenue generated from the game is shared equally between Forgame and us, and the intellectual property relating to the game is jointly owned. Except for marketing through our own apps, the costs of which are borne by us, we and Forgame equally share the costs of marketing the game. We are in discussion with Forgame to potentially amend the joint game operation agreement with regard to, among others, the cooperation model and sharing of revenue and costs.

## TECHNOLOGY

### **Facial Recognition Technology**

At the core of our products is our facial recognition technology, which can precisely detect and recognize faces and facial features, and is built on deep learning, massive user data and abundant user feedback. Our facial recognition technology forms a positive feedback loop with our users' activities such that an increasing amount of users' data further improve the precision and efficiency of our technology. Our facial recognition technology encompasses the following functions:

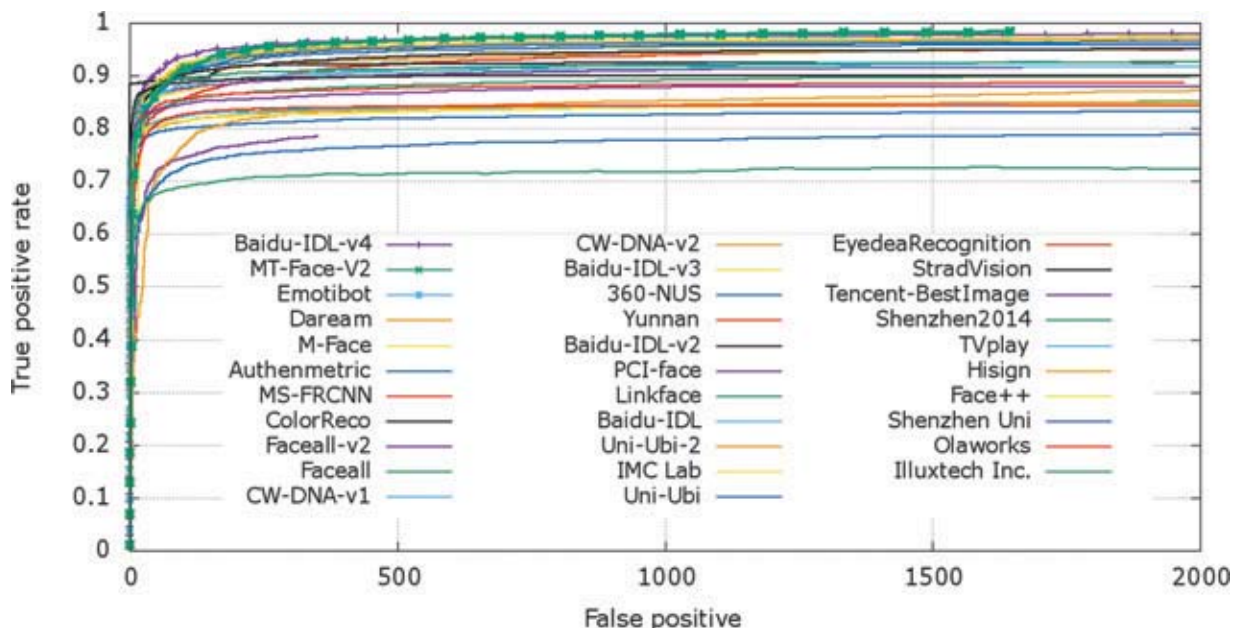
- *Face detection.* Our face detection technology accurately and rapidly detects the location and the number of faces in photos and videos.
- *Facial point detection.* Our facial point detection technology can quickly and precisely locate key facial features and components, including eyebrows, eyes, nose and mouth by identifying over 170 locations on each face.

We have state-of-the-art face detection technology. According to the results of a face detection benchmark test named the Face Detection Data Set and Benchmark<sup>(1)</sup> ("FDDB") published by the Computer Vision Laboratory of the Computer Science Department at the University of Massachusetts, Amherst, which were last updated on April 15, 2016, under the discrete scoring method, when the number of false positive detections exceeded 551, our face detection technology recorded a true positive detection rate of equal to or higher than 0.968531 (with the full score being 1), which was the highest among all the participating face detection systems with more than 551 false positive detections. The 59 participating face detection systems include 26 systems that have not published their underlying face detection methods (including our latest face detection system as indicated by the line labeled MT-Face-V2) and 33 systems that have published their underlying face detection methods. Each participating system may have submitted more than one version of its algorithm for FDDB evaluation. The following graph, which was also published by the Computer Vision Laboratory of the Computer

<sup>(1)</sup> Vidit Jain and Erik Learned-Miller.  
FDDB: A Benchmark for Face Detection in Unconstrained Settings.  
Technical Report UM-CS-2010-009, Dept. of Computer Science, University of Massachusetts, Amherst. 2010.



Science Department at the University of Massachusetts, Amherst, sets forth the results for the submission made by the 26 participating systems with unpublished methods.



FDDB is an initiative to provide a benchmark for evaluating the performances of different face detection algorithms, and the evaluation is based on a data set of face regions, which contains annotations for 5,171 faces in a set of 2,845 images taken from a given data set, designed for studying the problem of unconstrained face detection. Under the discrete scoring method, if the ratio of the intersection of a detected region with an annotated face region is greater than 0.5, a score of 1 is assigned to the detected region, and 0 otherwise. False positive detection is the number of faces or other objects which are not annotated as faces but are detected as faces, while true positive detection rate is the number of correctly detected annotated faces divided by the total number of annotated faces.

We believe that our technologies form the foundation of our leading position in photo and video editing. With our face detection and facial point detection technologies, we are able to continually improve the quality of our photo-editing technology. We will also be able to strengthen our capabilities in facial boundary detection, face color optimization, portrait segmentation and white-balance optimization. With the deep learning capabilities of our technologies, we are exploring areas such as image classification technology, which would enable us to automatically classify portrait, architecture, food, performances, technology, scenery, animals and art, among others. In April 2015, we acquired an approximately 33.3% equity interest in Bellus 3D, Inc., a company specialized in the development of 3D photo and video technology, with a view to integrating 3D facial recognition technologies to allow for sophisticated editing of moving images in videos through 3D mapping.

### Big Data Analytics Capabilities

We have built a comprehensive system for data collection, including client-end (iOS and Android) data collection software development kits, server-end agents for the collection of user behavior and server-end data collectors dedicated to receiving user data. Data collected on the Internet are encrypted multiple times for maximum security while transmitting. Currently, the vast majority of data we collect pass through our real-time data collection channels, which efficiently distribute data for permanent storage and, at the same time, send data to different operational departments so that each part of our business can receive the necessary user data they require in real time. The operational departments that require real-time user data transmittal include real-time statistical analysis, real-time recommendations and others.

We have built a distributed system based on distributed storage, processing and dispatcher programs. All important user behavior data are stored within this distributed system, and data collection, research, analysis and

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statistical calculations are all built on this basis. At the same time, the distributed system contains useful scalability and usability, being able to expand quickly and efficiently in terms of processing power through server acquisition and at the same time, can continue to operate normally even with partial malfunctioning servers.

Using the system described above, our data analysis technicians are able to work closely with our engineers to analyze different types of data efficiently. For example, they can efficiently employ the system for (i) the development of data reports, (ii) centralized processing of different data from different apps, (iii) the tracing and analysis of user behavior in order to provide effective product strategies, (iv) the understanding of user response to new products and updates and (v) the analysis of different user groups' preferences and demands. Based on these analyses, we have also built a series of apps and functionalities, including the highly individualized personal recommendations system on *Meipai*, the auto-categorization function for videos on *Meipai*, channel distribution and data analysis functions on different apps and anti-fraud and anti-spam functions.

Our data analytics platform is operated by a team of software engineers and data scientists. The engineers maintain and monitor the day-to-day operations of the platform to satisfy the requirements of data scientists and other teams across our business units. Our data scientists specialize in the design of data collection plans, data pre-processing, data modeling and data mining, as well as the creation of customized data analysis reports and dashboards. They, as a team, support many of the data aspects of Meitu software and hardware products.

### “3A” Technologies

Our “3A” technologies, namely auto-exposure, auto-focus and auto-white-balance, are important for generating quality images in a variety of lighting conditions.

- *Auto-Exposure.* Our auto-exposure technology ensures that the diaphragm aperture size, gain level and shutter speed are controlled to keep image brightness constant under detected luminance conditions.
- *Auto-Focus.* Our auto-focus technology can detect and define focus position for the maximum contrast as the full focus. By eliminating signal noises as much as possible, our auto-focus technology is effective even for difficult environments and conditions, such as those under low lighting, telescopic zooming, and others.
- *Auto-White-Balance.* In order to create natural images, our auto-white-balance technology can correct the color and control balance more precisely for different lighting conditions by estimating the color of the lighting source.

We primarily safeguard our proprietary technologies through contractually requiring our employees and contract manufacturers to keep all our proprietary technologies confidential, as well as seeking to protect our technologies through patents and copyrights. We have registered over 100 patents and held the copyright to 94 software programs as of June 30, 2016. However, there can be no assurance that we will be able to adequately protect our intellectual property. See “Risk Factors — Risks Relating to Our Business and Industries — We may not be able to adequately protect our intellectual property, which could cause us to be less competitive and third-party infringements of our intellectual property rights may adversely affect our business.”

### TOP CUSTOMERS

Our customers primarily include smartphone distributors and retailers and advertising customers, whom we view as our business partners in our ecosystem. We regard our business relationships with our top five customers as stable, having maintained our business relationships with our top smartphone distributors and retailers for two to three years on average, and with our top advertising customers for two to four years on average as of June 30, 2016. Our largest customer accounted for approximately 11.5%, 65.3%, 45.1% and 50.5% of our revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our top five customers accounted for approximately 26.8%, 74.2%, 78.0% and 68.8% of our revenue for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our top

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five customers for the six months ended June 30, 2016 comprised Xizang Ku'ai Telecommunication Co., Ltd. (西藏酷愛通信有限公司), a smartphone distributor, Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司), a smartphone distributor, Shanghai Jingdao Advertising Co., Ltd. (上海競道廣告有限公司), an advertising customer, Jiangsu Liangjin Information Technology Co., Ltd. (江蘇良晉信息技術有限公司), a smartphone distributor, and Suning Purchasing Center of Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司蘇寧採購中心), a smartphone retailer. Our top five customers for the year ended December 31, 2015 comprised Xizang Ku'ai Telecommunication Co., Ltd. (西藏酷愛通信有限公司), Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司), Shanghai Jingdao Advertising Co., Ltd. (上海競道廣告有限公司), Wuxian Shenghuo (Hangzhou) Information Technology Co., Ltd. (無線生活(杭州)信息科技技術有限公司), an advertising customer, and Jiangsu Liangjin Information Technology Co., Ltd. (江蘇良晉信息技術有限公司). Our top five customers for the year ended December 31, 2014 comprised Suning Purchasing Center of Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司蘇寧採購中心), Wuxian Shenghuo (Beijing) Information Technology Co., Ltd. (無線生活(北京)信息技術有限公司), an advertising customer, Wuxian Shenghuo (Hangzhou) Information Technology Co., Ltd. (無線生活(杭州)信息科技技術有限公司), Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司) and also one other smartphone distributor. Our top five customers for the year ended December 31, 2013 comprised Wuxian Shenghuo (Beijing) Information Technology Co., Ltd. (無線生活(北京)信息技術有限公司), Beijing Jingdong Century Information Technology Co., Ltd. (北京京東世紀信息技術有限公司), a smartphone retailer, Shanghai Yidong Advertising Co., Ltd. (上海奕動廣告有限公司), an advertising customer, and two other advertising customers.

As of June 30, 2016, Mr. Cai, our founder and the Chairman of our board of directors, indirectly owned approximately 4.4% of the total equity of Jiangsu Liangjin E-commerce Co., Ltd. (江蘇良晉電子商務股份有限公司), which wholly owns Jiangsu Liangjin Information Technology Co., Ltd. (江蘇良晉信息技術有限公司). Other than the foregoing, during the Track Record Period, none of our Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our top five customers. For the related risks, see "Risk Factors — Risks Relating to Our Business and Industries — We derive a significant portion of our revenue from a limited number of customers".

### SUPPLIERS AND PROCUREMENT

Our suppliers primarily consist of (i) our contract manufacturers and suppliers for our smartphone components, (ii) data storage and bandwidth providers, (iii) app distribution and user acquisition channels, and (iv) payment channels.

#### *Contract Manufacturers*

We have entered into a framework agreement with each of our contract manufacturers. Each framework agreement sets forth the general terms and conditions of cooperation, pursuant to which we separately negotiate prices and volume for each model and series of our smartphones. Pursuant to the framework agreement, the OEM prices are quoted by the contract manufacturers and confirmed in writing by both parties in separate purchase orders. Part of the purchase price is prepaid at the time of making the purchase orders, and the remaining price is payable on a monthly basis after both parties have confirmed shipment of smartphone products. Our contract manufacturers typically require us to make prepayments for 50% of the contract price, and grant us credit terms of 15 to 20 days from the date of billing for the remaining 50% of the contract price. Pursuant to the framework agreements with our contract manufacturers, our third-party logistics service providers shall pick up, on our behalf, the final smartphone products at the factories of our contract manufacturers, at which point the risk of loss with respect to such smartphone products is transferred to us. We are required to provide rolling production volume forecasts to our contract manufacturers at least three weeks before production. If a reduction in the actual production volume is caused by us, we are required to compensate the contract manufacturers for any related expenses, such as warehousing and labor-related expenses. We did not make any such compensation during the Track Record Period. Our contract manufacturers are required to maintain quality control over their logistics, warehousing, production and inspection procedures based on ISO9001 quality standards. In addition, each party

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is required to keep the framework agreement and the information exchanged thereunder confidential. The framework agreements typically have an initial term of one year, and are automatically renewed unless either party notifies the other party in writing 15 days prior to the expiration date. The framework agreements contain customary termination clauses. In general, the framework agreements may be terminated if (i) either party becomes unable to perform its primary obligations under the agreement; (ii) the business operations of either party have materially deteriorated, such as commencement of bankruptcy, liquidation or dissolution proceedings; (iii) either party assigns its rights, obligations or assets under the agreement to any third party other than its affiliates without the other party's consent; (iv) a force majeure event has occurred; (v) either party has been found by the other party to have made false representations or warranties, and fails to rectify such false representations or warranties within 10 business days of notice from the other party; or (vi) either party has committed a material breach of the primary obligations in the agreement, and fails to rectify such breach within 30 business days of notice from the other party.

We select our contract manufacturers based on their industry experience and reputation in smartphone business. Consistent with market practice in China's smartphone industry, we directly or indirectly source the majority of components and materials used in manufacturing our smartphones from third-party suppliers and their authorized distributors. See “— Our Platform and Ecosystem — Meitu Smart Hardware — Smartphone Production, Logistics and Inventory Management — Smartphone Production”. Pursuant to the framework agreements, in general our contract manufacturers shall repair any Meitu smartphones with material quality issues and compensate us for any actual losses if the material quality issues are attributable to the manufacturing process. Our contract manufacturers are not responsible for material quality issues attributable to our product design or the components and materials procured by us. We have a procurement team that focuses on acquiring the components at competitive prices. Our contract manufacturers also provide some of the less key components and materials used in our smartphones.

### *Suppliers of Smartphone Components and Materials*

The main components and materials used in the manufacture of our smartphones, as measured by cost as a percentage of our total cost of sales, include displays, processors, memory chips, and front and rear cameras. We use quality components from leading suppliers in the market, including camera sensors from Sony and displays from Samsung. Substantially all of the main components for our smartphones are procured from authorized distributors in Hong Kong. We strategically aim to source each smartphone component from at least two suppliers, but certain components, including camera sensors and processors, are provided by a single supplier and may pose a business risk in terms of supply disruption. See “Risk Factors — Risks Relating to Our Business and Industries — We rely on a limited number of third-party suppliers and their authorized distributors for smartphone components and materials, contract manufacturers for the manufacture of our smartphones, and logistics and warehouse providers for the transportation and storage of smartphone components and products”. We believe that our relationships with our suppliers are good. We seek to avoid shortages of components and materials by actively balancing our rolling smartphone demand forecasts with our component and material stock levels. We believe we would be able to identify substitute suppliers for components and materials for which we currently source from single suppliers, as we evaluate and compare multiple suppliers of components and materials when we design each smartphone model. We also maintain relationships with different suppliers and/or their authorized distributors. In addition, we have the ability to tailor the design and optimize the performance of our smartphones based on components and materials available in the market, and can replace the components and materials of our smartphones with other brands or models with similar quality and functions, which we believe are in abundant market supply.

We typically enter into framework agreements with suppliers for our key components, pursuant to which we make separate purchase orders and negotiate the prices and volume under individual orders. Pursuant to the framework agreements, if the market prices of the key components undergo material changes, we are entitled to request our suppliers to adjust the selling prices based on the then market prices. The suppliers are responsible for the transportation of our purchases to locations designated by us. None of the framework agreements requires us to purchase a minimum amount of components or materials from our suppliers. We are typically granted credit terms of 30 to 60 days by our suppliers and their authorized distributors of smartphone components and

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materials, except for certain key components and materials for which advance payments are required. We require our suppliers to maintain quality control over the smartphone components and materials that we purchase in accordance with ISO9001 quality standards. Our suppliers are required to compensate us for any direct economic losses resulting from quality issues of the components and materials that we purchase from our suppliers. The framework agreements typically have a term of one year, which may be extended if agreed by both parties.

### ***Data Storage and Bandwidth***

We store our users' data on our own servers and lease bandwidth from third parties for our video and live streaming community, *Meipai*.

#### *Server Vendors*

We choose our server vendors based on a variety of factors, including research and development capabilities, service system and quality, history of cooperation, brand name comparison and price. We purchase our servers from two sources: original server manufacturers that produce trusted international brand names such as Dell, H3C and Huawei, with whom we have strong long-term relationships, and designated agents of server manufacturers. The servers we choose to use are selected by our highly-trained professional engineers after rigorous testing to guarantee capacity and quality.

#### *Bandwidth Providers*

Our bandwidth providers primarily supply us with content delivery network services, which accelerate the loading of photos, videos and live streaming on our apps delivered to users and offer them a fast and smooth experience to ensure the quality of services we provide to our users.

### **App Distribution and User Acquisition Channels**

While we grew the majority of our user base in China organically, we also seek to expand our user base through third-party marketing channels. In terms of marketing channels, we usually directly work with app stores in promoting our apps or work with advertising agencies if the agencies can obtain better terms for us. We typically enter into one-year framework agreements with such advertising agencies. A majority of the framework agreements with the advertising agencies require us to purchase a minimum aggregate amount of advertising services during the terms of the agreements. The advertisements are either display-based or performance-based, and are priced primarily based on cost-per-download, cost-per-time, cost-per-activation or cost-per-click. We are generally able to continually monitor the performance and effectiveness of the advertisements directly or through the advertising agencies.

### **Payment Channels**

We engage major third-party payment channels in China for smartphones sold on our online store as well as virtual items sold in our mobile game and on *Meipai*. We entered into payment service agreements with payment channels for initial terms ranging from one to two years, which are typically automatically renewable upon expiry unless one party notifies the other party otherwise in writing prior to expiration.

### **TOP SUPPLIERS**

Purchases from our five largest suppliers for each of 2013, 2014 and 2015 and the six months ended June 30, 2016 accounted for approximately 89.6%, 69.4%, 36.1% and 51.8% of our total purchase amount during those periods, respectively. Our largest supplier for each of 2013, 2014 and 2015 and the six months ended June 30, 2016 accounted for approximately 73.5%, 62.8%, 14.1% and 20.6% of our total purchase amount during those periods, respectively. As of June 30, 2016, we had maintained business relationships with our five largest suppliers for one to three years on average. For the related risks, see "Risk Factors — Risks Relating to Our Business and Industries — We rely on a limited number of third-party suppliers and their authorized distributors for smartphone components and materials, contract manufacturers for the manufacture of our smartphones, and logistics and warehouse providers for the transportation and storage of smartphone components and products".



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Foxconn owns approximately 1.81% of our total issued and outstanding ordinary shares (assuming each Preferred Share is converted into one ordinary share of US\$0.0001 par value immediately prior to the Global Offering and assuming the options granted under the ESOP are not exercised) as of the date of this prospectus. During the Track Record Period, none of our Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers.

### COMPETITION

We believe that we do not have companies that compete directly with us as the builder of a beauty-related ecosystem. However, we face significant competition in each of our business segments, as described below. For additional details regarding competitive landscape of the industries in which we operate, see the section headed "Industry Overview".

#### Photo and Video Apps

Our photo and video apps compete primarily with apps from other major developers in China, including Tencent, Baidu, Chengdu Pinguo Technology Co., Ltd. (成都品果科技有限公司), Fenxiang Yixia (Beijing) Technology Co., Ltd. (分享一下(北京)科技有限公司) and Beijing Milaiwu Network Technology Co., Ltd. (北京蜜萊塢網絡科技有限公司), all of which have developed and launched photo and video apps. Certain of these companies may have substantial market presence, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition and significant financial, marketing, research and development and other resources. However, we believe our user-centric products and our strong facial recognition analytical capabilities set us apart from our competitors.

We believe that domestic photo and video app developers like us are likely to have a competitive advantage over international competitors entering the China market, as those companies are likely to lack operational infrastructures in China and experience in serving the China market.

Since we have launched *BeautyPlus* and *AirBrush* and expect to launch other apps internationally, we also compete with photo and video app developers such as LINE Corporation, CampMobile Inc. and Lightricks Ltd. in overseas markets. The competition in overseas markets is intense, as we compete with app developers all over the world. In particular, we may face significant challenges in localizing our photo and video apps to address the different facial features and aesthetic tastes of users in different countries and regions.

#### Smartphones

As Meitu smartphones are designed for high-quality selfies, we believe that we compete primarily with other developers of smartphones designed for specialized uses, such as smartphones with particularly high megapixel cameras, integrated with sophisticated image processing capabilities or designed for outdoor activities including selected models offered by mid-ranged priced smartphone with advanced cameras. Principal competitive factors important to our smartphones include price, product features including security features, performance, product quality and reliability, design innovation, strong third-party software and accessories, marketing and distribution, service and support and corporate reputation.

### OUR FUTURE PLANS

We plan to continue to develop and launch apps and invest in sales and marketing activities to engage a broader user base, which we believe in turn presents significant monetization opportunities. In addition, with approximately 75% of our smartphone users being Meitu app users prior to their purchases of Meitu smartphones, according to a survey that we conducted in August 2016, we believe a large user base could drive additional Meitu smartphone sales. For our Internet services, our expanding user base enables: (i) our advertising customers to reach a broader audience; (ii) our future e-commerce platform and potential e-commerce partners, brands and retailer partners opportunities to promote and sell products to a larger number of potential online shoppers; (iii) our mobile game business and mobile game partners to attract a larger number of potential mobile game



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players; and (iv) KOLs on our platform to engage with more users, which could drive additional revenue from live streaming services, advertising and e-commerce, among others. Our initiatives in driving monetization with Internet services are particularly important for our business and long-term profitability, as these businesses typically do not require significant variable costs after reaching significant scale to experience revenue growth. In order to achieve the aforementioned initiatives and offer the relevant services, we plan to continue to invest in infrastructure and capacity to expand our Internet services business as necessary. In addition, while we are in the process of expanding our global user base, we intend to primarily focus on monetizing our users in China in the near future.

### INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We protect our intellectual property rights through a combination of copyright, trademark and other intellectual property laws, as well as confidentiality and license agreements with our employees, suppliers, partners and others. In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. During the Track Record Period, we did not find any of such breaches of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industries — We may not be able to adequately protect our intellectual property, which could cause us to be less competitive and third-party infringements of our intellectual property rights may adversely affect our business”.

As of June 30, 2016, we owned 138 registered domain names. We generally renew our domain name registrations once every year and applications for their renewal are usually approximately made one to three months prior to their expiration. Under normal circumstances, the domain name registrations take effect immediately after the payment of renewal fees. As of June 30, 2016, all of our registered domain names are in effect. If any of our domain name registrations cannot be renewed for any reason, the domain name registrar may deregister the relevant domain name.

As of June 30, 2016, we held 94 software copyrights and 69 other copyrights registered with the State Copyright Bureau of China. As of June 30, 2016, we owned 686 trademarks in various categories and registered with the China Trademark Office. In addition, we had 748 trademark applications, each in various categories, pending with China Trademark Office as of June 30, 2016.

As of June 30, 2016, we had 117 patents registered with the State Intellectual Property Office of China and 288 pending patent applications.

We carry on business in Hong Kong under “美圖之家” which is different from our Chinese name 美图公司 due to the similarity of “美图公司” (美图公司) to a third-party company’s name that already exists in the index of company names kept by the Registrar of Companies in Hong Kong. To minimize the possible risks arising from potential trademark infringement and/or passing off claims and any application for interlocutory injunctive relief based on such claims, we have resolved to adopt the following mitigating measures:

- (i) we carry on business in Hong Kong under the name “美圖之家” as approved by and registered with the Registrar of Companies in Hong Kong and only make reference to our Chinese name “美图公司” as registered in the Cayman Islands in our corporate communication documents in conjunction with our name “Meitu, Inc.”; and
- (ii) we will adopt measures (such as putting prominent notices on the website of our Company) to ensure that our Company is properly referred to as a Cayman Islands incorporated company carrying on business in Hong Kong as “美圖之家”.

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For more information, see the section headed “History, Reorganization and Corporate Structure” and “Risk Factors — Risks Relating to Our Business and Industries — We carry on business in Hong Kong under a Chinese name that is different from our Chinese name as registered in the Cayman Islands, which we use for our business in China, and as a result we may not be able to benefit from our well-known brand name in Hong Kong as in China. The use of our Chinese name as registered in the Cayman Islands in this prospectus and the use of it in the course of trade or business in Hong Kong may be challenged”.

We did not have any material disputes or any other pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

Please see “Appendix IV — Statutory and General Information — Intellectual Property Rights of our Group” for details of our material intellectual property rights.

## EMPLOYEES

As of June 30, 2016, we had 1,001 full-time employees, 974 of whom were based in China, primarily at our headquarters in Xiamen, with the rest based in Brazil, Hong Kong, India, Indonesia, Japan, Singapore and the United States. We expect to continue to increase our headcount in many of our key target markets as well as in China. The following table sets forth the number of our employees by function as of June 30, 2016:

<b>Function</b>	<b>Number of Employees</b>	<b>% of Total</b>
General administration .....	90	9.0%
Research and development .....	649	64.8%
Operations — smart hardware .....	55	5.5%
Operations — Internet services .....	89	8.9%
Sales and marketing .....	118	11.8%
Total .....	<u>1,001</u>	<u>100.0%</u>

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our retention strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives.

We primarily recruit our employees in China, in particular engineers and technicians, through recruitment agencies, on-campus job fairs and online channels including our corporate website and social networking platforms. We recruit our overseas employees primarily through recruitment agencies or industry referrals. We have adopted a training policy, pursuant to which management, technology and other training are regularly provided to our employees by internally sourced speakers or externally hired consultants. Our employees may also attend external trainings upon their supervisors’ approvals.

As required under PRC regulations, we participate in housing fund and various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

Each of Meitu Mobile, Meitu Networks and Meitu Home has a labor union. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

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### INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws or relevant foreign laws. We do not maintain key-man life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements.

During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors — Risks Relating to Our Business — We have not purchased any insurance to cover our main assets, properties and business and our limited insurance coverage could expose us to significant costs and business disruption” for details.

### PROPERTIES

As of the Latest Practicable Date, we operated our businesses through 33 leased properties in China, Brazil, Hong Kong, India, Indonesia, Japan, Singapore and the United States. Our leased properties in China serve as our offices, research and development centers, and customer service centers, while those in overseas countries serve as our offices. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations. We believe that, given that we have outsourced the manufacturing of our smartphones, and there is sufficient supply of properties in China and the countries and regions in which we have offices, we do not rely on the existing leases for our business operations.

Our leased properties have a total gross floor area of approximately 25,489 square meters, and range from a gross floor area of approximately 11 square meters to 6,454 square meters. The relevant lease agreements have lease expiration dates ranging from November 30, 2016 to October 31, 2021, with renewal options. We are in the process of renewing the lease agreements that expired in November 2016.

As of the Latest Practicable Date, lessors of four of our leased properties in China have not provided us with valid title certificates or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties.

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban Development of the PRC. As of the Latest Practicable Date, out of the 23 properties we leased in China, we had completed two lease registration, and we had not obtained lease registration for the remaining properties, primarily due to the difficulty of procuring our lessors’ cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that such leases are registered. Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC law, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB210,000.

According to Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of June 30, 2016, each of our property interests had a carrying amount below 15% of our consolidated total assets.

### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We engage contract manufacturers to produce our smartphones and we do not operate any production facilities. In addition, we engage third parties to transport and store our finished products. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with

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our legal advisor, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

### LEGAL PROCEEDINGS AND COMPLIANCE

#### Non-Compliance with Requisite License

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. There are no legal, arbitral or administrative proceedings before any court current or pending against, or involving the properties, or the businesses of our Company or to which any of the properties or members of our Company is subject. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of business.

During the Track Record Period and up to the Latest Practicable Date, we have had incidents of non-compliance relating to the operation of *Meipai*. As required by the applicable PRC laws and regulations, any entity that conducts the business of providing Internet audio-visual program services shall hold a License for Transmission of Audio-Visual Programs through Information Network (信息網絡傳播視聽節目許可證) (the “**Audio-Visual License**”). Meipai Technology, a subsidiary of our consolidated affiliated entity, Meitu Networks, operates our *Meipai* business and is required to hold an Audio-Visual License.

Beijing Rongxin Tiancheng Technology Ltd. (“**Rongxin Tiancheng**”), later renamed as Meipai Technology, held an Audio-Visual License. In February 2015, we, through Meitu Networks, our consolidated affiliated entity, acquired Rongxin Tiancheng and changed its name to Beijing Meitu Networks Technology Company (“**Beijing Meitu Networks**”). In March 2016, we changed the name of Beijing Meitu Networks to Meipai Technology, and changed its registered legal address from Beijing to Xiamen. However, under the applicable PRC laws and regulations, we are required to update the Audio-Visual License to reflect any changes in the name and address of its holder and other registration information. As of the Latest Practicable Date, we have made all the requisite regulatory filings for updating the Audio-Visual License to reflect Meipai Technology’s information, and are waiting for the relevant government approvals to complete the update. The maximum penalties for continuing Meipai operations through Meipai Technology prior to the completion of the update of the Audio-Visual License include revocation of the Audio-Visual License and cessation of any related operations.

We, assisted by our PRC Legal Advisor, Jingtian & Gongcheng, conducted an interview with the relevant government authority, the Fujian Provincial Administration of Press, Publication, Radio, Film and Television, in August 2016, who provided confirmation that they had not found any situation where Meipai Technology would be fined or received any regulatory actions due to any violation of the laws and regulations up to the time of the interview. According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) by the State Administration of Radio, Film and Television and the Ministry of Information Industry and relevant PRC laws, the competent departments of radio, film and television under the local governments shall exercise supervision and management over internet audio-visual program service entities within their respective administrative region. Our PRC Legal Advisor, Jingtian & Gongcheng, has advised us that, based on these communications with the Fujian Provincial Administration of Press, Publication, Radio, Film and Television, the chance of us receiving fines, regulatory actions or penalties because of the above incident is remote. Our PRC Legal Advisor is of the view that the Fujian Provincial Administration of Press, Publication, Radio, Film and Television is the competent authority to provide the aforementioned confirmation. Our Directors are of the view that the above non-compliance incident did not and will not have a material adverse effect on our business, financial condition or results of operations.

We have engaged an independent internal control consultant to review our internal control measures and make recommendations. Among other things, our internal control consultant reviewed our license update and

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renewal procedures. Based on the recommendations of our internal control consultant, we have implemented enhanced procedures, including proper documentation and more efficient internal approval process for license updates and renewals. In addition, our Directors believe that we have established adequate internal control measures to ensure that we will be able to obtain and maintain all the material government filings, approval and permits required for our business operation. Such measures include:

- establishing an audit committee comprising independent non-executive Directors to supervise our internal control systems;
- our legal department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any updates to applicable laws and regulations;
- we will retain external legal advisor(s) to advise on compliance matters when necessary; and
- developing additional measures, including implementation of internal policies and provision of training programs to the relevant personnel.

### **Views of Our Directors and Joint Sponsors on Non-Compliance**

Our Directors take the view that no non-compliance incidents had a material adverse effect on our business, financial condition or results of operations during the Track Record Period. We have adopted internal control measures to prevent future non-compliance. The Joint Sponsors concur with the Directors' view that no non-compliance incidents had a material adverse effect on our business, financial condition or results of operations during the Track Record Period, having considered the implementation of the enhanced internal policies and measures by us.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources and investment management.

#### **Financial Reporting Risk Management**

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and financial department and staff management policies. We have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures. We also provide regular training to our financial department staff to ensure that they understand our accounting policies.

As of June 30, 2016 our finance department consisted of 22 employees. It is headed by our vice president of finance, who has more than 15 years of experience in financial reporting.

#### **Information System Risk Management**

Sufficient maintenance, storage and protection of user data and other related information is critical to our success as an app developer and game publisher. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

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As of June 30, 2016, our IT operation and maintenance department consisted of 26 employees. It is responsible for ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations. The head of our information technology department has over 10 years of experience in the area, and each of our information technology managers has more than five years of relevant experience. We provide regular trainings to our information technology team and hold weekly meetings to review our information technology operations and discuss any issues or necessary updates.

Our user data protection procedure is set forth in our *Data Back-up Management Manual and Information Security Management Policy*. We collect, use and store our user data in a centralized data center, and back-up such data on a daily basis in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also conduct frequent reviews of our data center and back-up systems to ensure that they function properly and are well maintained.

In addition, we implemented a set of *Information System Internal Control Management Procedures* to mitigate the risks involved in the management of our day-to-day operation data and information. Procedures such as regular system check, password policy, user authorization review and approval and data back-up, as well as data recovery test, are adopted to safeguard our information assets and ensure the proper management of our operational data.

We also implemented a set of system development and change management policy to mitigate the risks of improper system changes. We have established control measurements during the system development life cycle and used the version control policy to ensure that all the changes to the system are tested and only the latest approved system version will be implemented in our IT system's production environment.

### **Internal Control Risk Management**

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations.

In accordance with these procedures, our in-house legal department, which consists of eight employees with an average of five years of experience in internal control, performs the basic function of reviewing and updating the form of contracts we enter into with our users, distribution channels and suppliers. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

We also have in place detailed internal procedures to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

For IP related issues, we have devoted and specialized outside IP legal advisors, in addition to our in-house legal department, to assist us in registering, and applying and reviewing the relevant patent and trademark rights of our IPs.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

### **Human Resources Risk Management**

We provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior



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employees or outside consultants on topics of interest that employees can vote on. The training center, run by senior management members, schedules regular trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. Through these trainings, we ensure that our staff's skill sets remain up-to-date and enable them to discover and meet our customers' needs.

We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud-prevention mechanism, negligence and corruption. We provide employees with regular trainings and resources to explain the guidelines contained in the employee handbook.

We also have in place an Anti-Corruption Policy to safeguard against any corruption within our Company. The policy explains potential corruption conducts and our anti-corruption measures. We make our internal reporting channel open and available for our staff to report any corruption acts, and our staff can also make anonymous reports to our internal audit department. Our internal audit department is responsible for investigating the reported incidents and taking appropriate measures.

### **Investment Risk Management**

Our investment strategy is 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, 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.

We set up an annual investment plan in line with our business strategies with inputs from various business departments. An investment budget is set up based on our overall financial conditions every year.

We generally intend to hold our investment for the long term with an expectation to realize our investment through initial public offerings of our investee companies. Our investments are generally made in the form of preferred shares (in the case of companies incorporated outside China) or ordinary shares with preference rights (in the case of companies incorporated in China). In order to manage the potential risks associated with investments, we generally request our investee companies to grant us all or some of the following rights:

- rights to appoint directors;
- veto rights in board and shareholder meetings on significant matters;
- information rights;
- liquidation preference;
- redemption rights;
- anti-dilution rights;
- pre-emptive rights;
- rights of first refusal and co-sale rights;
- sale transfer restriction on founders of investee companies; and
- restriction on the timing and minimum market capitalization of their initial public offerings

Depending on our discussions with the investee companies, we may not be granted all of the rights requested.

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Our corporate finance and strategy department is responsible for investment project sourcing, screening, execution and post-investment risk management. The department sources investment projects in accordance with our investment strategy, and preliminarily assesses the risks and potential of the investment projects. Once target companies are identified, the department will present them to our investment committee (members consisted of Chairman, Chief Executive Officer, Chief Financial Officer and head of the corporate finance and strategy department) for preliminary approval. After obtaining the preliminary approval, the department then drafts and issues term sheets, which set out the principal investment terms including, among other things, investment amount, percentage of shares to be acquired and preference rights, to the target companies. Once the term sheets are mutually agreed by the target companies and us after discussion, the department will conduct legal, business, financial and operational due diligence on the target companies, and draft investment agreements based on the agreed term sheets. Members of the investment committee will discuss the results of due diligence and the risks involved in the investment in the target companies. Our investment committee will grant execution approval if there are no additional risks identified that will adversely affect the prospects of the target companies during the due diligence process. Any proposed investment will be submitted to our Board for approval if the investment amount involved exceeds the threshold determined by our Board.

In addition, our corporate finance and strategy department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and provide recommendations on measures to reduce any risks involved in each investment project, and must report to the head of the department and then to our investment committee if there is any material change to the financial position of an investment.

### **Audit Committee Experience and Qualification and Board Oversight**

We have established an audit committee to monitor the implementation of our risk management policies across the Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Mr. Zhou Hao, Mr. Ko Chun Shun Johnson and Dr. Guo Yihong. Mr. Zhou and Mr. Ko are independent non-executive Directors and Dr. Guo is a non-executive Director. Mr. Zhou Hao is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see “Directors and Senior Management — Directors”.

We also maintain an internal audit department which is responsible for preparing and implementing risk management policies, reviewing the effectiveness of such polices and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

### **Ongoing Measures to Monitor the Implementation of Risk Management Policies**

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

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### LICENSES AND PERMITS

Our Directors, as advised by our PRC Legal Advisor, confirm that as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China, except as disclosed in this prospectus. The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
Registration Certificate of Customs Declaration Entities (海關報關單位註冊登記證書)	Meitu Mobile	September 9, 2014	Not applicable	Registration certificate for customs declaration
China Compulsory Certifications (中國國家強制性產品認證證書)	Meitu Mobile	Ranging from May 20, 2015 to November 17, 2016	Ranging from May 13, 2020 to September 12, 2021	Certificate for the manufacture, sales and export of smartphones
Radio Transmission Equipment Type Approval Certifications (無線電發射設備型號核准證)	Meitu Mobile	Ranging from September 10, 2013 to November 7, 2016	Ranging from September 9, 2018 to November 6, 2021	Certificate for the sale of radio transmission equipment such as smartphones
Network Access License for Telecommunications Equipments (電信設備進網許可證)	Meitu Mobile	Ranging from February 11, 2014 to November 15, 2016	Ranging from February 11, 2017 to November 15, 2019	License for the access and use of public telecommunications networks using smartphones
Registration Certificate of Customs Declaration Entities (海關報關單位註冊登記證書)	Meitu Networks	September 5, 2016	Not applicable	Registration certificate for customs declaration
Value-added Telecommunication Business License (增值電信業務經營許可證)	Meitu Networks	March 14, 2016	June 6, 2019	License for providing information services via the Internet and mobile networks
Value-added Telecommunication Business License (增值電信業務經營許可證)	Meitu Networks	September 29, 2016	September 29, 2021	License for providing domestic multi-party communication services, call center services and information services
Online Culture Operating License (網絡文化經營許可證)	Meitu Networks	June 28, 2016	August 19, 2018	License for operation of online games

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License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
Value-added Telecommunication Business License (增值電信業務經營許可證)	Meipai Technology	August 8, 2016	August 8, 2021	License for providing information services via the Internet and mobile networks
Online Culture Operating License (網絡文化經營許可證)	Meipai Technology	August 16, 2016	August 9, 2019	License for operating Internet cultural business
License for Transmission of Audio-Visual Programs through Information Network (信息網絡傳播視聽節目許可證) <sup>(1)</sup>	Meipai Technology	October 21, 2014	October 21, 2017	License for online audio-visual program service

*Note:*

(1) Meipai Technology is in the process of updating the License for Transmission of Audio-Visual Programs through Information Network. For details, see “— Legal Proceedings and Compliance — Non-Compliance with Requisite License”.

## AWARDS AND RECOGNITION

During the Track Record Period, we have received recognition for the quality and popularity of our products. Some of the significant awards and recognition we have received are set forth below.

Award/Recognition	Award Year	Awarding Institution/Authority	Entity/Product
2012 Top 10 China Internet Technology Innovation Award	2013	Internet Society of China	<i>Meitu</i>
2012 Photography App of the Year Award Company of the Year 2014	2013	POnline.com	<i>Meitu</i>
	2014	Golden Eagle Internet Festival	Meitu Networks
Best Innovation Companies Top 50 of 2014	2014	Fast Company	Meitu
Excellent Photo Apps of China of the Year	2015	Baidu Mobile	<i>Meitu</i> and <i>Meipai</i>
Internet Service with the Highest Market Penetration of 2014	2015	Global Times	<i>Meipai</i>
Top 10 China Copyright Owner	2015	Copyright Protection Center of China	Meitu Home of China
Tencent Top 10 Popular Apps	2015	Tencent	<i>Meipai</i>
Xiamen Siming District Science and Technology Innovation Award — First Prize	2015	Government of Xiamen Siming District	<i>BeautyCam</i>
Best Business Partner Award — Social Media Platform “Beauty” Award of Global Tech Appraisal 2015	2015	Semk Products	Meitu Home
	2016	Huanqiu.com	Meitu Smartphones V4 Model
Tencent Most Popular App Award 2015	2016	Tencent	<i>BeautyCam</i>

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## CONTRACTUAL ARRANGEMENTS

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### Background

We develop and operate mobile apps in the PRC, through which we derive income from online advertising and sales of virtual items on *Meipai*, our video community app. We also provide audio-visual program services to the public through *Meipai* and cooperate with Forgame for the operation of our mobile game, *Beauty Box* (美美小店) through which we derive mobile game revenue. The operation of mobile apps, provision of online audio-visual program services and operation of mobile games are subject to foreign investment restrictions under PRC law.

Our PRC Operating Entities in the Group are currently Meitu Networks and its subsidiaries, each of which was incorporated under PRC laws. Historically, certain of our business operations in the PRC were conducted through Meitu Networks and Meitu Mobile. In late 2013, we effected a series of changes with a view to consolidate our interests in Meitu Networks and Meitu Mobile and attract further investments to support our growing business. On October 14, 2013, Meitu HK, our wholly-owned Hong Kong subsidiary, established Meitu Home as a wholly foreign-owned enterprise in the PRC. On December 10, 2013, we entered into separate sets of contractual arrangements with Meitu Mobile and Meitu Networks (and their respective equity holders), respectively. The effect of these Old Contractual Arrangements was to consolidate the operations and the financial results of Meitu Mobile and Meitu Networks with those of our Group. On July 28, 2014, Meitu Mobile was acquired by Meitu HK as part of the reorganization, as its business was not subject to any foreign investment restrictions under applicable PRC laws and, as a result, the Old Contractual Arrangements ceased to have effect with respect to Meitu Mobile. Please refer to “History, Reorganization and Corporate Structure — Background relating to the Old Contractual Arrangements” for further details.

Since certain of our businesses are subject to foreign investment restrictions (as set out in further detail below), to comply with the relevant PRC laws, our mobile app, online advertising, audio-video and mobile game businesses through *Meipai* are directly operated by Meitu Networks and its subsidiaries. Meitu Networks and its subsidiaries generate online advertising, mobile game and *Meipai* IVAS revenue from our apps and mobile games. Online advertising, mobile game and *Meipai* IVAS revenue are our major revenue sources relating to the operations of our apps and mobile game and are part of the mobile app, online advertising and mobile game business we operate through Meitu Networks and its subsidiaries. Meitu Home, our indirectly wholly-owned subsidiary, in turn provides services to support the business operations of Meitu Networks and its subsidiaries and derives the economic benefits from such business operations. Meitu Networks and its subsidiaries hold the requisite PRC permits, licenses and approvals for operating mobile games, online advertising and provision of audio-visual program services through *Meipai*. Our major trademarks and domain names are held by Meitu Networks and its subsidiaries. Meitu Networks has obtained the Online Cultural Operating License for operating its online game from MOC’s local counterparts. In addition, Meitu Networks and its subsidiaries hold certain licenses and permits that are essential to the operation of our business, such as the ICP License, the Online Cultural Operating License and the License for Transmission of Audio-Visual Programs through Information Network. For more information, see the section headed “Business — Licenses and Permits”.

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “**Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). As confirmed by our PRC Legal Advisor, according to the Catalog:

- the operation of our mobile apps and website falls into the value-added telecommunications services business and is considered “restricted”. While general advertising business does not strictly fall under the “restricted” category, as our advertising business (i) is conducted online through our apps and websites and therefore involves a provision of Internet information service under the PRC laws, the operation of which necessitates an ICP Licence being obtained; and (ii) is fully integrated into and forms an inseparable part of our mobile apps business, which is subject to foreign restrictions under the PRC laws, our advertising business is therefore regarded as a “restricted” business.

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## CONTRACTUAL ARRANGEMENTS

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- the following businesses fall into the Internet cultural services business and are considered “prohibited”:
  - operation of mobile games; and
  - audio-visual program services to the public through our *Meipai* website and app.(collectively, the “**Relevant Businesses**”)

Although (i) the operation of our apps and websites other than *Beauty Box* and *Meipai* is a provision of Internet information services, which are businesses that foreign investors are “restricted” from holding more than 50% equity interests in a foreign-invested enterprise in accordance with the Catalog, and (ii) advertising is not subject to any foreign investment restrictions under the relevant PRC laws, we operate these businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the following reasons:

1. With respect to the operation of apps and websites by our Group other than *Beauty Box* and *Meipai*, such business involves the provision of Internet information services and therefore requires an ICP License under relevant PRC laws and regulations. These operations are required to be held through Meitu Networks instead of a sino-foreign equity joint venture. According to the consultation with the Xiamen Communications Administration (廈門市通信管理局), which is the department in charge of accepting applications for the operation of Internet information services by a sino-foreign equity joint venture in Xiamen in accordance with the PRC laws and regulations, it had not accepted and will not in the foreseeable future accept any application made by any sino-foreign equity joint venture to operate an Internet information services business and there is no sino-foreign equity joint venture which had successfully obtained ICP Licenses in Xiamen. Our PRC Legal Advisor is of the view that the Xiamen Communications Administration (廈門市通信管理局) is the competent authority to give the relevant confirmation and it is unlikely that the confirmation will be subject to challenge by higher government authorities. Therefore, from the perspective of operating our existing business in a manner that is in compliance with applicable PRC laws and regulations, based on the current policy of the relevant PRC government authorities and as advised by our PRC Legal Advisor, it is not feasible for us to establish a sino-foreign equity joint venture and obtain an ICP License. In addition, foreign investors will need to demonstrate that they have a track record of good performance and operating experience of value-added telecommunications under the Qualification Requirements. The MIIT, as the ultimate authority to approve operation of Internet information services in the PRC by a sino-foreign equity joint venture and issue ICP Licenses to any such enterprise, has not released any document clarifying the specific requirements for the main foreign investor to fulfill the Qualification Requirements, which remains ultimately subject to substantive examination by the MIIT. In practice, as advised by our PRC Legal Advisor, obtaining such approval and ICP License by a sino-foreign equity joint venture is subject to substantial uncertainties as compared to domestic companies.
2. With respect to our advertising business, although advertising is not subject to any foreign investment restrictions under the relevant PRC laws, our online advertising business is operated through an online platform, which, as advised by our PRC Legal Advisor, involves the provision of Internet information services and therefore requires an ICP License under relevant PRC laws and regulations. Since the Xiamen Communications Administration (廈門市通信管理局) has confirmed that it has not and will not in the foreseeable future accept any application for an ICP License made by any sino-foreign equity joint venture or wholly-owned foreign investment entity, and our online advertising business model requires an ICP License under relevant PRC laws and regulations, we are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to apply for an ICP License through a sino-foreign equity joint venture or wholly-owned foreign investment entity structure and we are therefore required to carry out our online advertising business through the Contractual Arrangements.

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our apps and websites (other than *Beauty Box* and *Meipai*) and our online advertising business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for ICP Licenses



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made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

As disclosed in the section headed “Business – E-commerce Marketplace”, we are currently developing an e-commerce marketplace business but had not commenced such business as of the Latest Practicable Date. We intend not to operate such business through contractual arrangements.

Since some of our Relevant Businesses are classified as “prohibited” under the Catalog and there are no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements (see the paragraph headed “— Qualification Requirements” below for further details), we do not directly own any equity interest in Meitu Networks which is currently 51% and 49% owned by Mr. Wu and Ms. Cai (each a PRC national), respectively (the “**Relevant Shareholders**”).

For further details of the limitations on foreign ownership in PRC companies conducting value-added telecommunications services and Internet cultural services (including operation of mobile games and audio-visual program services to the public through *Meipai*), and the licensing and approval requirements applicable to the Relevant Businesses under PRC laws and regulations, please refer to “Regulations — Regulations Relating to Value-added Telecommunication Services”, “Regulations — Regulations Relating to Internet Audio-visual Program Services” and “Regulations — Regulations Relating to Online Game Operation”.

Accordingly, we cannot hold any direct interest in Meitu Networks and its subsidiaries, which hold certain licenses and permits required for the operation of the Relevant Businesses.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the reorganization, in replacement of the Old Contractual Arrangements, the Contractual Arrangements currently in effect were entered into in December 25, 2015 and amended and restated on August 17, 2016 and further amended and restated on October 12, 2016, whereby Meitu Home has acquired effective control over the financial and operational policies of Meitu Networks and its subsidiaries and has become entitled to all the economic benefits derived from their operations. We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable the Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between Meitu Home and Meitu Networks; (ii) by entering into the Exclusive Business Cooperation Agreement with Meitu Home, which is a PRC subsidiary of the Company, Meitu Networks and its subsidiaries will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose. Please refer to the section headed “History, Reorganization and Corporate Structure” for more details of the Corporate Restructuring.

### Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises 《外商投資電信企業管理規定》 (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document

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required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisor has advised us that as of the Latest Practicable Date, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Meitu Networks when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We are in the process of expanding our overseas value-added telecommunications business through our overseas subsidiaries. We have taken the following measures to meet the Qualification Requirements:

- Meitu HK, our Hong Kong subsidiary, has registered a number of domain names outside of the PRC for display and promotion of Meitu products since July 2014;
- Meitu HK has operated an office in Hong Kong for the promotion of Meitu's app in Hong Kong since June 2014; and
- Meitu Technology and Meitu Technology (US), our United States subsidiaries, have operated two offices in the United States for the localization and marketing of Meitu's app in the United States since January 2015.

Subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, our PRC Legal Advisor is of the view that the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements as the Company has experience in providing value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations and the guidance memorandum.

Our PRC Legal Advisor conducted a consultation with the relevant government authority, being the MIIT, during which it confirmed that steps such as those taken by us above (e.g. establishing overseas offices, holding overseas domain names and conducting operation of websites and other businesses in relation to value-added telecommunication services) are generally deemed to prove that the Qualification Requirements are fulfilled, subject to a substantive examination by the MIIT in accordance with the approval procedures under PRC laws and regulations. We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

On July 13, 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business 《關於加強外商投資經營增值電信業務管理的通知》 (the "MIIT Notice"). The MIIT Notice further strengthened regulation over foreign investment in value-added telecommunication services, including prohibiting domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or requiring domain names and trademarks used by any value-added telecommunication service providers to be held by either the holder of the ICP License or shareholders of such ICP License holder. Furthermore, domestic telecommunication service providers are prohibited from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications businesses in China. If the ICP License holder fails to comply with the requirements in the MIIT Notice and fails to remedy its non-compliance within a specified period of time, the MIIT or its local branches may take measures against such license holder, including revoking its ICP License.

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC Legal

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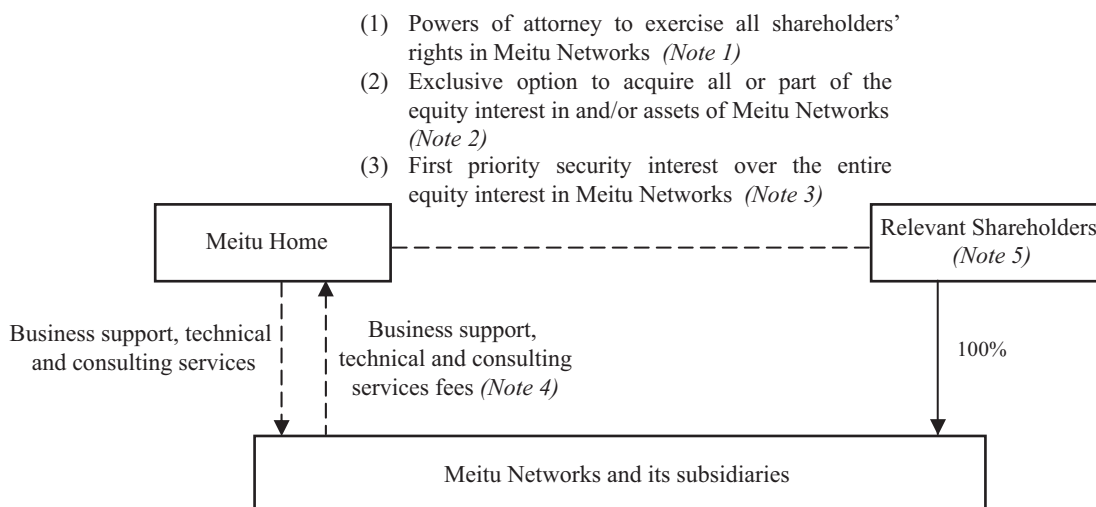
## CONTRACTUAL ARRANGEMENTS

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Advisor, we determined that it was not viable for the Company to hold Meitu Networks and its subsidiaries directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Meitu Networks and its subsidiaries through the Contractual Arrangements between Meitu Home, the Company's wholly-owned subsidiary in the PRC, on the one hand, and Meitu Networks and its respective shareholders, on the other hand. The Contractual Arrangements allow the results of operations and assets and liabilities of Meitu Networks and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were wholly-owned subsidiaries of our Group.

### Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from Meitu Networks and its subsidiaries to our Group stipulated under the Contractual Arrangements:



*Notes:*

- (1) Please refer to “Contractual Arrangements — Powers of Attorney” for details.
- (2) Please refer to “Contractual Arrangements — Exclusive Option Agreement” for details.
- (3) Please refer to “Contractual Arrangements — Share Pledge Agreement” for details.
- (4) Please refer to “Contractual Arrangements — Exclusive Business Cooperation Agreement” for details.
- (5) The Relevant Shareholders are Mr. Wu and Ms. Cai, each a PRC national, holding 51% and 49% shares in Meitu Networks, respectively.  
“——>” denotes direct legal and beneficial ownership in the equity interest and “- - ->” denotes contractual relationship.

### Exclusive Option Agreement

Meitu Networks and the Relevant Shareholders, being Mr. Wu and Ms. Cai, entered into an exclusive option agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the “**Exclusive Option Agreement**”), pursuant to which Meitu Home (or the Company or any subsidiary of the Company, the “**designee**”) was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Meitu Networks all or any part of their equity interests in and/or assets of Meitu Networks for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders and/or Meitu Networks shall return any amount of purchase price they have received to Meitu Home. At Meitu Home's request, the Relevant Shareholders and/or Meitu Networks will promptly and unconditionally transfer their respective equity interests in and/or assets of Meitu Networks to Meitu Home (or its designee) after Meitu Home exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry unless Meitu Home confirms a new renewal term in writing.

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In order to prevent the flow of the assets and value of Meitu Networks and its subsidiaries to the Relevant Shareholders, during the term of the Exclusive Option Agreement, Meitu Networks is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of Meitu Home. In addition, Meitu Networks is not allowed to, and shall procure its subsidiaries not to, make any distributions to its shareholder(s) without the prior written consent of Meitu Home. In the event that the Relevant Shareholders receive any distribution from Meitu Networks and/or its subsidiaries and subject to the PRC laws, the Relevant Shareholders must immediately pay or transfer such distribution to Meitu Home (or its designee). If Meitu Home exercises its purchase right, all or any part of the equity interests in and/or assets of Meitu Networks acquired would be transferred to Meitu Home and the benefits of equity ownership and/or assets, as applicable, would flow to the Company and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of Meitu Home, Meitu Networks shall not, and shall procure its subsidiaries not to, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million; (ii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business and any contracts entered into with any members of the Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of Meitu Networks or not disclosed and consented to by Meitu Home; (v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. The Exclusive Option Agreement provides that the Relevant Shareholders and Meitu Networks shall procure the subsidiaries of Meitu Networks to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Meitu Home and the Company in the event of any loss suffered from Meitu Networks and/or its subsidiaries can be limited to a certain extent. In addition, in relation to the above restrictive provisions specified in the Exclusive Option Agreement, we will aggregate asset disposals or value of contracts if such asset disposals or value of contracts (i) are entered into by the Group with the same party or parties; or (ii) involve the disposal or contracts which relate to the whole or parts of the asset or securities or interests in a company or group of companies.

Our PRC Legal Advisor has advised us that the Exclusive Option Agreement is legal, valid and binding on the parties and is enforceable under applicable PRC laws and regulations, except for the provisions that (i) an arbitral body may grant injunctive relief or directly issue liquidation order against Meitu Networks and its subsidiaries, and (ii) interim remedies or enforcement order may be granted by overseas courts such as the courts of Hong Kong and the Cayman Islands, which may not be enforceable under PRC laws. Since Meitu Networks is not a state-owned enterprise, Meitu Networks is able to enter into contracts with Meitu Home or its designee to provide for the acquisition of the equity interests in and/or assets of Meitu Networks by Meitu Home or its designee for a nominal price or pre-determined amount without being subject to any examination, approval or valuation procedures. In addition, Meitu Home or its designee can exercise its option to purchase the equity interests in and/or assets of Meitu Networks for a nominal price or a pre-determined amount in accordance with the relevant procedures stipulated in the Exclusive Option Agreement.

### *Exclusive Business Cooperation Agreement*

Meitu Networks entered into an exclusive business cooperation agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which Meitu Networks agreed to engage Meitu Home as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to Meitu Home’s adjustment, are equal to all of the net profit of Meitu Networks and its subsidiaries. Meitu Home may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary

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costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Meitu Networks and its subsidiaries from previous financial periods, which will be wired to the designated account of Meitu Home upon issuance of payment notification by Meitu Home. As of June 30, 2016, the accumulated losses of Meitu Networks and its subsidiaries amounted to RMB42.2 million. Meitu Home enjoys all the economic benefits derived from the businesses of Meitu Networks and its subsidiaries and bears Meitu Networks' business risks. If Meitu Networks runs into financial deficit or suffers severe operation difficulties, Meitu Home will provide financial support to Meitu Networks.

In line with the services it provides, Meitu Home currently employs about 500 research and development personnel primarily providing technical services to Meitu Networks, and over 40 personnel with business management experience primarily providing business consultation and other similar services to Meitu Networks. In addition, Meitu Home's primary operating assets are network and IT facilities, equipment, which support its provision of services to Meitu Networks under the Exclusive Business Cooperation Agreement.

The primary obligation of Meitu Home is the provision of services to Meitu Networks. Both Meitu Home and Meitu Networks have control measures in place, which primarily include measures with respect to accounts payables and receivables, which require the review and approval by the relevant department(s) of Meitu Home and Meitu Networks to confirm the services provided by Meitu Home and received by Meitu Networks periodically. Further, to ensure that Meitu Home will not engage in the Relevant Businesses or any other restricted business in the PRC, Meitu Home has set up an internal control procedure, which requires the senior staff members of relevant departments to review the business to be entered into by Meitu Home. In addition, our legal department will review business contracts to be entered into by Meitu Home to ensure compliance with the applicable PRC laws, regulations and rules.

Intellectual property rights are developed during the normal course of business of Meitu Networks and its subsidiaries. Pursuant to the Exclusive Business Cooperation Agreement, Meitu Home has the exclusive and proprietary rights to all intellectual properties developed by Meitu Networks and its subsidiaries, given that Meitu Home provides consultation services to Meitu Networks and its subsidiaries during the term of the Exclusive Cooperation Agreement. Part of the economic benefits generated by Meitu Networks and its subsidiaries will be intellectual properties developed or created during the normal business operation of Meitu Networks and its subsidiaries. The services provided by Meitu Home typically include providing core technical services, such as programming, while Meitu Networks and its subsidiaries execute the ideas and supplement with details, such as art designing and text editing, and intellectual properties are developed in the process. Though we do not intend to transfer any existing intellectual property rights held by Meitu Networks to Meitu Home, Meitu Networks is required under the Contractual Arrangements to obtain Meitu Home's prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party. Our PRC Legal Advisor is of the opinion that (i) such provision relating to the intellectual properties will not result in these agreements being challenged by the relevant government authorities in the PRC; (ii) it is legal for Meitu Networks to hold the intellectual property rights in relation to the Group's business; and (iii) Meitu Networks is in full compliance with the requirements of the Administrative Measures for the Licensing of Telecommunication Business Operations (《電信業務經營許可管理辦法》) and the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》).

The Exclusive Business Cooperation Agreement is for an initial term of ten years and may be extended by Meitu Home for a term determined by Meitu Home.

### *Share Pledge Agreement*

Meitu Networks, the Relevant Shareholders and Meitu Home entered into a share pledge agreement on December 25, 2015, which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Meitu Networks to Meitu Home as



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collateral security for any or all of their payments due to Meitu Home and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Powers of Attorney (as defined below). The Share Pledge Agreement will not terminate until (i) all obligations of Meitu Network and the Relevant Shareholders are satisfied in full; (ii) Meitu Home exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders in Meitu Networks and/or the entire assets of Meitu Networks pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) Meitu Home exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Relevant Shareholders may transfer or permit the encumbrance of any of their equity interests in and assets of Meitu Networks (including any equity interests in and assets of the subsidiaries of Meitu Networks) without Meitu Home's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, Meitu Home is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Meitu Networks, which further strengthens the protection of Meitu Home's interests over Meitu Networks under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to Meitu Home's satisfaction within 30 days upon being notified by Meitu Home, Meitu Home may demand that the Relevant Shareholders and/or Meitu Networks immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to Meitu Home. The pledges under the Share Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

### *Powers of Attorney*

An irrevocable power of attorney was entered into between the Relevant Shareholders, Meitu Home and Meitu Networks on December 25, 2015, which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Powers of Attorney**"), whereby the Relevant Shareholders appointed Meitu Home or a director of its offshore holding company or its/his/her successor (including a liquidator replacing Meitu Home's director) as their exclusive agent and attorney to act on their behalf on all matters concerning Meitu Networks and to exercise all of its rights as a registered shareholder of Meitu Networks. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of Meitu Networks. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Meitu Networks on behalf of the Relevant Shareholders. The Relevant Shareholders have each undertaken to transfer all assets obtained after the winding up of Meitu Networks to Meitu Home at nil consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Powers of Attorney, the Company, through Meitu Home, is able to exercise management control over the activities that most significantly impact the economic performance of Meitu Networks.

The Powers of Attorney also provided that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of Meitu Home or the Company, the power of attorney is granted in favor of other unrelated officers or directors of the Company.

The Powers of Attorney shall automatically terminate once Meitu Home (or any member of the Group other than Meitu Networks and its subsidiaries) directly holds the entire equity interests in and/or the entire assets of Meitu Networks once permitted under the then PRC laws and Meitu Home (or its subsidiaries) is allowed to conduct the Relevant Businesses under the then PRC laws, following which Meitu Home is registered as the sole shareholder of Meitu Networks.

### *Dispute Resolution*

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the



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event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of Meitu Networks, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Meitu Networks; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and other jurisdiction (being the place of domicile of Meitu Networks and where the principal assets of Meitu Networks or Meitu Home are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Meitu Networks.

However, our PRC Legal Advisor has advised that (i) a tribunal normally would not grant such kind of injunctive relief or winding up order of Meitu Networks under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that our PRC Operating Entities, Meitu Networks or the Relevant Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially and adversely affected. Please refer to "Risk Factors — Risks Relating to our Contractual Arrangements" for details.

### *Succession*

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Meitu Home can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Relevant Shareholders shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of equity interest in Meitu Networks, as if the inheritor was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, each of the Relevant Shareholders has undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations, bankruptcy, marriage or divorce, to transfer all of the equity interests, including rights and obligations in Meitu Networks, held by them without consideration to Meitu Home or an individual or legal entity designated by Meitu Home under applicable PRC law.

In addition, the spouse of Mr. Wu executed an irrevocable undertaking on December 25, 2015, which was replaced by the undertaking entered into on August 17, 2016 and amended on October 12, 2016, whereby she expressly and irrevocably acknowledged and has undertaken that (i) any equity interests held by Mr. Wu in Meitu Networks do not fall within the scope of their communal properties; (ii) she will not have any claim on the interests of Meitu Networks obtained through the Contractual Arrangements; (iii) she has never participated and will not participate in the operation or management of Meitu Networks. Ms. Cai is not married and a spousal undertaking is therefore not applicable in the case of Ms. Cai.

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Based on the foregoing, our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders would not affect the validity of the Contractual Arrangements, and Meitu Home can enforce its rights under the Contractual Arrangements against the successors of such shareholders.

### *Arrangements to Address Potential Conflicts of Interests*

The Relevant Shareholders have undertaken that, during the period that the Contractual Arrangements remain effective,

- (i) (a) they shall not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into by Meitu Home or Meitu Networks, (b) they shall not commit or refrain from committing any act that may lead to any conflicts of interests between the Relevant Shareholders and Meitu Home (including its shareholders) and (c) in the event of the occurrence of a conflict of interests (where Meitu Home has the sole absolute discretion to determine whether such conflict arises), they shall take appropriate measures upon the consent of Meitu Home and its designee to eliminate such conflicts, failing which Meitu Home has the right to exercise the option under the Exclusive Option Agreement; and;
- (ii) unless otherwise agreed to by Meitu Home in writing, they will not (a) directly or indirectly participate or engage in any business which is or may potentially be in competition with the businesses of Meitu Networks or any of its subsidiaries, (b) be employed by an entity whose operation is or may potentially be in competition with the businesses of Meitu Networks or any of its subsidiaries or hold interest in or assets of such entities, save that ownership of an equity interest of up to 5% is permitted, where Meitu Home has the sole absolute discretion to determine whether such conflict arises.

The Powers of Attorney also provide that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of Meitu Home or the Company, the power of attorney is granted in favor of other unrelated officers or directors of the Company.

### *Loss Sharing*

None of the agreements constituting the Contractual Arrangements provides that the Company or its wholly-owned PRC subsidiary, Meitu Home, is obligated to share the losses of Meitu Networks, but if Meitu Networks suffers any losses or material difficulties of business, Meitu Home may provide financial support as permitted under PRC laws at its discretion to Meitu Networks under the terms of the Exclusive Business Cooperation Agreement. Further, Meitu Networks is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, the Company or Meitu Home is not expressly required to share the losses of Meitu Networks or provide financial support to Meitu Networks. Despite the foregoing, given that the Group conducts the Relevant Businesses in the PRC through Meitu Networks and its subsidiaries which hold the requisite PRC licenses and approvals, and that Meitu Networks' results of operations and assets and liabilities are consolidated into the Group's results of operations and assets and liabilities under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if Meitu Networks and its subsidiaries suffered losses.

### *Liquidation*

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, Meitu Networks shall sell all of its assets to the extent permitted by PRC laws to Meitu Home or another qualifying entity designated by Meitu Home, at the lowest selling price permitted by applicable PRC laws. Any obligation for Meitu Home to pay Meitu Networks as a result of such transaction shall be waived by Meitu Networks and any profits arising from the above transaction shall be paid to Meitu Home or the qualifying entity designated by Meitu Home in partial satisfaction of the service fees under the Exclusive Option Agreement, as

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applicable under the then current PRC laws. Accordingly, in a winding up of Meitu Networks, a liquidator may seize the assets of Meitu Networks through Meitu Home based on the Contractual Arrangements for the benefit of the Company's creditors/shareholders.

### *Termination*

Each of the Contractual Arrangements provides that Meitu Home and Meitu Networks shall terminate the Contractual Arrangements once Meitu Home holds the entire equity interests and/or the entire assets of Meitu Networks under the then PRC laws and if Meitu Home or its subsidiaries are able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and Meitu Home is registered as the sole shareholder of Meitu Networks. In addition, pursuant to the Exclusive Business Cooperation Agreement, Meitu Home has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to Meitu Networks.

### *Insurance*

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### *Company's Confirmation*

As of the Latest Practicable Date, the Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Meitu Networks and its subsidiaries under the Contractual Arrangements.

### **Legality of the Contractual Arrangements**

Meitu Home's right to deal with the pledged equity interest in Meitu Networks under the Share Pledge Agreement and its option to acquire the equity interest in and/or the assets of Meitu Networks under the Exclusive Option Agreement are confined to be carried out in a manner as permitted by the relevant PRC laws. Further, the pledges created under the Share Pledge Agreement shall only become effective upon its due registration with the relevant Administration for Industry and Commerce of the PRC. Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our PRC Legal Advisor is also of the opinion that:

- (i) each of Meitu Home and Meitu Networks is an independent legal entity which is duly incorporated, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of Meitu Home and Meitu Networks has also obtained necessary approvals and completed registration procedures as required by the applicable PRC laws and regulations;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;
- (iii) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of Meitu Home, Meitu Networks and its subsidiaries;
- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the pledges under the Share Pledge Agreement is required to be registered with the relevant Administration of Industry and Commerce, which has been duly completed on February 3, 2016;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Meitu Networks, injunctive relief and/or winding up of Meitu Networks, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the

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arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Meitu Networks in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and

- (vi) the consummation of the contemplated listing of the Company's shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》, which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006 and amended on June 22, 2009.

Notwithstanding the foregoing, the Joint Sponsors, our PRC Legal Advisor, and the Joint Sponsors' PRC legal advisor, Global Law Office, conducted an interview with the Fujian Provincial Department of Culture (福建省文化廳) on August 5, 2016 and an interview with the Fujian Communications Administration (福建省通信管理局) on August 8, 2016, an interview with the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局) on August 5, 2016, respectively, and all of them being competent government authorities provided oral confirmation that the Contractual Arrangements would not be challenged or subject to penalty due to violation of any PRC laws or regulations concerning online game operations, value-added telecommunications services and Internet audio-visual program services.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, the State Administration of Radio Film and Television ("SARFT") and the General Administration of Press, Publication, Radio, Film and Television of the PRC ("GAPP") 《中央編辦對文化部、廣電總局、新聞出版總署("三定"規定)中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》 (the "Interpretation") issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from September 7, 2009, the MOC is the competent government authority for the administration of online games in the PRC. According to the Interim Administrative Provisions on Internet Culture (2011) 《互聯網文化管理暫行規定》, provincial governmental authorities shall be responsible for approval of applications made by any entities engaged in the business of operational Internet culture. As confirmed by our PRC Legal Advisor based on the interpretation and interview with the Fujian Provincial Department of Culture (福建省文化廳) and the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局), the Fujian Provincial Department of Culture (福建省文化廳) is responsible for the review, approval and issuance of the Online Cultural Operating License and the general administration of mobile game companies after an online game is launched on the Internet or through mobile networks in Fujian Province.

On September 28, 2009, the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued the Notice Regarding the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games 《關於貫徹落實國務院<"三定"規定>和中央編辦有關解釋,進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》 (the "GAPP Notice"). Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Our PRC Legal Advisor, and the Joint Sponsors' PRC legal Advisor, Global Law Office, interviewed the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局) and the Fujian Provincial Department of Culture (福建省文化廳), on August 5,

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2016 with respect to the GAPP Notice and its implementation status. According to such interview, (i) the GAPP is authorized to review and approve publication of online games before launch on the Internet, while the MOC is authorized to administer and regulate the overall online gaming industry; (ii) in practice, the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局) and the Fujian Provincial Department of Culture (福建省文化廳) had never, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties on any online game company which adopt contractual arrangements similar to the Contractual Arrangements; (iii) the Fujian Provincial Department of Culture (福建省文化廳) which has the regulatory authority to regulate the online game operation after an online game was launched in Fujian, is of the view that our Contractual Arrangements do not subject us to any penalties due to violation of the relevant PRC laws and regulations.

Based on the interview above, our PRC Legal Advisor, is of the view that the adoption of the Contractual Arrangements does not constitute a breach or violation of the PRC laws or that the Contractual Arrangements will not be deemed ineffective or invalid under the GAPP Notice based on the interviews with of the government authorities competent to regulate the online game operation and online audio-visual program services in the PRC and will not result in any administrative proceedings or penalties on us based on the following reasons:

- (i) the Fujian Provincial Department of Culture (福建省文化廳), as the main regulatory authority to regulate the online game operation after an online game was launched in Fujian, confirmed that they have no objection to our Contractual Arrangements and that our Contractual Arrangements do not violate any PRC laws or regulations;
- (ii) the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局), as the main regulatory authority to regulate the online audio-visual program services in Fujian, does not show any objection to the Contractual Arrangements; and
- (iii) the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局) and the Fujian Provincial Department of Culture (福建省文化廳) also confirmed during the interview that it has not come to their attention that our mobile game operations and audio-visual program services in the PRC have been subject to any administrative proceedings or penalties for violation of relevant PRC laws and regulatory requirements and it has not imposed any administrative proceedings or penalties on contractual arrangements similar to the Contractual Arrangements.

Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements — If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations”.

In addition, our PRC Legal Advisor, the Joint Sponsors, and the Joint Sponsors’ PRC legal advisor, Global Law Office, interviewed the Fujian Communications Administration (福建省通信管理局) in respect of our Contractual Arrangements, according to which, such administration confirmed that: (i) it does not regulate the execution and performance of the Contractual Arrangements; and (ii) the Contractual Arrangements do not contradict with the regulatory requirements of such administration. According to the Administrative Measures on Internet Information Service (《互聯網信息服務管理辦法》) and relevant laws and regulations, provincial governmental authorities shall approve and issue Value-added Telecommunication Business License to the entities engaging in operational Internet Information Service and have the power to supervise and regulate such business. Our PRC Legal Advisor is of the view that the Fujian Communications Administration is the competent authority to regulate value-added telecommunications services and to give such confirmation.

Based on the above analysis and advice from our PRC Legal Advisor, the Directors are of the view that the Contractual Arrangements are not likely to be challenged by the relevant authorities in the PRC. The PRC Legal Advisor is of the view that the Fujian Provincial Department of Culture (福建省文化廳), the Fujian Communications Administration (福建省通信管理局), the Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電(版權)局) and the personnel consulted in the interview are



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competent and authorized to interpret the relevant laws, regulations and rules of the PRC for the industry in which the Company operates its business and make the abovementioned oral confirmation. We are also advised by our PRC Legal Advisor that (i) the transfer of economic benefits from Meitu Networks to Meitu Home and the pledging of the entire equity interest in Meitu Networks to Meitu Home under the Contractual Arrangements would not be deemed a violation of the relevant PRC laws and regulations; and (ii) the Contractual Arrangements will not likely to be challenged by the PRC tax authorities or other government authorities, provided that Meitu Home and Meitu Networks implement the Contractual Arrangements in accordance with the terms therein, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis. Please refer to "Risk Factors — Risks Relating to Our Contractual Arrangements — Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment".

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for shareholders of Meitu Networks under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Section 52 of the PRC Contract law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable Meitu Networks to transfer its economic benefits to Meitu Home as service fees for engaging Meitu Home as its exclusive service provider and (b) to ensure that the Relevant Shareholders do not take any actions that are contrary to the interests of Meitu Home. In accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of Meitu Networks, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

Please refer to "Business — Legal Proceedings and Compliance" for details of the compliance history of our Group.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions" in this prospectus.



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### Development in the PRC Legislation on Foreign Investment

#### *Draft new Foreign Investment Law*

MOFCOM published a discussion draft of a proposed Foreign Investment Law (中華人民共和國外國投資法) (the “**Draft FIL**”) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the entire legal framework regulating foreign investment in China.

Among other things, the Draft FIL purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or foreign invested entity (“**FIE**”).

The Draft FIL stipulates restrictions of foreign investment in certain industry sectors. The “negative list” set out in the Draft FIL classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfill certain conditions and apply for permission before making such investment.

However, the Draft FIL does not specify the businesses to be included in the Catalog of Restrictions and the Catalog of Prohibitions.

The Draft FIL specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the Draft FIL to cover any of the following categories:

- directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:
  - (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies,
  - (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or
  - (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

In respect of “actual control”, the Draft FIL looks at the identity of the ultimate natural person or enterprise that controls the FIE. “Actual control” refers to the power or position to control an enterprise through investment

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arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft FIL defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The “variable interest entity” structure (the “**VIE structure**”), has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control over Meitu Networks by Meitu Home, through which we operate the Relevant Businesses in the PRC. According to the Draft FIL, where the FIE under the actual control of PRC investors (either by way of PRC state-owned enterprises or agencies or PRC citizens) invests in a sector set out in the Catalog of Restriction, when applying for access permission (准入許可) they may submit documentary evidence to apply for identification as an investment by PRC entities and/or citizens. However, our PRC Legal Advisor is of the view that the Contractual Arrangements will be deemed legitimate and effective if the ultimate controlling person(s) is/are of PRC nationality or they take other measures as required by the foreign investment law then in force. Despite the content and the classification of the categories in the “negative list” being unclear and unpredictable at this stage, we will take any reasonable measures and actions under the foreign investment law then in force to minimize the adverse effect of such laws on the Contractual Arrangements.

The Draft FIL has not been enacted and our Contractual Arrangements were established before the enactment of the Draft FIL. Notwithstanding that the accompanying explanatory notes to the Draft FIL (the “**Explanatory Notes**”) do not provide a clear direction in dealing with VIE structures existing before the Draft FIL becomes effective, which (together with the Draft FIL) were still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling in the “negative list:”

- (i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;
- (ii) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and
- (iii) requiring them to apply to the competent authority for access permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, while for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft FIL and the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The Draft FIL also stipulates that investors from Hong Kong, Macau and Taiwan who control a domestic enterprise may attract special treatment and recommends the State Council to separately issue regulations to this effect.

Where foreign investors and FIEs circumvent the provisions of the Draft FIL by entrusted holdings, trusts, multi-level re-investments, leasing, contracting, financing arrangements, protocol control, overseas transactions or otherwise, make investments in sectors specified in the Catalog of Prohibitions, make investments in sectors

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specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft FIL, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft FIL, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

As at the Latest Practicable Date, there is no definite timeline when the new Foreign Investment Law will come into effect, and more importantly, whether it is to be promulgated in the current draft form, and MOFCOM has neither issued any definite rules or regulations to govern existing contractual arrangements, nor any regulations concerning the treatment of investors from Hong Kong, Macau and Taiwan who control a domestic enterprise.

### ***Potential impact to our Company if the Contractual Arrangements are not treated as domestic investment***

According to the Draft FIL, “actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Under the Draft FIL if an entity is organized in a foreign jurisdiction but cleared by the relevant PRC government authority in charge of foreign investment in the PRC as “controlled” by PRC citizens, it would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. If the Draft FIL is promulgated in the current draft form, our PRC Legal Advisor is of the view that we can apply for the recognition of the Contractual Arrangements as a domestic investment and it is likely that the Contractual Arrangements will be considered as legal on the following basis:

- (i) one of our Controlling Shareholder, Mr. Wu, is of Chinese nationality;
- (ii) as confirmed in the Concert Party Agreement entered into by the Concert Group, since the inception of the Company at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group, Mr. Wu as a founder, executive Director and Chief Executive Officer of the Company, Mr. Cai as a founder, executive Director and Chairman of the Company and Ms. Wang have always jointly effected their management and control of the Company as a unit and they have made decisions jointly and consistently and have always voted unanimously at all Board meetings and Shareholder meetings (as applicable), with Mr. Wu exhibiting the greatest degree of control over the direction of their votes given his more active role in the day-to-day management of the Company as Chief Executive Officer;
- (iii) under the Concert Party Agreement and consistent with practice since the Company’s inception, if Mr. Wu and Mr. Cai are unable to reach unanimous consensus at Board meetings and Shareholder meetings (as applicable), Mr. Wu will determine how Mr. Wu and Mr. Cai will vote;

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## CONTRACTUAL ARRANGEMENTS

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- (iv) Mr. Wu and Mr. Cai are, in aggregate, by far the single largest Shareholder, and are able to exercise decisive influence over the management of the Company, and will indirectly hold an aggregate of 39.43% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme);
- (v) given that Mr. Wu and Mr. Cai will in aggregate remain as the single largest Shareholder of the Company and no other Shareholders are expected to own 10% or more of the Company's issued share capital immediately upon completion of the Global Offering, Mr. Wu (as the individual with the ability to determine how the Concert Group exercises its voting rights) is, and will be, capable of exerting material influence at Board meetings and Shareholders meetings (as applicable) of the Company despite the Concert Group owning less than 50% of the voting rights of the Company, and is therefore the "actual controller" of the Company; and
- (vi) our Company, through Meitu Home, exercises effective control over Meitu Networks and its subsidiaries pursuant to the Contractual Arrangements.

Based on the foregoing, given that Mr. Wu (a PRC national) is, and will be, capable of exerting material influence at Board meetings and Shareholders meetings (as applicable) of the Company by determining how Mr. Cai will vote in the event that Mr. Wu and Mr. Cai are unable to reach consensus pursuant to the Concert Party Agreement, the PRC Legal Advisor is of the view, and the Joint Sponsors concur, that the Company is considered to be ultimately "controlled" by a PRC investor (i.e. Mr. Wu) under the Draft FIL, despite the fact that Mr. Wu alone is only interested in 13.40% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) and Mr. Cai (being one of the parties to the Concert Party Agreement) is not a PRC national.

If the operation of the Relevant Businesses is no longer on the "negative list" and we can legally operate the Relevant Businesses under PRC Laws, Meitu Home will exercise the call option under the Exclusive Option Agreement to acquire the equity interest and/or assets of Meitu Networks and unwind the Contractual Arrangements subject to any then applicable approvals from relevant authorities.

If the operation of the Relevant Businesses is on the "negative list" and the Draft FIL as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Relevant Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of Meitu Networks and its subsidiaries. As a result, the financial results of Meitu Networks and its subsidiaries would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If the Group does not receive any compensation, an investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the apps and game industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the Draft FIL is promulgated, that the relevant authorities will apply it retrospectively to require relevant enterprises to remove or otherwise unwind their contractual arrangements.

However, there are uncertainties as to the definition of control that may be adopted in the Draft FIL as finally enacted, and the relevant government authorities will have a broad discretion in interpreting the law. Please refer to "Risk Factors — Risks relating to our Contractual Arrangements" for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

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### *Potential measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities*

As mentioned above, our PRC Legal Advisor is of the view that the Contractual Arrangements are to be deemed as a domestic investment if the Draft FIL were to become effective in its current form and content.

The PRC Legal Advisor and the Joint Sponsors conducted an interview with the Xiamen Municipal Bureau of Commerce (廈門市商務局) on September 21, 2016, which confirmed as follows:

- (i) the Draft FIL does not currently have any legal effect and Xiamen Municipal Bureau of Commerce (廈門市商務局) will not supervise Foreign Invested Entities (FIEs) according to the Draft FIL in practice before the Foreign Investment Law is officially promulgated and takes effect;
- (ii) prior to the Foreign Investment Law being officially promulgated and takes effect, FIEs shall comply with current PRC laws and regulations regarding their establishment and any subsequent changes; and
- (iii) if FIEs have already complied with current PRC laws, Xiamen Municipal Bureau of Commerce (廈門市商務局) will not require them to make any form of undertaking, including with respect to the nationality of the actual controlling shareholders of FIEs, or to take any specific measures in accordance with the Draft FIL.

To ensure the Contractual Arrangements are likely to continue to be in compliance with applicable PRC laws and Stock Exchange requirements so that our Group can maintain control over Meitu Networks and its subsidiaries and receive all economic benefits derived from them, Mr. Wu (as the person exhibiting the greatest degree of control over the direction of the votes of the Concert Group as confirmed by the Concert Party Agreement) and Mr. Cai have given, jointly and severally, an undertaking (the “**Undertaking**”) to our Company, and our Company has agreed with the Stock Exchange to enforce such Undertaking, that during the subsistence of the Contractual Arrangements, they will use their best efforts to do and procure our Company and Mr. Wu to do all such possible acts that are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of our PRC Operating Entities as a result of any impact due to the promulgation and implementation of the new Foreign Investment Law and other future laws and regulations relating to foreign investment, and in particular the following:

- (i) not terminating the Concert Party Agreement without the prior written consent of our Company;
- (ii) in the case of Mr. Wu, maintaining his Chinese nationality; and
- (iii) in the event of any transfer or disposal by any of them of a shareholding that may result in the transferee(s) acquiring “control” over the Company (as defined in the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be), they will (as may be relevant) (a) procure that the transferee(s) provide an undertaking on substantially the same terms and conditions as the one provided by them to our Company and (b) demonstrate to the reasonable satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will continue to be viewed as a domestic investment under the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be.

The Undertaking will become effective from the date of the listing of our Shares on the Stock Exchange and will remain effective until the earlier of the occurrence of the following events: (i) Mr. Wu, being the person exhibiting the greatest degree of control over the direction of the votes of the Concert Group as confirmed by the Concert Party Agreement, ceasing to be a Controlling Shareholder and actual controller of Meitu Networks or our Company; (ii) compliance with the relevant requirements under the new Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this; (iii) compliance with the Undertaking is no longer required, as advised by the Stock Exchange, or (iv) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination. To the extent that only part of the Undertaking above is no longer required as a result of any of the events in (ii), (iii) or (iv) of the preceding sentence occurring, only such part of the Undertaking that is no longer required shall cease to be effective. To the



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extent that the Undertaking (or any part thereof) is no longer effective, the Company will issue an announcement as soon as practicable.

Taking into account that the Concert Group, acting in concert, can only transfer their interests in our Company in circumstances where the transfer is in compliance with the new Foreign Investment Law as finally enacted, such arrangement will ensure that control of our Company will at all times be in accordance with the requirements of the Foreign Investment Law as finally enacted. For the avoidance of doubt, as advised by our PRC Legal Advisor, there are no restrictions under the current PRC laws and regulations for the Concert Group, acting in concert, to transfer their interests in our Company.

As advised by our PRC Legal Advisor and based on the aforesaid undertakings given by Mr. Wu and Mr. Cai, our Directors are of the view that (i) the Contractual Arrangements are likely to continue to be in compliance with applicable PRC laws; and (ii) our Group can maintain control over Meitu Networks and its subsidiaries and receive all economic benefits derived from them.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefits from Meitu Networks and its subsidiaries alone may not be effective in ensuring compliance with the Foreign Investment Law together with, if any, all its subsequent amendments or updates, as promulgated (if and when it becomes effective).

### **Accounting Aspects of the Contractual Arrangements**

#### ***Consolidation of Financial Results of the Meitu Networks and its subsidiaries***

According to IFRS 10 — Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own Meitu Networks and its subsidiaries, the Contractual Arrangements as mentioned above enable our Company to exercise control over Meitu Networks and its subsidiaries.

Under the Exclusive Business Cooperation Agreement entered into by and between Meitu Home and Meitu Networks, it was agreed that, in consideration of the services provided by Meitu Home, Meitu Networks will pay service fees to Meitu Home. The service fees, subject to Meitu Home's adjustment, are equal to all of the net profit of Meitu Networks and its subsidiaries and may also include retained earnings of Meitu Networks from previous financial periods. Meitu Home may adjust the service fees at its sole discretion and allow Meitu Networks to retain sufficient working capital to carry out any growth plans. Meitu Networks shall deliver to Meitu Home their management accounts and operating statistics periodically. Accordingly, Meitu Home has the ability, at its sole discretion, to extract substantially all of the economic benefit of Meitu Networks and its subsidiaries through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Option Agreement among the parties, Meitu Home has absolute control over the distribution of dividends or any other amounts to the shareholders of Meitu Networks and its subsidiaries as Meitu Home's prior written consent is required and Meitu Home can request for immediate distribution of profits to be made.

Further, under the Powers of Attorney, Meitu Home assumes all rights as shareholder and exercises control over Meitu Networks and its subsidiaries, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (general manager) and other senior management members of Meitu Networks. As a result of these agreements, the Company has obtained control of Meitu Networks and its subsidiaries through Meitu Home and, under the Company's sole discretion, can receive substantially all of the economic interest returns generated by Meitu Networks and its subsidiaries. Accordingly, Meitu Networks' results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements.



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In this regard, our Reporting Accountant, PricewaterhouseCoopers, has issued an unqualified opinion on our Group's consolidated financial information for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, as included in the Accountant's Report in Appendix I to this prospectus which include the financial results of Meitu Networks being consolidated into our Group's financial information as if they were our Group's subsidiaries.

The revenue of Meitu Networks and its subsidiaries for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 were RMB34.6 million, RMB86.8 million, RMB84.5 million and RMB55.2 million, respectively. Throughout the Track Record Period, the revenue of Meitu Networks and its subsidiaries was higher than the revenue generated from the Internet services and others segment primarily as a result of intra-group transactions arising from Meitu Huyu, a subsidiary of Meitu Networks conducting certain research and development for Meitu Home. Such transactions ceased after completion of the restructuring of Meitu Huyu on August 17, 2016. In addition, in April 2014, Meitu Networks sold certain intellectual property rights to Meitu Home pursuant to a group restructuring, which was one-off in nature.

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### REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

#### Restrictions on foreign investment

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council on September 25, 2000 and amended on July 29, 2014, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “**MII**”, which is the predecessor of the MIIT) on February 21, 2003 and amended by the Ministry of Industry and Information Technology of the PRC (the “**MIIT**”) on December 28, 2015. Information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》 (2016修訂)), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business, provided such investor is a major one among the foreign investors investing in a value-added telecommunications enterprise in China. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce of the PRC (the “**MOFCOM**”), or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

In July 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**MII Notice**”), pursuant to which, if any foreign investor intends to invest in telecommunications business in China, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business operation licenses. Furthermore, under the MII Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2015) (《外商投資產業指導目錄 (2015修訂)》) (the “**Catalog**”), which was promulgated jointly by MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on March 10, 2015 and became effective on April 10, 2015. The Catalog divides industries into four categories in terms of foreign investment, which are “encouraged,” “restricted,” “prohibited” and all industries not listed under one of these categories are deemed to be “permitted.” According to the Catalog, the Internet information services that the Company currently operates falls under value-added telecommunications services (except for e-commerce) and Internet cultural businesses (except for music), which are under “restricted” categories and “prohibited” categories, respectively.

#### Regulations on the provision of Internet content services

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which was promulgated by the State Council on September 25, 2000 and amended on January 8,

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2011, set out guidelines on the provision of Internet information services. The Internet Measures classified Internet information services into commercial Internet information services and non-commercial Internet information services and a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license (the “**ICP license**”) for the provision of Internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT and became effective on April 10, 2009, further regulate the telecommunications business licensing.

Furthermore, the content of the Internet information is highly regulated in China. According to the Internet Measures, violators may be subject to penalties, including criminal sanctions, for providing Internet content that: opposes the fundamental principles stated in the PRC Constitution; compromises national security, divulges national secrets, subverts national power or damages national unity; harms national dignity or interest; incites ethnic hatred or racial discrimination or damages inter-ethnic unity; undermines the PRC’s religious policy or propagates superstition; disseminates rumors, disturbs social order or disrupts social stability; disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime; insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or is otherwise prohibited by law or administrative regulations.

Internet information service providers are required to monitor their websites. They may not post or disseminate any content that falls within prohibited categories and must stop providing any such content on their websites. The PRC government may order ICP License holders that violate any of the above-mentioned content restrictions to correct those violations and revoke their ICP Licenses under serious conditions.

### **Regulations on mobile Internet applications information services**

In addition to the Telecommunications Regulations and other regulations above, Mobile Internet applications (the “**APPs**”) and the Internet application store (the “**APP Store**”) are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**APP Provisions**”), which was promulgated by the Cyberspace Administration of China (the “**CAC**”) on June 28, 2016 and became effective on August 1, 2016. The APP Provisions regulate the APP information service providers and the APP Store service providers and the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively.

The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations as follows: (1) shall authenticate the identity information of the registered users including their mobile telephone number and other identity information under the principle that mandatory real name registration at the back-office end, and voluntary real name display at the front-office end; (2) shall establish and perfect the mechanism for the protection of users’ information, and follow the principle of legality, rightfulness and necessity, indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users’ personal information; (3) shall establish and perfect the mechanism for the examination and management of information content, and in terms of any information content released that violates laws or regulations, take such measures as warning, restricting the functions, suspending the update and closing the accounts as the case may be, keep relevant records and report the same to relevant competent authorities; (4) shall safeguard users’ right to know and to make choices when users are installing or using such applications, and shall neither start such functions as collecting the information of users’ positions, accessing users’ contacts, turning on the camera and recording the sound, or any other function irrelevant to the services, nor forcefully install any other irrelevant applications without prior consent of users when noticed expressly; (5) shall respect and protect the intellectual properties and shall neither produce nor release any application that infringes others’ intellectual properties; and (6) shall record the users’ log information and keep the same for 60 days.

The APP Store service providers shall file a record with the related local offices of cyberspace administration within 30 days after such services have been rolled out online for operation and fulfill the administrative responsibilities over the application providers as follows: (1) shall verify the authenticity, security

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and legality of application providers, establish the credit management system and file the record according to the category with relevant authorities; (2) shall urge the application providers to protect users' information, provide a full description on the way APPs use to obtain and to use users' information and present the same to the users; (3) shall urge the application providers to release legal information contents, establish and perfect the security review mechanism, and designate certain number of professional staff in line with the service scale; and (4) shall urge the application providers to release legal applications and respect and protect the intellectual property rights of such application providers. For any application provider who violates the aforementioned provisions, the APP Store service providers shall take such measures as warning, suspending the release or withdrawing the applications as the case may be, keep records and report such violation to relevant competent authorities. Besides, the Internet application store service providers shall enter into the service agreements with the APP information service providers, clarifying the rights and obligations of both parties.

### REGULATIONS RELATING TO INTERNET AUDIO-VISUAL PROGRAM SERVICES

On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). On July 6, 2005, five PRC regulatory agencies, namely, the Ministry of Culture (the “**MOC**”), the State Administration of Radio, Film, and Television (the “**SARFT**”), the General Administration of Press and Publication, the CSRC and the Ministry of Commerce, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》). According to these regulations, non-state-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network.

Internet audio-visual program services are included in Internet culture operation. The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Provisions**”), promulgated by the MOC on February 17, 2011, provide that Internet cultural entities are classified into operational Internet cultural entities and non-operational Internet cultural entities. Under the Internet Culture Provisions, Internet culture activities include: (1) production, reproduction, import, release or broadcast of Internet culture products (such as online music, online game, online performance and cultural products by certain technical means and copied to the Internet for spreading); (2) the online dissemination activities of publishing cultural products on Internet; and (3) the exhibitions and competitions and other similar activities concerning Internet culture products. Operational Internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the Network Cultural Business Permit. Internet culture entities shall mark the serial number of the Network Cultural Business Permit at an obvious position on the home page of their websites. If any entity engages in operational Internet culture activities without approval, the cultural administration authorities or cultural market enforcement authorities of relevant government shall make investigation and punishment in accordance with the Measures for Punishing, and Banning Business Operation without License (《無照經營查處取締管理辦法》).

According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) (the “**Internet Audio-Visual Program Regulations**”), promulgated by the SARFT and the MIIT on December 20, 2007, an Internet audio-visual program service provider shall obtain the Permit for Spreading Audio-Visual Programs via Information Network (the “**Audio-Visual Permit**”) issued by the SARFT or complete certain registration procedures with SARFT in order to engage in Internet audio-visual program service. Internet audio-visual program service refers to activities of making, redacting and integrating audio-visual programs, providing them to the general public via Internet, and providing service for other people to upload and spread audio-visual programs. Where an internet audio-visual program service provider changes its registered capital, shareholder or equity structure, has any big moves in assets, is listed, or has other important fund-raising acts, or if its business items after such change go beyond those indicated in its Audio-Visual Permit, it shall handle examination and approval formalities in accordance with the Internet Audio-Visual Program Regulations. Where an Internet audio-visual program service entity provider legally changes its business place or legal representative, or an Internet information service provider legally changes its website address or name, it shall file the change with the competent department of radio, film and television and the competent department of telecommunication at or above the provincial level for archival purpose; if the change involves industrial and commercial registration, it shall complete the registration modification formalities at the administrative department for industry and commerce in accordance with the law.

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According to Official Answers to Press Questions Published Regarding the Internet Audio-Visual Program Regulations (《就<互聯網視聽節目服務管理規定>答記者問》) on the SARFT's website dated February 3, 2008, officials from the SARFT and the MIIT clarified that online audio-visual service providers that already had been operating lawfully prior to the promulgation of the Internet Audio-Visual Program Regulations may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio-visual service providers established after the issuance of Internet Audio-Visual Program Regulations. Such policies have been reflected in the Notice on Relevant Issues Concerning Application and Approval of Audio-Visual Permit (《關於做好<信息網絡傳播視聽節目許可證>申報審核工作有關問題的通知》), issued by SARFT on May 21, 2008 and amended on October 26, 2015.

Further, on March 30, 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》), which reiterates the pre-approval requirements for the Internet audio-visual programs, including through mobile networks (if applicable), and prohibits certain types of Internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other similarly prohibited elements.

On March 17, 2010, the SARFT promulgated the Provisional Implementation of the Tentative Categories of Internet Audio-Visual Program Business (《關於發佈<互聯網視聽節目服務業務分類目錄(試行)>的通告》) (the “**Categories**”), which clarified the scope of Internet audio-visual programs services. According to the Categories, there are four categories of Internet audio-visual program services which are further divided into seventeen sub-categories.

The MOC promulgated Notice on Strengthening the Administration of Network Performance (《關於加強網絡表演管理工作的通知》) on July 7, 2016, which regulates the behavior of entities operating network performance and performers. Entities operating network performance shall be responsible for the service and content post on their website which are provided by performers, perfect the content management mechanism, and shut down the channel and stop the spreading as soon as realize any network performance in violation of relevant laws and regulations. Network performers shall be responsible for their performances and shall not perform any program containing violence, pornography, or other similarly prohibited elements. The cultural administration authorities or cultural market enforcement authorities of relevant government supervise entities operating network performance and shall investigate all entities operating network performance in their thoroughly and publish any fine or action results or blacklist in time.

On November 4, 2016, the State Internet Information Office issued the Administrative Regulations on Online Live-streaming Services (《互聯網直播服務管理規定》) (the “**Online Live-streaming Regulations**”) which came into effect on December 1, 2016. According to the Online Live-streaming Regulations, when providing Internet news information services, both online live-streaming service providers and online live-streaming publishers must obtain the qualification for Internet news information service in accordance with law and may only carry out Internet news information services within the permissible scope of their licenses. All online live-streaming service providers (whether or not providing Internet news information) shall take various measures during operation of live-streaming services, including but not limited to:

- (1) establish platforms for reviewing live-streaming content, conducting classification and grading management according to the online live-streaming content categories, user scale and others, add tags to graphics, video, audio or broadcast tag information for platforms;
- (2) exercise oversight over Internet news information live-streams and its interactive content prior to publication on the platform;
- (3) conduct verification of online live-streaming users based on valid identification information (e.g. authentic mobile phone numbers) and validate the registration of online live-streaming publishers based on their identification documents (such as identity documents, business licenses and organization code certificates);
- (4) examine and verify the authenticity of the identification information of online live-streaming service publishers, store and file such identification information for records according to classification with the Internet information offices at the level of provinces, autonomous regions, or municipalities



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directly under the Central Government where they are located and provide such information to relevant law enforcement departments upon their request in accordance with laws;

- (5) enter into a service agreement with the users of online live-streaming services of which the essential clauses shall be under guidance of Internet information offices at the level of provinces, autonomous regions, or municipalities directly under the Central Government to clarify the rights and obligations of the parties and require them to comply with the laws, regulations and platform conventions; and
- (6) establish a credit rating management system for online live-streaming publishers, establish a blacklist management system, provide management and services according to such credit rating, prohibit re-registration of accounts by online live-streaming service users on the black list and promptly report such users to relevant Internet information offices.

According to the Online Live-streaming Regulations, online live-streaming service providers and online live-streaming publishers that provide Internet news information services without licenses, or exceeding the scope of their licenses, are subject to punishment by the State Internet Information Office and the internet information offices at the level of provinces, autonomous regions, or municipalities directly under the Central Government in accordance with the Regulations for the Administration of Internet News Information Services (《互聯網新聞信息服務管理規定》) which may include an order to cease such services, a fine of RMB10,000 to RMB30,000. Other violations of the Online Live-streaming Regulations are subject to punishment by the national and local Internet information offices in accordance with the PRC laws; if such violations constitute crime, criminal liability shall be investigated in accordance with relevant PRC laws.

### REGULATIONS RELATING TO ONLINE GAME OPERATION

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the MOC, the SARFT and the General Administration of Press, Publication, Radio, Film and Television of the PRC (the “GAPP”) (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) which became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the MOC.

The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Online game operations are also included in Internet culture operation and the Internet Culture Provisions shall govern online game operations as well. In addition, the Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “Online Game Measures”), issued by the MOC and which took effect on August 1, 2010, regulate a broad range of activities related to the online game business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Game Measures provide that any entity



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that is engaged in online game operations must obtain an Network Cultural Business Permit, and require the content of an imported online game to be examined and approved by the MOC prior to the launch of the game and the content of a domestic online game must be filed within 30 days of its launch with the MOC. The Online Game Measures also request online game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. The Notice of the Ministry of Culture on the Implementation of the Interim Measure for the Administration of Online Games (《文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) issued by the MOC and which took effect in August 2010 specify entities regulated by the Online Game Measures and procedures related to the MOC's review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their players.

The Notice on the Reinforcement of the Administration of Internet Cafés and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Internet Cafés Notice**”) jointly issued by the MOC, the People's Bank of China (the “**PBOC**”) and other governmental authorities on February 15, 2007 with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, places strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”) jointly issued by the MOC and the MOFCOM on June 18, 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are also not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players' cash or virtual money.

### REGULATIONS ON INFORMATION SECURITY AND CENSORSHIP

Internet content in China is regulated and restricted from a state security standpoint. The Standing Committee of the National People's Congress (the “**SCNPC**”) enacted the Decisions on the Maintenance of Internet Security (《維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which prohibit using the Internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

The SCNPC promulgated The Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), which was promulgated by the SCNPC on November 7, 2016 and will become effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

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### REGULATIONS ON ADVERTISEMENT

The SCNPC promulgated The Advertisement Law (《中華人民共和國廣告法》), which was promulgated by the SCNPC on October 27, 1994 and amended on April 24, 2015, requires advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations and the content of the advertisement shall not contain anything related to cigarette. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been duly performed and that the relevant approval has been obtained. Without prior consent or request, the advertisers, advertising operators and advertising distributors shall not deliver advertisement to any person's accommodation or transportation. If the advertisers, advertising operators and advertising distributors display any pop-up advertisement, they shall show the close button clearly to make sure that the viewers can close the advertisement in one-click. Violations of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. For serious violations, the SAIC or its local branches may order the violator to terminate its advertising operations or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liabilities if they infringe on the legal rights and interests of third parties.

On July 4, 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “**Internet Advertisement Measures**”) and the Internet Advertisement Measures will become effective since September 1, 2016. The Internet Advertisement Measures regulates any advertisement published on the Internet, including but not limited to through the website, webpage and Internet Application, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors.

According to the Internet Advertisement Measures, online advertisements in relation to certain categories of good and services (e.g. prescription drugs and tobacco) are expressly prohibited and certain advertisements (e.g. medical advertisements and advertisements for agricultural chemicals, veterinary drugs and health foods) are only permitted if it has been pre-approved by the relevant authorities. Furthermore, the Internet Advertisement Measures provide detailed guidelines and requirements for the advertisers, advertising operators and advertising publishers. Internet advertisers, advertising operators and/or advertisement publishers must enter into written contracts in conducting Internet advertisement business and activities. Internet advertisers are responsible for the authenticity of the content of advertisements and may publish advertisements by setting up a website or an Internet medium legally used by them, or by entrusting Internet advertising operators or advertising publishers to publish advertisements. Internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the Internet information service provider merely provides information services and is not involved in the Internet advertisement businesses. The following activities are prohibited under the Internet Advertisement Measures: (i) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (ii) using network access, network equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; or (iii) harming the interests of others by using fake statistics or traffic data. The industry and commerce administrative department is the relevant local administrative authority that supervises and enforces punishments for any illegal act in Internet advertising. Any violation of the Internet Advertisement Measures may result in fines, prohibition of publishing advertisements for a period of time or withdrawal of business licenses, etc.

Although advertising is not subject to any foreign investment restrictions under relevant PRC laws, our online advertising business is operated through an online platform, which, as advised by our PRC Legal Advisor, involves the provision of Internet information services and therefore requires an ICP License under relevant PRC laws and regulations. In addition, the Xiamen Communications Administration (廈門市通信管理局) has confirmed that it had not and will not in the foreseeable future accept any application for an ICP License made by any sino-foreign equity joint venture or wholly-owned foreign investment entity to operate an Internet

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information services business and no such joint venture or entity had successfully obtained ICP Licenses in Xiamen.

### REGULATIONS RELATING TO MANUFACTURE AND SELL OF MOBILE PHONES

The manufacture and sell of mobile phones are highly regulated in the PRC and the manufacturer and seller of mobile phone in the PRC are required to obtain various permits and certificates before launching the model of mobile phones into the market.

According to the Administrative Regulations for Compulsory Product Certification (《強制性產品認證管理規定》), which was promulgated by the General Administration of Qualification Supervision, Inspection and Quarantine (the “**AQSIQ**”) on July 3, 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified (the “**Compulsory Product Certification**”) and labeled with China Compulsory Certification mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogs (the “**3C Catalog**”), unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Pursuant to the Announcement on Release of the General Administration of Qualification Supervision, Inspection and Quarantine and the Certification and Accreditation Administration (the “**CNCA**”)’s First Batch Compulsory Product Certification Product Catalog (《國家品質監督檢驗檢疫總局、國家認證認可監督管理委員會關於發佈<第一批實施強制性產品認證的產品目錄>的公告》) (the “**First Batch 3C Product Catalog**”) by the AQSIQ and the CNCA on December 3, 2001, mobile user terminals and CDMA digital cellular mobile station are required to obtain the Compulsory Product Certification in order to be delivered, sold, imported or used.

Besides the Compulsory Product Certification, the seller of radio component products in the PRC is required to obtain the Radio Transmission Equipment Type Approval Certificate in accordance with the Regulations on the Management of Radio Operation (《無線電管理條例》), which was promulgated by the State Council, Central Military Commission on September 11, 1993, and the Administrative Regulations of the State Radio Regulation Committee and the State Bureau of Technical Supervision on Manufacturing of Radio Transmission Equipment (《國家無線電管理委員會、國家技術監督局關於生產無線電發射設備的管理規定》), promulgated by the State Radio Regulation Committee (the “**SRRC**”) and the State Bureau of Technical Supervision (the “**SBTS**”, the predecessor of the AQSIQ) on October 7, 1997.

In addition, the Administrative Measures for the Network Access of Telecommunications Equipment (《電信設備進網管理辦法》), which was promulgated by the MII on May 10, 2001 and revised by the MIIT on April 21, 2010 and September 23, 2014, provide that the State applies the network access permit system to the telecommunications terminal equipment, radio communications equipment, and equipment relating to network interconnection that is connected to public telecommunications networks. The telecommunications equipment subject to the network access permit system shall obtain the Telecommunications Equipment Network Access Permit issued by the MIIT (the “**Network Access Permit**”). Without the Network Access Permit, no telecommunications equipment is allowed to be connected to the public telecommunications networks for use nor sold on the domestic market. In the event of an application for the Network Access Permit, a production enterprise shall submit a testing report issued by a telecommunications equipment testing institution or a Compulsory Product Certification. In the event of an application for the network access permit for radio transmission equipment, a Radio Transmission Equipment Type Approval Certificate issued by the MIIT shall also be submitted.

### Regulations on product quality

Products made in the PRC are subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated on February 22, 1993, amended on July 8, 2000 and August 27, 2009. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not

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exist at the time when the product was circulated; or (iii) scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the “**Consumers Protection Law**”) was promulgated on October 31, 1993 and became effective on January 1, 1994. The Consumers Protection Law has been further revised on October 25, 2013 and the revisions take effect from March 15, 2014. According to the Consumers Protection Law, unless otherwise provided by this law, an operator that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold product is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by PRC laws and regulations, are harmed.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on December 26, 2009 and came into force on July 1, 2010 to clarify the tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

As the manufacturer and seller of smart hardware, Meitu Mobile is obliged to be in compliance with the aforesaid laws on product quality and protection of the rights of consumers.

### **Registration for import and export goods**

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013 and November 7, 2016, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on March 13, 2014, coming into force on March 13, 2014, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. The consignor or consignee of imported and exported goods shall register with local customs in accordance with the laws.

Meitu Mobile has obtained the Registration Certificate of Customs Declaration Entities on September 9, 2014.

## **REGULATIONS RELATING TO IP**

### **The patent law**

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008修訂)) promulgated by the SCNPC, and its implementation rules (Revised in 2010) (《中華人民共和國專利法實施細則》)(2010年修訂) promulgated by the State Council, the State Intellectual Property

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Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three type of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### The trademark law

Trademarks are protected by the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 (Revised in 2014) (《中華人民共和國商標法實施條例》(2014年修訂)). In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### Regulations on copyright

The Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法》(2010年修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”) promulgated by the China Copyright Office on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “**CPCC**”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例》(2013年修訂)).

Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) provide that web



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players or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

### Regulations on domain names

The MII promulgated its Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》) (the “**Domain Name Measures**”) on November 5, 2004. According to the Domain Name Measures, domain name owners are required to register their domain names and the MII is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

### REGULATIONS RELATING TO WFOES

Under the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated and which took effect on October 31, 2000 and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People’s Republic China (《中華人民共和國外資企業法實施細則》) promulgated and which took effect on April 12, 2001, amended on February 19, 2014, an application for establishing a wholly foreign-owned enterprise (the “**WFOE**”), shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC (“**MOFTEC**”, currently known as the MOFCOM) before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a WFOE is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to and collect the business license from the administrative authority for industry and commerce.

On September 3, 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) (“**the Decision on Revision of Four Laws**”) was promulgated and became effective on October 1, 2016. On October 8, 2016, the MOFCOM published the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”) and became effective on the same date. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People’s Republic of China on Sino-Foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) and the Law of the People’s Republic of China on the Protection of the Investments of Taiwan Compatriots (《中華人民共和國台灣同胞投資保護法》) and the relevant formality regime for the incorporation and change of foreign-invested enterprises, whereby if the incorporation or change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve special access administrative measures prescribed by the PRC government (the “**Negative List**”), the examination and approval process is now being replaced by the record-filing administration process. According to the Filings Measures, where the incorporation of foreign-invested enterprises do not fall within the Negative List, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business license, or within 30 days after the issuance of a business license. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises’ property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On October 8, 2016, the announcement



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of the NDRC and the MOFCOM [2016] No. 22 (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) was published and specified that the Negative List shall be in line with the Catalog.

Since the current business operations of Meitu Mobile and Meitu Home, as the foreign-invested enterprises within the Group, do not fall within the scope of the Negative List, the Filings Measures shall apply and major changes of Meitu Mobile and Meitu Home are subject to record-filing procedure under the Filings Measures. Based on the currently effective PRC laws and current business operation of the Group, our PRC Legal Advisor is of the view that the aforementioned amendments will not have material adverse effect on the Group's business operations.

### REGULATIONS RELATING TO FOREIGN EXCHANGE

#### General administration of foreign exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange (the "SAFE") and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the State.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the "SAFE Circular No. 59") promulgated by SAFE on November 19, 2012, became effective on December 17, 2012 and further amended on May 4, 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. SAFE Circular No.59 also simplified the capital verification and confirmation formalities for FIEs and the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of FIEs.

On February 13, 2015, SAFE promulgated the Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "SAFE Circular No. 13") effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. Besides, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "SAFE Circular No. 19") was promulgated on March 30, 2015 and became effective on June 1, 2015.

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According to the SAFE Circular No. 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Circular No. 16**”) was promulgated and became effective on June 9, 2016. According to the SAFE Circular No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

### Offshore investment

On October 21, 2005, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which became effective on November 1, 2005 (the “**Circular No. 75**”). The notice requires PRC domestic resident natural persons to register or file with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company outside the PRC for the purpose of capital financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On July 14, 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 37**”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular No. 37 supersedes the Circular No. 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according the procedural guideline as attached to the Circular No. 37, the principle of review has been changed to “the domestic individual resident is only register the SPV directly established or controlled (first level)”. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the Circular No. 37, which became effective on July 4, 2014 as an attachment of Circular No. 37.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or Affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC

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## REGULATIONS

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residents who control the company from time to time are required to register with the SAFE in connection with their investments in the company.

### Regulations on dividend distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》), as amended in 2005 and in 2013, the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) promulgated in 1986 and last amended in 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and subsequently amended in 2001 and 2014, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last amended in 2016 and its implementation regulations promulgated in 1995 and amended in 2014. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

## REGULATIONS RELATING TO TAX

### Enterprise Income tax

On March 16, 2007, the National People's Congress promulgated The Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) and on December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the “EIT Law”). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% for their income sourced from inside the PRC.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on January 1, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the “website for the administration of accreditation of high-tech enterprises”. Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and

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term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be canceled as of the year of change in the name or any other condition.

The Circular on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集體電路產業發展企業所得稅政策的通知》), which was promulgated by the Ministry of Finance and the State Administration of Taxation on January 1, 2011 and was amended on May 4, 2016, provides that newly established integrated circuit design enterprises and eligible software enterprises, upon certification, shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017.

### Value-added tax and business tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and subsequently amended on February 6, 2016. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》(2011修訂)) were promulgated by the Ministry of Finance and State Administration of Taxation on December 15, 2008 which were subsequently amended on October 28, 2011 and came into effect on November 1, 2011 (collectively, the “**VAT Law**”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

Pursuant to The Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on February 19, 1997 and November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation. On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program (the “**Pilot Program**”), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “**Pilot Industries**”) in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry. The Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), which was promulgated on March 24, 2016 and became effective on May 1, 2016, set out that it collected value-added tax in lieu of business tax in all regions and industries.

### Dividend withholding tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax



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Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**SAT Circular 81**”) issued on February 20, 2009 by the State Administration of Taxation (the “**SAT**”), if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Circular on How to Interpret and Recognize the “Beneficial Owner” in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》), issued on October 27, 2009 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

#### The Labor Contract Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers timely. In addition, according to the Labor Contract Law: (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date of employment and if such period exceeds one year, the parties are deemed to have entered into a labor contract with an “unfixed term”; (ii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee’s breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) if an employer pays for an employee’s professional training, the labor contract may specify a term of service. When the employee breach term of service, the amount of compensation may not exceed the training expenses; (vii) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of more than RMB 500 but less than RMB 2,000 per employee; and (viii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within ascertain period by the labor administration authorities.

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995 and amended on August 27, 2009, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

#### Social Insurance and Housing Fund

As required under The Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in 2010, The Provisional Measures for Maternity Insurance of Employees of

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Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, The Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工養老保險制度的決定》) issued on July 16, 1997, The Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with The Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and on time.

### **M&A RULES AND OVERSEAS LISTING**

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the China Securities Regulatory Commission (the “CSRC”), promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

### **HONG KONG LAWS AND REGULATIONS RELATING TO OUR BUSINESS**

#### **Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) (“TO”)**

We import our Meitu smartphones in Hong Kong, which is regulated by the TO.

Under the TO, a radio dealers license (unrestricted) is required for dealing in the course of trade or business (i) in apparatus or material for radiocommunications or in any component part of any such apparatus, or (ii) in apparatus of any kind that generates and emits radio waves, whether or not the apparatus is intended, or capable of being used, for radiocommunications. A radio dealers license (unrestricted) is also required for the import into Hong Kong or export therefrom any radiocommunications transmitting apparatus unless otherwise permitted by the Communications Authority. Under the Telecommunications (Telecommunications Apparatus) (Exemption from Licensing) Order (Chapter 106Z of the Laws of Hong Kong), a radio dealers license (unrestricted) is not required for mobile phones meeting prescribed specifications.

A person without the required license is liable, on summary conviction, for a fine of HK\$50,000 and imprisonment for two years. A radio dealers license (unrestricted) is generally valid for 12 months, and is renewable on payment of a prescribed fee. We currently have a radio dealers license (unrestricted) issued on July 26, 2016.



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### **Sale of Goods Ordinance**

Contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the “**SGO**”). The SGO provides that there are implied obligations owed by the seller towards the buyer including: (i) where the goods are sold in the course of business and the buyer, expressly or by implication, makes known to the seller any particular purpose for which the goods are being bought, the goods supplied are reasonably fit for the purpose made known; and (ii) for sale of goods by description, the goods must correspond with any description provided.

### **Consumer Goods Safety Ordinance**

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) (the “**CGSO**”) imposes a duty on manufacturers to ensure that the consumer goods they supply are reasonably safe having regard to all the circumstances. Under the CGSO, all consumer goods supplied, manufactured for consumption in or imported into Hong Kong must satisfy the general safety requirements. Criminal sanctions are imposed for violations of CGSO unless a due diligence defense can be successfully established. Any person who commits an offense shall be liable, on first conviction for a fine of HK\$100,000 and imprisonment for one year, and on subsequent conviction for a fine of HK\$500,000 and two years of imprisonment. A continuing offense will result in an additional fine of HK\$1,000 per day during the relevant period. The Commissioner of Customs and Excise of Hong Kong has the power to serve a recall notice requiring the immediate withdrawal of a mobile phone which are believed to be of significant risk and may cause a serious injury.

### **Trade Descriptions Ordinance**

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “**TDO**”) regulates trade descriptions and statements made in respect of mobile phones offered in the course of trade or suppliers of such goods. The TDO provides that no person shall, in the course of trade or business as parts of an advertisements, apply a false trade description or forged trade mark to any goods. Further, selling, importing or exporting a good with a false trade description or forged trade mark is prohibited. When dealing with a consumer, a trader must not engage in conduct that: (i) is a misleading omission; or (ii) is an aggressive commercial practice; (iii) constitutes bait advertising; (iv) constitutes a bait and switch; or (v) constitutes wrongly accepting payment. A person who commits an offense under the TDO faces a potential fine of up to HK\$500,000 and imprisonment for five years.

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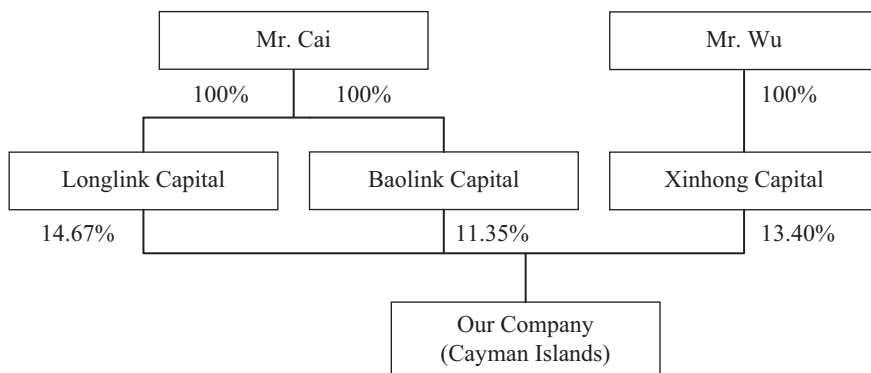
## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), our Controlling Shareholders will be collectively interested in and will control, through various intermediaries and trust vehicles, an aggregate of 39.43% of our enlarged issued share capital and will remain as our Controlling Shareholders.

The following diagram illustrates the ultimate beneficial interest of our Controlling Shareholders' shareholdings immediately following the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme):



Since the inception of our Company, Mr. Wu as a founder and the Chief Executive Officer, Mr. Cai as a founder and the Chairman, and Ms. Wang have always jointly affected their management and control of the Company as a unit but their relationship dynamics were never formalized or documented (by way of a shareholders' agreement or otherwise). They have made decisions jointly and consistently and have always voted unanimously at all Board meetings and Shareholder meetings (as applicable), with Mr. Wu exhibiting the greatest degree of control over the direction of their votes given his more active role in the day-to-day management of the Company as the Chief Executive Officer. Ms. Wang (as the spouse of Mr. Cai) and her controlled entity Baolink Capital have been accustomed to act in accordance with the instructions of Mr. Wu and Mr. Cai and has never been involved in the business of our Group, therefore, on January 28, 2016, she transferred all her Shares indirectly held through Baolink Capital to Mr. Cai. As such, the Concert Group are parties acting in concert (within the meaning of the Takeovers Code) in terms of voting and making decisions. The Concert Group entered into the Concert Party Agreement on August 17, 2016 to confirm and acknowledge the nature of their relationship.

Under the Concert Party Agreement, the Concert Group has undertaken to vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and has confirmed that its members have been acting in concert in respect of their equity interests in the Company since the inception of the Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group. As a result of the Concert Party Agreement, Mr. Wu effectively controls approximately 39.43% of the voting rights of the Company immediately after the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). This is consistent with the manner in which the Concert Group has voted and made decisions throughout the history of the Company, and has confirmed and acknowledged that Mr. Wu was, and is, entitled to exercise all the voting powers associated with the Shares on behalf of the Concert Group historically and in the future.

Each of the members of the Concert Group will be deemed to be a Controlling Shareholder of our Company and the Concert Group, collectively, has always been the single largest shareholder of the Company. It

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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is expected that the interest of the Concert Group in the Company upon completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) will remain above 30%.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently of our Controlling Shareholders after the Listing.

#### Management Independence

Our business is managed and conducted by our Board and senior management. Upon Listing, our Board will consist of seven Directors comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. Two of our existing Directors will resign and cease to be Directors upon Listing. For more information, please see the section headed “Directors and Senior Management” in this prospectus.

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see “— Corporate Governance Measures” in this section below for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role in our Group independently.

#### Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Our Company (through our subsidiaries and our PRC Operating Entities) holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business of developing and selling smartphones and ancillary products and related businesses, including the development of smartphone camera, development and operation of photo and video apps and PC software. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

In addition, pursuant to the Contractual Arrangements, our Directors are authorized to exercise all of the rights of the Relevant Shareholders. Our Group is entitled to enjoy all the economic benefits of Meitu Networks and its subsidiaries (i.e. our PRC Operating Entities) and to exercise management control over the operations of

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Meitu Networks. Pursuant to the Exclusive Option Agreement, Meitu Home (or any subsidiary within our Group) has been granted an irrevocable and exclusive right to purchase from the Relevant Shareholders all or any part of their equity interests in Meitu Networks for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. In addition, pursuant to the Exclusive Business Cooperation Agreement, Meitu Home has the exclusive and proprietary rights to all intellectual properties developed by Meitu Networks and its subsidiaries, given that Meitu Home provides consultation services to Meitu Networks.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

### Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We have an independent internal control and accounting systems and also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on the Controlling Shareholders.

Mr. Cai provided a loan to Meitu Mobile in the amount of RMB10 million with an interest of 9.6% per annum. The term of the loan was from August 12, 2013 to August 11, 2014 and was fully repaid by the Company in August 2014.

There are no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates as of the Latest Practicable Date.

Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders after the Listing.

### COMPETITION ISSUE UNDER RULE 8.10 OF THE LISTING RULES

Save and except for the interests of our Controlling Shareholders in our Company, its subsidiaries and the PRC Operating Entities, our Controlling Shareholders and Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

### CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders' interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the Controlling Shareholders:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of his associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if the Company enters into connected transactions with a Controlling Shareholder or any of his associates, the Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between the Group and our Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expenses; and
- (g) we have appointed Guotai Junan Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

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## CONNECTED TRANSACTIONS

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We have entered into a number of agreements with our connected persons set out more particularly below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

### A. CONNECTED PERSONS

The table below sets forth parties who will become our connected persons upon Listing and the nature of their connection with our Group:

Name	Connected Relationship
Mr. Wu	a substantial shareholder, Controlling Shareholder and an executive Director of our Company
Mr. Cai	a substantial shareholder, Controlling Shareholder and an executive Director of our Company
Ms. Wang	the spouse of Mr. Cai, and therefore an associate of Mr. Cai

### B. FULLY-EXEMPT CONTINUING CONNECTED TRANSACTION

We set out below a summary of the continuing connected transaction for our Group, which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### 1. Lease Agreement with Ms. Wang

On September 25, 2015, Meitu Home entered into a lease agreement (the "**Lease Agreement**") with Ms. Wang whereby Meitu Home leased from Ms. Wang premises at 1 Yundang Rd, Block A, No. 106, Xidi Villa, Siming District, Xiamen, Fujian Province, PRC with a gross floor area of 255.23 square meters to be used as office space. The initial term of the Lease Agreement was from October 1, 2015 to September 30, 2017. Pursuant to the Lease Agreement, Meitu Home agreed to pay a monthly rental of RMB130,000 to Ms. Wang on a quarterly basis. Meitu Home also agreed to pay water, electricity, management, communal area maintenance, air conditioning and other miscellaneous fees to Ms. Wang. On June 30, 2016, Meitu Home and Ms. Wang entered into a supplemental agreement (the "**Supplemental Lease Agreement**") to extend the term of the Lease Agreement to December 31, 2018. Other provisions of the Lease Agreement remain unchanged for the extended term. The Lease Agreement and the Supplemental Lease Agreement were agreed upon following arm's length negotiations on the then prevailing market rates and on normal commercial terms.

The total amounts (including the rental, management fees and other fees) paid by our Group for the premises leased under the Lease Agreement for the three years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2016 were approximately nil, nil, RMB390,000 and RMB780,000, respectively.

Based on the terms of the Lease Agreement, our Company estimates that the aggregate amount (including the rental, management fees and other fees) payable by our Group for the indicated period is listed below:

Proposed annual caps (RMB) for the year ending December 31,		
2016	2017	2018
1.56 million	1.56 million	1.56 million

The above proposed annual caps were determined on the following basis: (i) monthly rent stipulated in the Lease Agreement; (ii) the total gross floor being leased under the Lease Agreement will not increase further; and (iii) the monthly management fees and other miscellaneous and air conditioning fees under the Lease Agreement will remain the same during its term.



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## CONNECTED TRANSACTIONS

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### **Listing Rules Implications**

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the transactions under the Lease Agreement are on an annual basis less than 5% and the annual total consideration is less than HK\$3 million, by virtue of Rule 14A.76(1)(c) of the Listing Rules, such transactions constitute de minimis continuing connected transactions and are fully exempt from independent shareholders' approval, reporting, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

### **C. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We set out below a summary of the continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### ***I. Contractual Arrangements***

A waiver application from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to Meitu Home under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as our Shares are listed on the Stock Exchange, has been submitted to and granted by the Stock Exchange subject to certain conditions. If any terms of the Contractual Arrangements are altered or if we enter into any new agreements with any connected persons in the future, we must comply with the relevant requirements under Chapter 14A of the Listing Rules and obtain a separate waiver from the Stock Exchange.

#### **Background for the Contractual Arrangements**

Our Group operates its apps, audio-video and mobile games businesses in the PRC through a series of Contractual Arrangements entered into between Meitu Home, Meitu Networks, Mr. Wu and Ms. Cai. Through these Contractual Arrangements, we exercise effective control over the operations of the PRC Operating Entities. The revenue of Meitu Networks and its subsidiaries for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 were RMB34.6 million, RMB86.8 million, RMB84.5 million and RMB55.2 million, respectively. Please refer to the section headed "Contractual Arrangements" in this prospectus for details. The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company and are subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **Principal Terms of the Transactions**

The Contractual Arrangements comprise the following agreements: Exclusive Business Cooperation Agreement, Powers of Attorney, Exclusive Option Agreement and Share Pledge Agreement and a spousal undertaking by Mr. Wu's spouse. Details of the continuing connected transactions (i.e. the transactions contemplated under the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected person and our Group are set out in the section headed "Contractual Arrangements" in this prospectus.

#### **Reasons for the Waiver Application and the View of Our Directors on the Continuing Connected Transactions**

Our Directors, including our Independent Non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to our Group in the ordinary and usual course of our Group's business and are fair and reasonable or to the advantage of our Group and are in the interests of our Shareholders as a whole.

Our Directors also believe that our Group's structure, whereby the financial results of the PRC Operating Entities are consolidated into our Group's financial statements as if they were our Group's wholly-owned

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## CONNECTED TRANSACTIONS

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subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

In addition, given the Contractual Arrangements were entered into prior to the Listing and are disclosed in this prospectus, and potential investors of our Company will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after Listing would add unnecessary administrative costs to our Company.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- (a) as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the Contractual Arrangements;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis;
- (c) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- (d) our Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

### **Application for and Conditions of Waiver**

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.105 of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to Meitu Home under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as our Shares are listed on the Stock Exchange subject to the following conditions:

- (a) *No Change without Independent Non-executive Directors' Approval*: No changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the Independent Non-executive Directors.
- (b) *No Change without Independent Shareholders' Approval*: Save as described in paragraph (d) below, no changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (c) below) will however continue to be applicable.

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## CONNECTED TRANSACTIONS

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- (c) *Economic Benefits Flexibility*: The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through: (i) our Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in Meitu Networks; (ii) the business structure under which the net profits generated by the PRC Operating Entities (after deducting the necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year) is substantially retained by Meitu Home (such that no annual caps shall be set on the amount of services fees payable to Meitu Home under the Exclusive Business Cooperation Agreement); and (iii) Meitu Home's right to control the management and operation of, as well as, in substance, all of the voting rights of Meitu Networks.
- (d) *Renewal and Cloning*: On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and Meitu Networks, on the other hand, that framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under the section headed "Contractual Arrangements" in this prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion into the market due to potential business growth. If and when the term of operation of Meitu Networks as set out in its operating license comes to an end in future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.
- (e) *Ongoing Reporting and Approvals*: our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (i) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- (ii) Our Independent Non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operating Entities has been substantially retained by Meitu Home; (ii) no dividends or other distributions have been made by Meitu Networks to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and Meitu Networks during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.
- (iii) Our Company's auditors will carry out procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the transactions carried out pursuant to the

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## CONNECTED TRANSACTIONS

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Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before our Company bulk prints its annual report, reporting their findings whether that the transactions carried out pursuant to the Contractual Arrangements have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Meitu Networks to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.

- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the PRC Operating Entities will be treated as our Company’s wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of PRC Operating Entities and their respective associates will be treated as our Company’s “connected persons”. As such, transactions between these connected persons and our Group (including for this purpose PRC Operating Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

Meitu Networks undertakes that, for so long as the Shares are listed on the Stock Exchange, Meitu Networks will provide our Group’s management and our Company’s auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company’s auditors’ on the connected transactions.

### **Listing Rules Implications**

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### **D. WAIVERS**

The transactions described under paragraph (B) above constitute our continuing connected transactions for our Group, which are fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The transactions described under paragraph (C) above constitute our continuing connected transactions, which are subject to the reporting, annual review, announcement and independent shareholders’ requirements under Chapter 14A of the Listing Rules.

In respect of these continuing connected transactions and subject to the conditions set out more particularly in paragraph (C) above, we have applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from (i) strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, under Rule 14A.53 of the Listing Rules for the fees payable to Meitu Home under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange.

### **E. JOINT SPONSORS’ AND DIRECTORS’ VIEWS**

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described under paragraph (C) in this section have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; and (iii) are fair and reasonable and in the interests of our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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Based on the relevant documents and information provided by the Group and reviewed by the Joint Sponsors, the necessary representations and confirmations provided by the Company and the Directors to the Joint Sponsors and the Joint Sponsors' participation in the due diligence and discussions with the management of the Company and the PRC Legal Advisor, the Joint Sponsors are of the view that the Contractual Arrangements are fundamental to the Group's legal structure and business operations.

The Joint Sponsors are of the view that the non-exempt continuing connected transactions described under paragraph (C) above, and for which the waivers have been sought, have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) the financials and operation of the PRC Operating Entities can be effectively controlled by Meitu Home, (ii) Meitu Home can obtain the economic benefits derived from the PRC Operating Entities, and (iii) any possible leakages of assets and values of the PRC Operating Entities can be prevented, on an uninterrupted basis.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Upon Listing, our Board will consist of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors (two of whom will resign and cease to be Directors upon Listing):

Name	Age	Position	Roles and responsibilities	Date of joining the Group	Date of appointment as Director
Mr. Cai Wensheng (蔡文勝)	46	Executive Director and Chairman	Overall strategic planning and business direction, Chairman of the Nomination Committee	October 2008	July 2013
Mr. Wu Zeyuan (吳澤源)	35	Executive Director and Chief Executive Officer	Overall management of the Company	June 2003	July 2013
Dr. Guo Yihong (過以宏)	52	Non-executive Director	Provide professional opinion and judgment to our Board, member of the Audit Committee	January 2014	January 2014
Dr. Lee Kai-Fu (李開復)	55	Non-executive Director	Provide professional opinion and judgment to our Board, member of the Remuneration Committee	July 2016	August 2016
Mr. Gan JP (甘劍平)	45	Director <sup>(1)</sup>	Advising on the overall strategic planning of our Group	January 2014	January 2014
Mr. Tan Hainan (譚海男)	38	Director <sup>(2)</sup>	Advising on the overall strategic planning of our Group	May 2014	May 2014
Mr. Ko Chun Shun Johnson (高振順)	65	Independent non-executive Director	Chairman of the Remuneration Committee and member of the Audit Committee; supervising and providing independent judgment to our Board	the Listing Date	November 2016 <sup>(3)</sup>
Mr. Zhou Hao (周浩)	40	Independent non-executive Director	Chairman of the Audit Committee and member of the Nomination Committee; supervising and providing independent judgment to our Board	the Listing Date	November 2016 <sup>(3)</sup>
Ms. Lo Po Man (羅寶文)	37	Independent non-executive Director	Member of Remuneration and Nomination Committees; supervising and providing independent judgment to our Board	the Listing Date	November 2016 <sup>(3)</sup>



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## DIRECTORS AND SENIOR MANAGEMENT

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*Notes:*

- (1) Mr. Gan will resign and cease to be a Director upon Listing.
- (2) Mr. Tan will resign and cease to be a Director upon Listing.
- (3) Effective from the Listing Date.

### Executive Directors

**Mr. Cai Wensheng** (蔡文胜), aged 46, is a founder, executive Director and the Chairman of our Group. Mr. Cai also serves as a director of Meitu Holdings and Meipai Ltd. Mr. Cai is responsible for the overall strategic planning and business direction of the Group. Mr. Cai completed his junior high education from Shi Guang High School (石獅市石光中學) in Shishi city, Fujian Province, China in July 1984. Mr. Cai is an entrepreneur and renowned investor in the Internet and technology industry in China. In August 2004, Mr. Cai established 265.com Inc. (北京二六五科技有限公司), a company that provides site navigation services. He was the chairman of 265.com Inc. from August 2004 to 2008, responsible for the company's overall strategic development. 265.com Inc. was sold to Google in 2007. Since then, Mr. Cai has become an influential figure in the Internet start-up community in China. Mr. Cai has invested in various technology start-ups in the PRC, including Baofeng Group Co., Ltd. (暴風集團股份有限公司) (Shenzhen Stock Exchange Stock Code: 300431), 58.com Inc., (NYSE: WUBA) and Feiyu Technology International Company Ltd. (Hong Kong Stock Exchange Stock Code: 1022). Mr. Cai is also the founder and chairman of Longling Capital Co., Ltd. From January 2009 to October 2013, Mr. Cai was the chairman of 4399 Network Co., Ltd. (四三九九網絡股份有限公司), a software enterprise that provides Internet gaming applications and information services, and was responsible for the company's overall strategic development plan. He was also appointed as a part-time professor at the School of Management, Xiamen University in September 2015.

From May 2011 to November 2015, Mr. Cai served as a director of 58.com Inc. Mr. Cai currently holds directorships in Xiamen Fei Bo Network Technology Co., Ltd. (廈門飛博共創網絡科技股份有限公司) (National Equities Exchange and Quotations Stock Code: 834617) since June 2015 and TTG Fintech Limited (Australian Securities Exchange Ticker: TUP) since September 2012.

**Mr. Wu Zeyuan** (吳澤源) (also known as Mr. Wu Xinhong (吳欣鴻)), aged 35, is a founder, executive Director and the Chief Executive Officer of our Group. Mr. Wu is responsible for the overall management of the Company. Mr. Wu is also a director of Meitu Investment, Meitu HK, Meipai Global, Meitu Mobile, Meitu Networks and Meitu Home. Mr. Wu has been involved in the Internet industry in China since 2000. Mr. Wu received his high school diploma from Quanzhou No. 1 High School (泉州第一中學) in the PRC in July 2001. From September 2000 onwards, Mr. Wu was involved in running domain-name registration businesses. Mr. Wu began developing and researching photo-editing software in 2008. Mr. Wu has created and launched one popular product after another, from 520.com to *Martian Translator* (火星文輸入法), a software program for converting ordinary language into netspeak consisting of unconventional Chinese characters. During the past three years, Mr. Wu was not a director of any listed companies.

Mr. Wu has been a director of Quanzhou Haoyi Computer Networks Company (泉州好易計算機網絡有限公司), a limited liability company established in the PRC on August 14, 2001, since its establishment. Because the company had not been in operation since September 2006, no annual inspection was carried out as required under PRC laws, resulting in its business license being revoked on September 12, 2006. Mr. Wu confirmed that he is not aware of any actual or potential claim that has been or will be made against him as a result of the revocation. The company is currently undergoing the process of de-registration.

### Non-executive Directors

**Dr. Guo Yihong** (過以宏), aged 52, is a non-executive Director and a member of the Audit Committee of our Company. Dr. Guo received his bachelor's degree in applied chemistry from the Shanghai Jiaotong University (上海交通大學) in July 1985, Ph.D. from the University of Massachusetts at Amherst in February 1991, and a master's degree in business administration from Columbia Business School in May 1997. In 1999, Dr. Guo was employed at Soros Fund Management LLC. Since 2006, Dr. Guo has been a partner at IDG Capital Investment Consultancy (Beijing) Co., Ltd. (IDG資本投資顧問(北京)有限公司). Dr. Guo has been a director of

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## DIRECTORS AND SENIOR MANAGEMENT

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Internet platform and app development and operating companies, such as Xiamen Gigabit Network Technology Co., Ltd. (廈門吉比特網絡技術股份有限公司), Next Games Oy, Cassia Networks Inc. and Ripple Labs, Inc. Dr. Guo has been a board observer of Farfetch.com Limited since April 2016. Since August 2014, Dr. Guo has been a director of China Quanjude (Group) Co., Ltd (中國全聚德(集團)股份有限公司) (Shenzhen Stock Exchange Stock Code: 002186), a restaurant services group.

Dr. Guo is a partner of IDG-Accel China Growth Fund III L.P., one of our Pre-IPO Investors and a shareholder of our Company.

**Dr. Lee Kai-Fu (李開復)**, aged 55, was appointed as a non-executive Director in August 2016 and is a member of the Remuneration Committee. Dr. Lee received his bachelor of arts degree and Ph.D. in computer science from Columbia University in May 1983 and Carnegie Mellon University in May 1988, respectively. From 1988 to 1990, Dr. Lee worked at Carnegie Mellon University, where he served as an assistant professor. Between July 1990 and April 1996, Dr. Lee worked at Apple Inc. (NASDAQ: AAPL), serving his last position as vice-president from December 1995. From July 1998 to July 2005, Dr. Lee was the vice president at Microsoft Corporation (NASDAQ: MSFT), a software products and services company, where he played a key role in establishing the Microsoft research division. From July 2005 to September 2009, Dr. Lee was the president of Google China at Google Inc. (NASDAQ: GOOGL), where he helped establish Google's operations in the market and oversaw its growth. He was responsible for launching the Google China R&D Center.

Dr. Lee has been an independent non-executive director of Shangri-La Asia Limited (Hong Kong Stock Exchange Stock Code: 0069) since November 18, 2015 and Hon Hai Precision Industry Co., Ltd. (Taiwan Stock Exchange Stock Code: 2317) since July 2016.

Dr. Lee has served as chairman and chief executive officer of Innovation Works Limited, a venture capital firm, since 2009. Dr. Lee has been the chairman of Innovation Works (Beijing) Enterprise Management Co., Ltd. (National Equities Exchange and Quotations Stock Code: 835966), a venture capital firm, since September 2015 and independent non-executive director of LightInTheBox Holding Co., Ltd, a NYSE-listed company (NYSE: LITB) since June 5, 2013.

Dr. Lee is a co-founder and the managing partner of Innovation Works Development Fund L.P., one of our Pre-IPO Investors and a shareholder of our Company.

### Directors

**Mr. Gan JP (甘劍平)**, aged 45, has served as a Director since January 2014. Mr. Gan obtained his master of business administration from the University of Chicago Graduate School of Business in June 1999. From July 2005 to December 2006, Mr. Gan was the chief financial officer of KongZhong Corporation (NASDAQ: KZ), a wireless Internet company. Mr. Gan has been a managing partner of Qiming Weichuang Venture Capital Management (Shanghai) Co., Ltd. since January 2007.

Mr. Gan has been an independent director of Ctrip.com International, Ltd., (NASDAQ: CTRP) since 2002.

Mr. Gan will resign and cease to be a Director upon Listing.

**Mr. Tan Hainan (譚海男)**, aged 38, has served as a Director since May 2014. Mr. Tan obtained a concurrent bachelor of arts, and master of arts from Northwestern University, Illinois in June 2004. From August 2004 to July 2006, Mr. Tan was an associate consultant at Bain & Company, Inc. responsible for providing consultancy services. From August 2006 to August 2007, he was an associate in Crimson Investment SV, LLC responsible for reviewing investment opportunities and working with portfolio companies, etc. From August 2007 to May 2011, Mr. Tan served as vice president of Summit Partners and became the director of business development in China from May 2011 where he led the firm's Asia-Pacific practice and was responsible for managing transactions in the region. From January 2008 to March 2011, Mr. Tan served as the non-executive director of Announce Media, a company providing Internet services. Mr. Tan worked for TA Associates Asia

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## DIRECTORS AND SENIOR MANAGEMENT

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Pacific Limited, Menlo Park, California office from May 2011 as a director of the China region before relocating to Hong Kong in March 2012 to focus on investments in growth companies in the PRC. From June 2012 to October 2014, Mr. Tan served as non-executive director of Forgame.

Mr. Tan will resign and cease to be a Director upon Listing.

### Independent non-executive Directors

**Mr. Ko Chun Shun Johnson** (高振順), aged 65, has been appointed as an independent non-executive Director of our Company, chairman of the Remuneration Committee and a member of the Audit Committee of our Company with effect from Listing. From December 2006 to June 19, 2015, he served as an executive director of Concord New Energy Group Limited (Hong Kong Stock Exchange Stock Code: 0182). He served as an executive director of Sheng Yuan Holdings Limited (Hong Kong Stock Exchange Stock Code: 0851) from 2007 to June 4, 2009. He served as an executive director of Huayi Tencent Entertainment Company Limited (Hong Kong Stock Exchange Stock Code: 0419) from June 2002 to January 2008.

Over the past three years, Mr. Ko has held directorships in the following listed companies:

- Varitronix International Limited (Hong Kong Stock Exchange Stock Code: 0710) as an executive director from June 2005 to April 2016
- KuangChi Science Limited (Hong Kong Stock Exchange Stock Code: 0439) as an executive director since August 2014
- ReOrient Group Limited (Hong Kong Stock Exchange Stock Code: 0376) as an executive director from August 2011 to April 2016 and as non-executive director since April 2016
- Frontier Services Group Limited (Hong Kong Stock Exchange Stock Code: 0500) as an executive director since February 1999; and
- Concord New Energy Group Limited (Hong Kong Stock Exchange Stock Code: 0182) as an executive director from December 2006 to June 2015.

**Mr. Zhou Hao** (周浩), aged 40, has been appointed as an independent non-executive Director of our Company, chairman of the Audit Committee and member of the Nomination Committee of our Company with effect from Listing. Mr. Zhou is our Director with appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below. Mr. Zhou received his bachelor's degree from Shanghai International Studies University (上海外國語大學) in July 1998. Mr. Zhou joined General Electric (China) Co., Ltd. (通用電氣(中國)有限公司) in January 2007 as a financial manager. From May 2009 to September 2010, Mr. Zhou was the vice president of finance and the chief financial officer at Wuxi PharmaTech (Cayman) Inc., (NYSE: WX). In September 2010, Mr. Zhou joined CITIC Pharmaceutical Co Ltd. (中信醫藥實業有限公司), a pharmaceutical service provider that supplies medicine and related consumables to hospitals as chief financial officer. Since May 2011, Mr. Zhou has served as the chief financial officer of 58.com Inc., (NYSE: WUBA), a company that operates online marketplace serving local merchants and consumers in China.

**Ms. Lo Po Man** (羅寶文), aged 37, has been appointed as an independent non-executive Director and a member of the Remuneration and Nomination Committee of our Company with effect from Listing. Ms. Lo received her bachelor of arts degree from Duke University in September 1999. Since 2013, Ms. Lo has been the managing director and vice chairman of Regal Hotels International Holdings Ltd. (Hong Kong Stock Exchange Stock Code: 078) responsible for sales and marketing. Ms. Lo has been an executive director and vice chairman of Century City International Holdings Ltd. (Hong Kong Stock Exchange Stock Code: 0355) since January 2007, responsible for the business development of the Century City Group and Cosmopolitan International Holdings Ltd. (Hong Kong Stock Exchange Stock Code: 0120) since December 2013. Ms. Lo has been an executive director of Paliburg Holdings Ltd. (Hong Kong Stock Exchange Stock Code: 0617) since January 2007. Ms. Lo is the founder of Bodhi and Friends and the chief executive officer and founder of Century Innovative Technology Ltd., a family education entertainment content provider in China.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Lo is the first person to receive both the Hong Kong Outstanding Student and the Ten Outstanding Young Persons Awards. In 2015, Ms. Lo was the recipient of the Business for Peace Award by the Oslo Business for Peace Foundation in Norway.

Ms. Lo currently acts as director of the following companies:

- Century City International Holdings Limited (Hong Kong Stock Exchange Stock Code: 0355)
- Paliburg Holdings Ltd (Hong Kong Stock Exchange Stock Code: 0617)
- Cosmopolitan International Holdings Limited (Hong Kong Stock Exchange Stock Code: 0120)
- Regal Hotels International Holdings Limited (Hong Kong Stock Exchange Stock Code: 078)
- Regal Real Estate Investment Trust (Hong Kong Stock Exchange Stock Code: 1881)

Saved as disclosed herein (and their respective interests or short positions (if any) as set out in the section headed “Appendix IV — Statutory and General Information — Further Information About the Directors, Management, Staff, Substantial Shareholders and Experts”, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

### SENIOR MANAGEMENT

The senior management team of our Group, in addition to the Directors listed above, is comprised of the following:

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. Ngan King Leung Gary (顏勁良).....	33	Chief Financial Officer and joint company secretary	Overall financial strategy, investor relations and company secretarial matters	June 2015
Mr. Zhang Wei (張偉) .....	30	Chief Technology Officer	Company’s research and technology	March 2008
Ms. Ruan Yongli (阮永麗) .....	31	Senior Vice President of Technology	Development of web infrastructure and data analytics	April 2006
Mr. Chen Jie (陳杰).....	30	Senior Vice President of Product Development	Management and design for Internet products	April 2009
Ms. Zeng Zhiping (曾志蘋) .....	38	Senior Vice President of Human Resources, Administration and Public Relations	Human resources and administration	August 2011
Mr. Fu Frank Kan (傅侃).....	47	Managing Director of International Business	Management of international business	January 2016
Mr. Zhang Jun (張君) .....	30	Senior Vice President of e-commerce Business	Management of e-commerce business	June 2016

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Ngan King Leung Gary (顏勁良)**, aged 33, is our Chief Financial Officer and joined our Group in June 2015. Mr. Ngan is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of the Group. Between May 2012 and June 2015, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame, a mobile games and web game company listed on the Stock Exchange. Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame from February 2013 to November 2014. Over the past three years, Mr. Ngan has not been a director of any listed companies.

**Mr. Zhang Wei (張偉)**, aged 30, is our Chief Technology Officer and joined our Group in March 2008. Mr. Zhang is primarily responsible for our research and technology. Mr. Zhang received his bachelor of engineering in computer science and technology from the Wuhan University of Science and Technology (武漢科技大學) in June 2008. Over the past three years, Mr. Zhang has not been a director of any listed companies.

**Ms. Ruan Yongli (阮永麗)**, aged 31, is our Senior Vice President of Technology and joined our Group in April 2006. Ms. Ruan is primarily responsible for the development of web infrastructure and data analytics for the Company. Ms. Ruan received her bachelor of science in computer science and technology from Minnan Normal University (閩南師範大學) (formerly known as Zhang Zhou Normal School (漳州師範學院)) in the PRC in July 2006. Over the past three years, Ms. Ruan has not been a director of any listed companies.

**Mr. Chen Jie (陳杰)**, aged 30, is our Senior Vice President of Product Development. Mr. Chen joined our Group in April 2009 and is primarily responsible for the management and design of our software products. Mr. Chen received his specialist degree in graphics design from Putian University in the PRC in July 2008. In August 2014, Mr. Chen was appointed as an executive director of Meitu Technology. Over the past three years, Mr. Chen has not been a director of any listed companies.

**Ms. Zeng Zhiping (曾志蘋)**, aged 38, is our Senior Vice President of Human Resources, Administration and Public Relations and joined our Group in August 2011. Ms. Zeng received her bachelor of science in management information systems and science from Huaqiao University (華僑大學), Fujian in July 2001. From April 2002 to August 2011, Ms. Zeng was the human resource director at Lenovo Mobile Communication Technology Ltd. (聯想移動通信科技有限公司), a wholly-owned subsidiary of Lenovo Group Limited (聯想集團有限公司) (Hong Kong Stock Exchange Stock Code: 0992), a Chinese multinational technology company. Over the past three years, Ms. Zeng has not been a director of any listed companies.

**Mr. Fu Frank Kan (傅侃)**, aged 47, is our Managing Director of International Business and joined our Group in January 2016. Mr. Fu received his bachelor of science degree in business administration from Midland University (formerly known as Midland Lutheran College), Nebraska in July 1992 and his master's in business administration from San Jose State University, California in May 1999. From July 2013 to January 2016, Mr. Fu was the executive vice president of global operation for Kingsoft Office Beijing Headquarters and president of Kingsoft Office Software, Inc., a software development company where he was responsible for Kingsoft headquarters' global operations. Over the past three years, Mr. Fu has not been a director of any listed companies.

**Mr. Zhang Jun (張君)**, aged 30, is our Senior Vice President of e-commerce Business and joined our Group in June 2016. From September 2002 to June 2005, Mr. Zhang studied at the Chayou Houqi first secondary school (察右後旗第一中學). From 2011 to 2014, Mr. Zhang was the national general manager of Shanghai MediaV Advertising Co., Ltd. (上海聚勝萬合廣告有限公司), a subsidiary of Leo Group Co., Ltd. (利歐集團股份有限公司), an advertising and brand consultancy company. From October 2014 to May 2016, Mr. Zhang was the general manager for group business operations of NetEase (Hangzhou) Network Co., Ltd. (網易(杭州)網絡有限公司), a subsidiary of NetEase, Inc. (NASDAQ: NTES), a Chinese Internet technology company providing online services centered on content, community, communications and commerce. Over the past three years, Mr. Zhang has not been a director of any listed companies.



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## DIRECTORS AND SENIOR MANAGEMENT

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### JOINT COMPANY SECRETARY

Mr. Ngan and Ms. Lee Ka Man (李嘉文) of Fair Wind Secretarial Services Limited were both appointed as the joint company secretaries of our Company on August 2, 2016. See disclosure in “Directors and Senior Management — Senior Management” for the biography of Mr. Ngan.

Ms. Lee Ka Man (李嘉文), aged 43, is an associate member of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee obtained a bachelor’s degree in business administration from The Open University of Hong Kong in June 2002. She obtained a master’s degree in business administration from The Open University of Hong Kong in December 2004. Ms. Lee joined Fair Wind Secretarial Services Limited in August 1999. She has more than 15 years of experience in the field of company secretarial services and has been the company secretary of Advanced Card Systems Holdings Limited (Hong Kong Stock Exchange Stock Code: 2086) since August 17, 2009, a smart card development company listed on the Stock Exchange.

### COMMITTEES UNDER THE BOARD OF DIRECTORS

#### *Audit Committee*

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system (including risk management) of the Group, review and approve connected transactions and provide advice and comments to the board of Directors. The audit committee consists of three members, namely Mr. Zhou Hao, Mr. Ko Chun Shun Johnson and Dr. Guo Yihong. Mr. Zhou Hao has been appointed as the chairman of the audit committee and is our independent non-executive Director with the appropriate professional qualifications.

#### *Remuneration Committee*

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee consists of three members, namely Mr. Ko Chun Shun Johnson, Dr. Lee Kai-Fu and Ms. Lo Po Man. Mr. Ko Chun Shun Johnson has been appointed as the chairman of the remuneration committee.

#### *Nomination Committee*

We have established a nomination committee with written terms of reference in compliance with the Code on Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee consists of three members, namely Mr. Cai, Mr. Zhou Hao and Ms. Lo Po Man. Mr. Cai has been appointed as the chairman of the nomination committee.

### MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the principal business operations of our Group are conducted in the PRC, members of our senior management (other than Mr. Ngan, one of the joint company secretaries of our Company, who is ordinarily



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## DIRECTORS AND SENIOR MANAGEMENT

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resident in Hong Kong) are, and are expected to continue to be, based in the PRC. Further, as our executive Directors have a vital role in our Group's operations and it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, please see section headed "Waivers from Strict Compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance" in this prospectus.

### DIRECTORS' REMUNERATION

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for the five highest paid individuals for the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2016 was approximately RMB 1,979,000, RMB 2,462,000, RMB 22,113,000 and RMB 15,948,000, respectively.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors for the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2016 was approximately RMB305,000, RMB777,000, RMB1,234,000 and RMB548,000, respectively. None of our Directors waived any remuneration during the aforesaid periods.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2016 by our Company to our Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

### COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the Compliance Advisor shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option and the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Shareholder	Capacity / Nature of Interest	Number of ordinary shares with par value of US\$0,0001 each held at the date of this prospectus	Approximate percentage of shareholding in our Company at the date of this prospectus	Number of Shares held after the Global Offering	Approximate percentage of shareholding in our Company after the Global Offering
Mr. Wu <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Easy Prestige Limited <sup>(2)(4)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Xinhong Capital <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Mr. Cai <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Baolink Capital <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Longlink Limited <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Longlink Capital <sup>(2)</sup>	Interest of a party to an agreement regarding interest in the Company <sup>(1)</sup>	166,666,667	45.62%	1,666,666,670	39.43%
Ultra Colour Limited <sup>(3)(4)</sup>	Interest in a controlled corporation	30,000,000	8.21%	300,000,000	7.10%
Ultra Colour <sup>(3)</sup>	Beneficial Interest	30,000,000	8.21%	300,000,000	7.10%
Lion Trust (Singapore) Limited <sup>(2)(3)(4)</sup>	Trustee of a discretionary trust	148,666,667	40.69%	1,486,666,670	35.17%

## SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Capacity / Nature of Interest	Number of ordinary shares with par value of US\$0.0001 each held at the date of this prospectus	Approximate percentage of shareholding in our Company at the date of this prospectus	Number of Shares held after the Global Offering	Approximate percentage of shareholding in our Company after the Global Offering
IDG-Accel China Growth Fund III L.P. <sup>(5)</sup>	Beneficial Interest	30,390,866	8.32%	303,908,660	7.19%
IDG-Accel China III Investors L.P. <sup>(5)</sup>	Beneficial Interest	2,154,503	0.59%	21,545,030	0.51%
Qiming Venture Partners III, L.P. <sup>(6)</sup>	Beneficial Interest	27,097,141	7.42%	270,971,410	6.41%
Qiming Managing Directors Fund III, L.P. <sup>(6)</sup>	Beneficial Interest	854,077	0.23%	8,540,770	0.20%
Internet Fund II Pte. Ltd. <sup>(7)</sup>	Beneficial Interest	39,999,518	10.95%	399,995,180	9.46%
Assets Eagle Global Limited <sup>(8)</sup>	Beneficial Interest	25,389,670	6.95%	253,896,700	6.01%

*Notes:*

- (1) Pursuant to the Concert Party Agreement. See the section headed “History, Reorganization and Corporate Structure” for details.
- (2) The entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu. The entire interest of Baolink Capital is held by Mr. Cai and the entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.
- (3) The entire interest of Ultra Colour is held by Ultra Colour Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai Rongjia, Mr. Cai’s son.
- (4) The entire interest of Easy Prestige Limited, Longlink Limited and Ultra Colour Limited is held by Lion Trust (Singapore) Limited and is deemed to be interested in these Shares.
- (5) To the best of our Directors’ knowledge, IDG-Accel China Growth Fund III L.P. (“**IDG-Accel Growth Fund**”) and IDG-Accel China III Investors L.P. (“**IDG-Accel Investors Fund**”) are both exempted limited partnerships registered under the laws of the Cayman Islands. The general partner of IDG-Accel Growth Fund is IDG-Accel China Growth Fund Associates L.P., an exempted limited partnership registered under the laws of the Cayman Islands, whose general partner is IDG-Accel China Growth Fund GP III Associates Ltd. (“**IDG-Accel GP III**”), an exempted company incorporated in the Cayman Islands with limited liability. IDG-Accel GP III also serves as the general partner of IDG-Accel Investors Fund. IDG-Accel Growth Fund and IDG-Accel Investors Fund collectively hold 8.91% of the voting rights of the Company as at the date of this prospectus.
- (6) To the best of our Directors’ knowledge, each of Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P. is an exempted limited partnership registered in the Cayman Islands on May 6, 2011. The general partner of Qiming Venture Partners III L.P. is Qiming GP III, L.P., an exempted limited partnership registered under the laws of Cayman Islands whose general partner is Qiming Corporate GP III Ltd., an exempted company incorporated in the Cayman Islands with limited liability. The general partner of Qiming Managing Directors Fund III, L.P., is Qiming Corporate GP III, Ltd., an exempted company incorporated in the Cayman Islands with limited liability. Qiming Venture Partners III, L.P. and Qiming Managing Directors Fund III, L.P. collectively hold 7.65% of the voting rights of the Company as at the date of this prospectus.
- (7) Internet Fund II Pte. Ltd. is an investment company managed by Tiger Global Singapore Pte. Ltd. Tiger Global Singapore Pte. Ltd. is a company based in Singapore which holds a capital markets service license to conduct fund management activities.
- (8) Assets Eagle Global Limited is special purpose vehicle established and managed by ChinaAMC Capital Management (BVI) Limited, which is a wholly-owned subsidiary of China Asset Management (Hong Kong) Limited.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming the Over-allotment Option and the options granted under the

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## **SUBSTANTIAL SHAREHOLDERS**

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ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

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## SHARE CAPITAL

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The following is a description of our authorized and issued share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering.

### 1. Prior to the Share Subdivision and the Global Offering (assuming all Preferred Shares are converted into ordinary shares of US\$0.0001 each)

	Nominal Value (US\$)
<i>Authorized share capital</i>	
600,000,000..... ordinary shares of US\$0.0001 par value	60,000.00
<i>Issued and to be issued, fully paid or credited to be fully paid</i>	
365,329,455..... ordinary shares of US\$0.0001 par value	36,532.95

### 2. Immediately following the completion of the Share Subdivision and the Global Offering

	Nominal Value (US\$)
<i>Authorized share capital</i>	
6,000,000,000 ..... Shares	60,000.00
<i>Issued and to be issued, fully paid or credited to be fully paid</i>	
3,653,294,550 ..... Shares in issue	36,532.95
574,000,000..... Shares to be issued pursuant to the Global Offering	5,740.00
4,227,294,550 ..... <b>Total</b>	42,272.95

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering. It also assumes that the options granted under the ESOP are not exercised and does not take into account any options that may be granted under the Share Option Scheme and Shares that may be granted under the Share Award Scheme or any Shares which may be issued or repurchased pursuant to the general mandate given to the Directors for issue and allotment of Shares referred to in “Appendix IV — Statutory and General Information — Written resolutions of the shareholders passed on November 25, 2016” or the repurchase mandate referred to “Appendix IV — Statutory and General Information — Written resolutions of the shareholders passed on November 25, 2016”, as the case may be.

### RANKING

The Shares will be ordinary shares in our share capital and will rank equally with all Shares then in issue and, in particular, will rank equally for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Company Law — Articles of Association — Alteration of capital”.

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## SHARE CAPITAL

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Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Company Law — Articles of Association — Variation of rights of existing shares or classes of shares”.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Company Law”.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering; and
- the aggregate nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual general meeting is required under any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- it is varied or revoked by an ordinary resolution of our shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under “Appendix IV — Statutory and General Information — Written resolutions of the shareholders passed on November 25, 2016” of this prospectus.

### ESOP

We have adopted the ESOP on February 15, 2014 and amended by resolution of the Board on November 18, 2015. Please refer to “Appendix IV — Statutory and General Information — Other Information — ESOP” for further details.

### SHARE OPTION SCHEME

We conditionally adopted a Share Option Scheme which is in compliance with Chapter 17 of the Listing Rules by way of written resolutions of our Shareholders passed on November 25, 2016. Please refer to “Appendix IV — Statutory and General Information — Other Information — Share Option Scheme” for further details.

### SHARE AWARD SCHEME

We conditionally adopted a Share Award Scheme by way of written resolutions of our Shareholders passed on November 25, 2016. Please refer to “Appendix IV — Statutory and General Information — Other Information — Share Award Scheme” for further details.



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## SHARE CAPITAL

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### REPURCHASE MANDATE

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which our Securities may be listed with a total nominal value of not more than US\$4,227.29 divided into 422,729,455 Shares, representing 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix IV — Statutory and General Information — Written resolutions of the shareholders passed on November 25, 2016”.

The general mandate to repurchase Shares will remain in effect until:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual general meeting is required by any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- it is varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever is the earliest.

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (altogether, the “**Cornerstone Investment Agreements**”) with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 500 Shares) that may be purchased for an aggregate amount of US\$160 million (or approximately HK\$1,241.2 million) (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$9.05 per Share (being the mid-point of the indicative Offer Price range of HK\$8.50 and HK\$9.60 per Share), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be approximately 137,143,000 Shares, representing approximately (i) 26.5% of the total number of International Offering Shares issued under the International Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (ii) 23.9% of the Offer Shares or 3.2% of our entire issued share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (iii) 20.8% of the Offer Shares or 3.2% of our entire issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is exercised in full but the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

Each of the Cornerstone Investors is an Independent Third Party, is not a connected person (as defined under the Listing Rules) of our Company, and is not an existing Shareholder or close associates of our Company. In addition, each of the Cornerstone Investors is independent of each other, and makes independent investment decisions. Details of the actual number of the Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around December 14, 2016.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with other fully paid Shares then in issue upon completion of the Global Offering and to be listed on the Stock Exchange and will be counted towards the public float of our Shares. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective Cornerstone Investment Agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any representation on our Board, nor will any of the Cornerstone Investors become a substantial shareholder (as defined under the Listing Rules) of our Company. The Cornerstone Investors do not have any preferential rights as compared with other public Shareholders in the respective Cornerstone Investment Agreements.

The number of Offer Shares to be subscribed for by the Cornerstone Investors may be adjusted, if necessary, to comply with applicable requirements of the Stock Exchange and the Listing Rules (including any mandatory reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering effected pursuant to paragraph 4.2 of Practice Note 18 to the Listing Rules) as described in the sub-section headed “Structure of the Global Offering — the Hong Kong Public Offering”.

## CORNERSTONE INVESTORS

### OUR CORNERSTONE INVESTORS

We have entered into the Cornerstone Investment Agreements with the following Cornerstone Investors in respect of the Cornerstone Placing:

Cornerstone Investor	Investment Amount (US\$ in million)	Total number of Offer Shares to be subscribed for by the Cornerstone Investors (rounded down to the nearest whole board lot of 500 Shares) based on the Offer Price of HK\$9.05, being the mid-point of the indicative Offer Price range	Approximate percentages of the International Offering Shares based on the Offer Price of HK\$9.05, being the mid-point of the indicative Offer Price range	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering <sup>(2)</sup>		
				Based on the Offer Price of HK\$8.50, being the low-end of the indicative Offer Price range <sup>(1)</sup>	Based on the Offer Price of HK\$9.05, being the mid-point of the indicative Offer Price range <sup>(1)</sup>	Based on the Offer Price of HK\$9.60, being the high-end of the indicative Offer Price range <sup>(1)</sup>
Kingkey Enterprise Holdings Limited .....	120	102,857,500	19.9%	2.6%	2.4%	2.3%
Ports International Enterprise Limited .....	40	34,285,500	6.6%	0.9%	0.8%	0.8%
<b>Total .....</b>	<b>160</b>	<b>137,143,000</b>	<b>26.5%</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.1%</b>

Notes:

- (1) As the exercise of the Over-allotment Option does not involve the issue of new Shares, there will not be any change to the shareholding percentage should the Over-allotment Option be exercised.
- (2) Assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

#### Kingkey Enterprise Holdings Limited (“Kingkey”)

Pursuant to the cornerstone investment agreement entered into between our Company, the Joint Global Coordinators, Mr. Chen Jiarong (as guarantor) and Kingkey dated November 21, 2016 (as amended by an amendment agreement dated November 29, 2016), Kingkey has agreed to subscribe for such number of Offer Shares (rounded to the nearest whole board lot of 500 Offer Shares) which may be purchased with an aggregate amount of US\$120 million (or approximately HK\$930.9 million) at the Offer Price. Assuming an Offer Price of HK\$9.05 per Share, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares that Kingkey would subscribe for would be approximately 102,857,500 Shares, representing (i) 19.9% of the total number of International Offering Shares issued under the International Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (ii) 17.9% of the Offer Shares or 2.4% of our entire issued share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (iii) 15.6% of the Offer Shares or 2.4% of our entire issued share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full but the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

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## CORNERSTONE INVESTORS

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Kingkey may obtain external financing by entering into a loan facility with CCB International Securities Limited (the “**CCBI Lender**”) to finance its subscription of the Offer Shares. The ultimate beneficial owner of the CCBI Lender is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Hong Kong Stock Exchange Stock Code: 939) and the Shanghai Stock Exchange (Shanghai Stock Exchange Stock Code: 601939), which is also the ultimate controlling shareholder of CCBI. The loan, if obtained, will be on normal commercial terms after arm’s length negotiations. All or some of the Offer Shares to be subscribed for by Kingkey may be charged to the CCBI Lender as security for the loan facility. Under the financing arrangement, upon the occurrence of certain customary events of default, Kingkey may be required to repay the loan before its maturity. The CCBI Lender may therefore have the right to enforce the security interest in the Offer Shares subject to such charge at any time upon the occurrence of certain customary events of default, save that each of Kingkey and the CCBI Lender agrees and undertakes to our Company and the Joint Global Coordinators to procure the CCBI Lender not to and/or not to dispose of the collateral shares under the financing arrangement (as the case may be) at any time during the period of six (6) months starting from and inclusive of the Listing Date.

Kingkey is a company incorporated with limited liability in the BVI, and Mr. Chen Jiarong and Mr. Chen Jiajun hold 50% and 50% equity interest in Kingkey, respectively. Kingkey’s principal activities are securities trading and investment holdings purposes.

### **Ports International Enterprises Limited (“PIEL”)**

Pursuant to the cornerstone investment agreement entered into between our Company, Morgan Stanley, Credit Suisse, China Merchants Securities and PIEL dated November 25, 2016, PIEL has agreed to subscribe for such number of Offer Shares (rounded to the nearest whole board lot of 500 Offer Shares) which may be purchased with an aggregate amount of US\$40 million (or approximately HK\$310.3 million) at the Offer Price. Assuming an Offer Price of HK\$9.05 per Share, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares that PIEL would subscribe for would be approximately 34,285,500 Shares, representing (i) 6.6% of the total number of International Offering Shares issued under the International Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (ii) 6.0% of the Offer Shares or 0.8% of our entire issued share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option, the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme; or (iii) 5.2% of the Offer Shares or 0.8% of our entire issued share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option is exercised in full but the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

PIEL is a company incorporated with limited liability in the BVI. PIEL’s principal business activity is investment holdings. As at June 30, 2016, PIEL holds 74.47% of Portico International Holdings Limited (Hong Kong Stock Exchange Stock Code: 589), a conglomerate primarily engaging in the wholesale and retail distribution of ladies’ and men’s fashion apparel and accessories in the PRC, the U.S., Canada and Europe.

### **CONDITIONS PRECEDENT**

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

1. the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as specified in such agreements;
2. the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);

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## CORNERSTONE INVESTORS

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3. the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares under the Cornerstone Placing as well as other applicable waivers and approvals) in issue and to be issued pursuant to the Global Offering and that such approval or permission have not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
4. no Laws shall have been enacted or promulgated by any Governmental Authority (as defined in the relevant cornerstone investment agreement) which prohibit the consummation of the transactions contemplated under the Global Offering or under the relevant cornerstone investment agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting the consummation of the transactions contemplated under the Global Offering or under the relevant cornerstone investment agreement; and
5. the respective representations, warranties, acknowledgements, undertakings and confirmations of the relevant Cornerstone Investor, the guarantor (if any) and our Company under the relevant cornerstone investment agreement are accurate and true in all respects and not misleading and that there is no material breach of such cornerstone investment agreement on the part of the relevant Cornerstone Investor.

Pursuant to the relevant Cornerstone Investment Agreements, if any of the conditions precedent has not been fulfilled or waived by the parties to such relevant agreement (except that the conditions set out in paragraph (1) to (4) above cannot be waived and the condition set out in paragraph (5) above can only be waived by the Company and the Joint Sponsors or the Joint Global Coordinators (as the case may be)), the obligation of the relevant Cornerstone Investor to subscribe for Offer Shares shall cease and the relevant cornerstone investment agreement will terminate.

### RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, among other things, without the prior written consent of each of our Company and the Joint Sponsors or the Joint Global Coordinators (as the case may be), it will not, and will procure that the investor subsidiary (as defined in the relevant cornerstone investment agreement) will not, whether directly or indirectly, at any time during the period of six (6) months starting from and inclusive of the Listing Date (the “**Lock-up Period**”), (i) dispose of (as defined in the relevant cornerstone investment agreement), in any way, any of the Shares subscribed by it under the relevant cornerstone investment agreement and any shares or securities of our Company derived therefrom (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares, including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the forgoing securities; (ii) agree or contract to, or publicly announce any intention to, enter any such transaction described above; (iii) allow itself to undergo a change of control (as defined in the Hong Kong Takeovers Code) at the level of its ultimate beneficial owner; or (iv) enter into, directly or indirectly, any transaction for such disposal of the Relevant Shares or interest or any transactions with the same economic effect.

In the event any Cornerstone Investor disposes of any Relevant Shares at any time after expiration of the Lock-up Period, such Cornerstone Investor (i) will first inform our Company in writing and consult our Company and the Joint Sponsors or the Joint Global Coordinators (as the case may be) prior to the disposal, (ii) will use its best endeavor to ensure that any such disposal will not create a disorderly or false market in the Shares and it otherwise in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the Listing Rules and all applicable laws; and (iii) unless prior written consent is obtained from each of our Company and the Joint Sponsors or the Joint Global Coordinators (as the case may be), will not enter into any such transaction with a person who engages directly or indirectly in a business that competes or potentially competes with the business of our Company or with any other entity that is a holding company, subsidiary or associate (as defined in the Listing Rules) of such person.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from GAAP in other jurisdictions, including the United States.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this prospectus, including the sections headed "Risk Factors" and "Business".*

*For the purpose of this section, unless the context otherwise requires, references to 2013, 2014 and 2015 refer to our financial years ended December 31 of such years, and references to the first half of 2015 and 2016 refer to the six months ended June 30, 2015 and 2016, respectively. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

### OVERVIEW

We operate two business segments: (i) smart hardware and (ii) Internet services and others. At present, the smart hardware segment primarily comprises the sale of Meitu smartphones, while the Internet services and others segment primarily comprises online advertising and the sale of virtual items on *Meipai* and in our mobile game. Revenue from our smart hardware segment had grown rapidly over the Track Record Period and represented 59.7%, 87.8%, 89.9% and 95.1% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Going forward, while we expect to continue to drive our smartphone sales, we also plan to broaden our monetization efforts and serve our users' beauty-related needs in more diverse ways. Please refer to the section headed "Business" for a detailed discussion of our business.

Our revenue increased from RMB85.9 million for the year ended December 31, 2013 to RMB488.0 million and RMB741.8 million for the years ended December 31, 2014 and 2015, respectively, representing a CAGR of 193.9%, and our revenue increased by 224.2% from RMB180.6 million for the six months ended June 30, 2015 to RMB585.5 million for the six months ended June 30, 2016. Our net loss was RMB25.8 million, RMB1.8 billion, RMB2.2 billion, RMB1.3 billion and RMB2.2 billion for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. Excluding the impact of fair value loss of the Preferred Shares and share-based payments, we had adjusted net loss of RMB2.3 million, RMB112.3 million, RMB710.5 million, RMB290.4 million and RMB257.6 million for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. See "Financial Information — Consolidated Income Statement" and "Financial Information — Non-IFRS Measure: Adjusted Net Loss".

### BASIS OF PRESENTATION

The Company was incorporated as an exempted liability company in the Cayman Islands on July 25, 2013. Prior to the incorporation of the Company, our operations in China were conducted through Meitu Networks and Meitu Mobile, which were controlled by the Controlling Shareholders. After completion of the Corporate Restructuring, the Company became the holding company that, among other things, (i) indirectly owns Meitu Mobile and Meitu Home and (ii) has effective control over Meitu Networks and its subsidiaries through the Contractual Arrangements. See the sections headed "History, Reorganization and Corporate Structure" and "Contractual Arrangements" for more details. The Corporate Restructuring was merely a reorganization of business and did not result in any changes to our business substance, management or Controlling Shareholders.



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## FINANCIAL INFORMATION

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Accordingly, the consolidated financial statements of the companies now comprising the Group are presented using the carrying value of our business for all periods presented. Intercompany transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

#### Shipment Volume and Pricing of Smart Hardware

Our smart hardware segment is affected by the pricing and shipment volume of our smartphones and any other smart hardware that we may introduce in the future. Our smart hardware segment currently primarily comprises the sale of Meitu smartphones. Shipment volume of our smartphones is generally higher at the time of launch of new models, and during promotional campaigns. The selling price of our smartphones is affected by changes in the cost of components and materials, the anticipated demand for new models, the income levels of target users, changes in the mix of sales channels, the historical sales volume of previous models of Meitu smartphones, and the prices of smartphones with similar features and functionalities that our competitors offer. In general, newly-launched models of the same series tend to be priced higher than older models, as newer generations of our smartphones generally tend to offer higher quality, better performance and more features. Average selling prices and demand for a particular smartphone model typically decline during its life cycle. We have and plan to continue to offset the effect of declining demand and average selling prices for our existing smartphone models by continuing to introduce new and enhanced models. Starting in 2014, we have sold the majority of our smartphones to distributors and retailers instead of directly to end customers, and we expect that we will continue to sell the majority of our smartphones to distributors and retailers. As a result, the price at which we sell our smartphones to distributors and retailers significantly affects our revenue and results of operations. Consequently, our revenue and results of operations may be affected by our ability to maintain good relationships with our distributors and retailers, the competitiveness and the operating and financial performance of such distributors and retailers, as well as our ability to replace or find additional distributors and retailers for our smartphones.

#### Cost of Components and Materials and Bandwidth and Server Custody Fees

Our cost of sales is primarily affected by fluctuations in the prices of components and materials for our smart hardware. The cost of components and materials for our smart hardware business, which primarily comprises smartphone components and materials, represented approximately 81.0%, 89.0%, 80.5% and 85.8% of our cost of sales for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The main components and materials used in the manufacture of our smartphones, as measured by cost as a percentage of our total cost of sales, include displays, processors, memory chips, and front and rear cameras, which collectively accounted for approximately 47.2% and 49.4% of our cost of components and materials for the years ended December 31, 2015 and the six months ended June 30, 2016, respectively. We are exposed to increases in the prices of such components and materials, which are sourced from one or a limited number of suppliers and their authorized distributors. While we may pass overall increases in component and material prices to our smartphone customers, we may not be able to do so completely or in a timely fashion. In addition, if we begin to develop and sell additional smart hardware or other consumer products as part of our monetization strategy, the cost of components and materials for such additional products would also be subject to price fluctuations and have similar impact on our cost of sales. Significant fluctuations in the costs of any of our components and materials could have a material effect on our margins and profits.

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The following table sets forth a sensitivity analysis of the impact that hypothetical changes in our cost of components and materials would have had on our adjusted net loss, with all other variables held constant, for the periods indicated. See “— Non-IFRS Measure Adjusted Net Loss” for details on adjusted net loss.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	Adjusted Net Loss	Change in Adjusted Net Loss	Adjusted Net Loss	Change in Adjusted Net Loss	Adjusted Net Loss	Change in Adjusted Net Loss	Adjusted Net Loss	Change in Adjusted Net Loss	Adjusted Net Loss	Change in Adjusted Net Loss
	(in RMB thousands, except percentages)									

### Components and materials cost changes:

+10% .....	(5,249)	(2,937)	(148,056)	(35,713)	(762,093)	(51,605)	(300,101)	(9,712)	(301,478)	(43,858)
+5% .....	(3,781)	(1,469)	(130,199)	(17,856)	(736,290)	(25,802)	(295,245)	(4,856)	(279,549)	(21,929)
0% .....	(2,312)	—	(112,343)	—	(710,488)	—	(290,389)	—	(257,620)	—
-5% .....	(843)	1,469	(94,487)	17,856	(684,686)	25,802	(285,533)	4,856	(235,691)	21,929
-10% .....	625	2,937	(76,631)	35,713	(658,883)	51,605	(280,677)	9,712	(213,763)	43,858

*Note:* Hypothetical changes in adjusted net loss do not take into account the potential tax impact.

During the Track Record Period, we did not experience any material loss due to fluctuations in the prices of components and materials.

In addition, our cost of sales is also affected by fluctuations in the cost of bandwidth and server custody incurred in connection with our Internet services and others segment. Bandwidth and server custody fees represented approximately 5.7%, 4.2%, 10.3% and 6.8% of our cost of sales for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Bandwidth and server custody fees are affected by the volume of our concurrent user traffic, the number of apps we operate, and the scale of our data storage and analytics. The significant increase in our bandwidth and server custody fees over the Track Record Period reflected the growth of our business operations, user base and user activities in relation to our apps, particularly for *Meipai*, our video and live streaming community, which consumes more bandwidth for its videos and live streaming. As our business operations, user base and user activities in relation to our apps are expected to continue to grow, we expect that the cost of bandwidth and server custody will continue to increase, in particular in relation to the increase in user activities and user base for *Meipai*, which requires much more bandwidth than our other Internet services.

### Brand Recognition and Sales and Marketing Efficiency

We believe that strong brand recognition is a key element of our success. The Meitu brand’s close association with beauty has enabled us to build a powerful and positive brand image and a loyal user base. Since 2008, we have grown the vast majority of our user base in China organically, building in part upon the strength of the Meitu brand. Our users and business partners such as leading consumer and lifestyle brands, along with celebrities, KOLs and public organizations that work with us, have recognized our brand value and have become active participants in our ecosystem.

Starting from 2014, we began to invest significantly in promoting our brand and products both in China and overseas, and such efforts had a significant impact upon our operating results and financial condition. We spent a majority of our marketing expenses on promoting our apps and brand and, to a lesser extent, our smartphones. For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, our selling and marketing expenses amounted to RMB16.2 million, RMB121.0 million, RMB649.1 million and RMB196.8 million, respectively. As of October 31, 2016, we had launched over 20 apps and expanded our business operations from China to various overseas countries and regions, 26 of which had at least one million total users. We have launched five models of Meitu smartphones and sold a total of approximately 1.0 million units during the Track Record Period. Our sales and marketing team expanded from 31 employees as of December 31, 2013 to 58 employees as of December 31, 2014, 78 employees as of December 31, 2015 and 118 employees as of June 30, 2016.

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## FINANCIAL INFORMATION

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### **Monetization of Our Large User Base with Increasingly Diversified Products and Services**

Our business depends on our ability to monetize our large and active user base without compromising user experience. We are at an early stage of monetization, and our future business will be significantly affected by the effectiveness of the implementation of our monetization strategies. We continually seek to leverage our proprietary insights into our users' behavior and preferences to create value for our users, our business partners and our Company. For example, we successfully developed Meitu smartphones in 2013 to serve users who prefer to take high-quality selfies. During the Track Record Period, our smart hardware segment, which primarily comprises the sale of Meitu smartphones, contributed 59.7%, 87.8%, 89.9% and 95.1% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We intend to increasingly diversify our revenue sources, such as through increasing the types and quantity of in-app advertisements, expanding our smart hardware product offerings, further developing our live streaming services, building our proprietary e-commerce platform, and introducing additional female targeted mobile games. In particular, with the majority of our users being female, we believe we are well-positioned to tap into lifestyle and beauty-related markets, such as advertising and e-commerce for apparel and cosmetics products. We plan to continue to develop and adapt our monetization strategies to anticipate and meet the evolving needs of our users and create value for our Company and for all the participants in our ecosystem.

### **Investment in Technology and Infrastructure**

Our research and development expenses have increased over the Track Record Period as we continue to develop and improve our products and services as well as the underlying technologies. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our research and development expenses were approximately RMB16.5 million, RMB50.1 million, RMB119.6 million and RMB90.5 million, respectively. As of June 30, 2016, we had 649 employees specialized in research and development, compared to 126 as of December 31, 2013. We have and intend to continue to invest in hiring additional engineers, designers, product managers and other personnel with specific technology expertise. As our user base and user engagement levels continue to grow, we expect to continue to increase capital expenditures and expenses associated with our infrastructure to better support such a large, active user base. Such capital expenditure and expenses include expenses associated with data centers and their operations, servers and other equipment to increase the capacity of our infrastructure, and increased bandwidth and server custody costs which may impact our results of operations and financial condition.

### **Strategic Investments and Acquisitions**

Over the Track Record Period, we invested approximately RMB324 million in different technology companies both in China and overseas that have complementary technologies to ours. For example, we have acquired 33.3% equity interest in Bellus, a company that specializes in the development of 3D photo and video technology, with a view to integrating 3D facial recognition technologies into our products and services to allow for sophisticated editing of moving images in videos through 3D mapping. See "Financial Information — Capital Expenditures and Long-term Investments" for details of our long-term investments as of June 30, 2016. Long-term investments during our Track Record Period comprised investments in associates in the form of ordinary shares, financial assets at fair value through profit or loss and available-for-sale financial assets. 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, 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. Such investments and acquisitions may impact our results of operations and financial condition, depending on the amount involved and the performance of the companies in which we invest or which we acquire. See "Risk Factors — Risks Relating to Our Business and Industries — Future strategic investments or mergers and acquisitions may have a material and adverse effect on our business and results of operations". See also "Business — Risk Management and Internal Control — Investment Risk Management" for a discussion of our internal control and risk management measures relating to investments.

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### User Growth and User Engagement

Our results of operations are affected by our ability to maintain and grow our large user base and increase user engagement. Since the launch of our first product, *Meitu*, in 2008, we have experienced rapid user growth. In October 2016, our portfolio of innovative photo and community apps engaged approximately 456 million total MAUs globally. Our user base is also highly active — in October 2016, our users generated approximately 6.0 billion photos across our core photo apps, including *Meitu*, *BeautyCam*, *BeautyPlus*, *MakeupPlus* and *SelfieCity*. *Meipai* attracted over 7.9 billion video views in October 2016 and users had uploaded over 490 million videos on *Meipai* as of October 31, 2016. We believe that our large and engaged user base helps us to retain and attract more business partners to our ecosystem, which could ultimately contribute to our revenue. Advertising customers, KOLs and potential e-commerce partners have shown significant interest in reaching and engaging our users. We plan to continue to analyze user needs and introduce new products as well as product upgrades, such as social media functionalities, to increase the size of our user base and user engagement levels. We are also in the process of integrating our approximately 280 million registered user accounts across multiple apps into a unified account system. In addition, we plan to continue to promote our brand and products in China and in selected overseas markets.

### Market Conditions, Seasonality and Other Fluctuations

Our interim financial performance may not be meaningful due to the seasonality of our sales and period-to-period comparisons of our operating results may not be indicative of the overall trends in our business. Our operating results are affected by general conditions typically affecting the smartphone and mobile Internet industries in China and globally. For example, smartphone sales are affected by changes in local or global economic conditions as well as rapid changes in consumer preferences. In addition, the success of our monetization efforts is subject to the willingness of our users, consumers and business partners to spend. Any actual or anticipated deterioration of global economic conditions may depress consumer confidence and spending, particularly discretionary spending on consumer products and online entertainment, and may result in a decline in demand for our products. In addition, renewed financial turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

The results of our smart hardware segment are also subject to the fluctuations that may be caused by product launches. We typically experience an increase in smartphone sales when we launch new smartphone products. Our product launch schedule, therefore, may result in period-to-period fluctuations in our smart hardware business.

In addition, advertising spending in China has historically been prone to fluctuation, reflecting overall economic conditions as well as budgeting and buying patterns, and generally peaks during the fourth quarter of each year. In addition, we recently introduced live streaming services on *Meipai* and expect to be subject to any seasonality of the live streaming market in China.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial

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statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report included in Appendix I to this prospectus.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. We recognize revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our activities, as described below. We base our estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

#### (a) *Sales of Smart Hardware Products*

##### *Sales of products — Distributors and retailers*

We manufacture and sell a range of smart hardware products to distributors and retailers. Sales of smart hardware products are recognized when the products have been delivered and accepted by the distributors and retailers. The distributors and retailers have certain discretion over the sales channels and prices to sell the products to end customers, and there is no unfulfilled obligation that could affect the distributors' and retailers' acceptance of the products. Delivery does not occur until all of the following occurs: (i) the products have been shipped to the specified location; (ii) the risks of obsolescence and loss have been transferred to the distributors and retailers; and (iii) either the distributors or the retailers have accepted the products in accordance with the terms of sales contracts, the acceptance provisions have lapsed or we have objective evidence that all criteria for acceptance have been satisfied. Other than a limited number of selected retailers who may return unsold products under specific circumstances, we usually do not allow distributors and retailers to return products to us except when the products have certain specified defects. We also provide cash incentives to the distributors and retailers based on the accumulated sales volumes of each distributor and retailer. Past experience is used to estimate and provide for such returns and cash incentives. Revenues from sale of smart hardware products are recognized based on the price as specified in the sales orders, net of the estimated returns and cash incentives.

##### *Sales of products — Direct sales*

Revenue from the sale of goods directly to end customers is recognized at the point that the risks and rewards of the inventory have passed to the end customers, which is upon acceptance of the delivery of the products by the customers. We collect cash from end customers before or upon deliveries of products mainly through banks or third-party online payment platforms. Cash collected from end customers before product delivery is recognized as advances from customers. Provisions are made for sales return based on the expected level of returns, which in turn is based upon the historical rate of returns.

#### (b) *Internet Services and Others*

##### *Online advertising*

Online advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from displaying advertisements to the users of online and mobile platforms operated by us is recognized ratably over the contracted period in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. We recognize the revenue from the delivery of pay-per-click or pay-per-display advertisements for advertisers to our users based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to users.



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### Internet value-added services and others

Internet value-added services and others revenues mainly comprise the revenue earned by granting license to customer to access and use our self-developed software for a contracted period of time, service revenue derived from operating our mobile game and from *Meipai*. License revenue is recognized over the period of the license granted. Revenue from operating our mobile games is earned by selling in-game virtual items to game players. Revenue from operating *Meipai* is earned by selling in-app virtual gifts to *Meipai* users who send paid virtual gifts to live streaming hosts and short-form video creators as a gesture of friendship or support. Our revenues from operating our mobile game and *Meipai* are recognized when the virtual items are consumed and are insignificant for all the periods presented.

### **Fair value of financial assets**

The fair value of financial assets that are not traded in an active market (for example, investments in private companies) is determined by using valuation techniques. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

We follow the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

### **Convertible redeemable preferred shares**

The Preferred Shares issued by us are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of our Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of our Company or agreed by majority of the holders as detailed in Note 27 to the Accountant's Report included in Appendix I to this prospectus.

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

The Preferred Shares are classified as non-current liabilities because we have unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The Preferred Shares issued by us are not traded in an active market and the respective fair value is determined by using valuation techniques. We have used the discounted cash flow method to determine the underlying equity value of our Company and adopted equity allocation model to determine the fair value of the Preferred Shares. Key assumptions, such as discount rate, risk-free interest rate and volatility are disclosed in Note 27 to the Accountant's Report included in Appendix I to this prospectus.

### **Share-based payments**

#### *(a) Equity-settled share-based payment transactions*

We operate the ESOP, under which our entity receives services from employees and non-employees as consideration for equity instruments (options) of our Company. The fair value of the services received in



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exchange for the grant of the equity instruments (options) is recognized as an expense on the consolidated income statement.

In terms of the share options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

In terms of share options awarded to non-employees, the total amount to be expensed is determined by reference to the fair value of the services unless that fair value cannot be estimated reliably. In such cases, the expense will be measured indirectly by reference to the fair value of the equity instruments options granted at the date when such non-employees render services.

At the end of each reporting period, we revise our estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, we issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value), and share premium.

*(b) Share-based payment transactions among group entities*

The grant by us of options over our equity securities to the employees and non-employees of subsidiaries undertakings in our Group is treated as a capital contribution. The fair value of employee and non-employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of our Company.

*(c) Recognition of share-based compensation expenses*

As mentioned above and in Note 25 to the Accountant's Report included in Appendix I to this prospectus, we have granted share options to our employees and used the binomial option-pricing model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant estimate on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by us in applying the binomial option-pricing model.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises raw materials and original equipment manufacturer related production costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

We make provision for inventories based on historical experience and estimation of future market condition and sales. We will adjust the provision where actual net realizable value is higher or lower than previously estimated.

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### Impairment provision for trade and other receivable

We assess the impairment of trade and other receivables according to the trade and other receivable's aging, our prior experience and customers' conditions as well as applying our judgments and estimates when determining the impairment to be recognized. We reassess the provision at each balance sheet date. Where the basis of judgments and estimates is different from the initial assessment, such differences will impact the provision for impairment and the carrying values of the trade and other receivables in the year.

### CONSOLIDATED INCOME STATEMENT

The following table sets forth our consolidated income statement with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages) (unaudited)									
<b>Revenue</b> .....	85,877	100.0	488,049	100.0	741,813	100.0	180,600	100.0	585,477	100.0
Smart hardware .....	51,305	59.7	428,360	87.8	667,122	89.9	138,780	76.8	556,847	95.1
Internet services and others .....	34,572	40.3	59,689	12.2	74,691	10.1	41,820	23.2	28,630	4.9
<b>Cost of sales</b> .....	(36,272)	(42.2)	(401,376)	(82.3)	(641,323)	(86.5)	(142,306)	(78.8)	(510,996)	(87.2)
Smart hardware .....	(32,913)	(38.3)	(372,751)	(76.4)	(541,954)	(73.1)	(102,098)	(56.5)	(448,139)	(76.5)
Internet services and others .....	(3,359)	(3.9)	(28,625)	(5.9)	(99,369)	(13.4)	(40,208)	(22.3)	(62,857)	(10.7)
<b>Gross profit</b> .....	49,605	57.8	86,673	17.8	100,490	13.5	38,294	21.2	74,481	12.7
Smart hardware .....	18,392	21.4	55,609	11.4	125,168	16.8	36,682	20.3	108,708	18.6
Internet services and others .....	31,213	36.4	31,064	6.4	(24,678)	(3.3)	1,612	0.9	(34,227)	(5.9)
Selling and marketing expenses .....	(16,201)	(18.9)	(120,955)	(24.8)	(649,092)	(87.5)	(267,067)	(147.9)	(196,760)	(33.6)
Administrative expenses .....	(14,134)	(16.4)	(38,281)	(7.9)	(94,742)	(12.8)	(32,867)	(18.2)	(70,424)	(12.0)
Research and development expenses .....	(16,478)	(19.2)	(50,149)	(10.3)	(119,605)	(16.1)	(46,356)	(25.7)	(90,511)	(15.5)
Other income .....	115	0.1	3,430	0.7	11,085	1.5	3,327	1.9	4,498	0.8
Other losses, net .....	(77)	(0.1)	(164)	(0.0)	(858)	(0.1)	(158)	(0.1)	(418)	(0.1)
<b>Operating profit/(loss)</b> .....	<u>2,830</u>	<u>3.3</u>	<u>(119,446)</u>	<u>(24.5)</u>	<u>(752,722)</u>	<u>(101.4)</u>	<u>(304,827)</u>	<u>(168.8)</u>	<u>(279,134)</u>	<u>(47.7)</u>
Finance income .....	187	0.2	4,567	1.0	19,053	2.6	8,403	4.7	4,285	0.7
Finance costs .....	(4,891)	(5.7)	(1,296)	(0.3)	(155)	(0.0)	(94)	(0.1)	(2,216)	(0.4)
Financial income/(costs), net .....	(4,704)	(5.5)	3,271	0.7	18,898	2.6	8,309	4.6	2,069	0.3
Fair value loss of convertible redeemable preferred shares .....	(23,501)	(27.4)	(1,651,464)	(338.4)	(1,482,643)	(200.0)	(972,840)	(538.7)	(1,912,208)	(326.5)
Shares of loss of investments accounted for using the equity method .....	—	—	—	—	(319)	(0.0)	—	—	(351)	(0.1)
<b>Loss before income tax</b> .....	<u>(25,375)</u>	<u>(29.6)</u>	<u>(1,767,639)</u>	<u>(362.2)</u>	<u>(2,216,786)</u>	<u>(298.8)</u>	<u>(1,269,358)</u>	<u>(702.9)</u>	<u>(2,189,624)</u>	<u>(374.0)</u>
Income tax expense .....	(438)	(0.5)	(4,697)	(1.0)	(771)	(0.1)	(270)	(0.1)	(115)	(0.0)
<b>Loss for the year/period</b> .....	<u>(25,813)</u>	<u>(30.1)</u>	<u>(1,772,336)</u>	<u>(363.2)</u>	<u>(2,217,557)</u>	<u>(298.9)</u>	<u>(1,269,628)</u>	<u>(703.0)</u>	<u>(2,189,739)</u>	<u>(374.0)</u>
<b>Non-IFRS Measure:</b>										
<b>Adjusted net loss (unaudited)<sup>(1)</sup></b> .....	<u>(2,312)</u>	<u>(2.7)</u>	<u>(112,343)</u>	<u>(23.0)</u>	<u>(710,488)</u>	<u>(95.8)</u>	<u>(290,389)</u>	<u>(160.8)</u>	<u>(257,620)</u>	<u>(44.0)</u>

Note:

- (1) We define adjusted net loss as loss for the year/period added back with fair value loss of convertible redeemable preferred shares and share-based compensation. Adjusted net loss is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “— Non-IFRS Measure: Adjusted Net Loss” for details.

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

During the Track Record Period, we generated revenue from two business segments: smart hardware and Internet services and others. Substantially all of our revenue was generated in China. Our revenue is recorded net of cash incentives, returns and value-added taxes. The following table sets forth our segment revenue by amount and as a percentage of our revenue for the periods presented.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages) (unaudited)									
<b>Segment Revenue:</b>										
Smart hardware .....	51,305	59.7	428,360	87.8	667,122	89.9	138,780	76.8	556,847	95.1
Internet services and others .....	34,572	40.3	59,689	12.2	74,691	10.1	41,820	23.2	28,630	4.9
<b>Total .....</b>	<b>85,877</b>	<b>100.0</b>	<b>488,049</b>	<b>100.0</b>	<b>741,813</b>	<b>100.0</b>	<b>180,600</b>	<b>100.0</b>	<b>585,477</b>	<b>100.0</b>

#### Smart Hardware

We generate a significant majority of our revenue from the sale of smart hardware, which currently primarily comprises the sale of Meitu smartphones, to distributors and retailers both online and offline and, to a lesser extent, through our own official website and third-party e-commerce platforms. Other than smartphones, we also sell smartphone accessories such as earphones, smartphone cases and batteries which are also part of smart hardware business.

We have two lines of smartphone models with different pricing and designs targeted at different demographics. We generally launch new smartphone models each year. We determine the price of our smartphones based on the cost of components and materials, anticipated demand for new models, the income levels of target users, changes in the mix of sales channels, historical sales volumes of previous models of Meitu smartphones, and the price of smartphones with similar features and functionalities launched by our competitors, among other considerations.

The following table sets forth the average selling prices, the number of smartphones sold, and the total revenue from smartphone sales for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
Total revenue from smartphone sales (RMB thousands) .....	51,203	425,639	659,019	136,837	550,050
Average selling price (RMB) <sup>(1)</sup> .....	1,834	1,533	1,699	1,759	1,903
Number of smartphone units sold .....	27,917	277,595	387,775	77,775	289,079

Note:

(1) Average selling price equals our total revenue from the smartphone sales divided by the total number of smartphones sold.

The average selling price of Meitu smartphones fluctuated over the years due to various factors such as changes in product mix, sales volume of differently priced models and the mix of sales channels. Throughout the Track Record Period, sales of Meitu smartphones increased primarily due to their increasing popularity.

Revenue from the smart hardware segment increased by 55.7% from 2014 to 2015, compared to an increase of 734.9% from 2013 to 2014. The slowdown in the growth of revenue from the smart hardware segment was primarily due to the fact that we only commenced to sell smartphone units in the second half of

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2013 partly to test the market response to our smartphones, and that production and sales ramped up in 2014 and 2015.

### *Internet Services and Others*

*Online advertising.* We generate online advertising revenue primarily by offering display-based advertisements on our apps. Advertisers primarily place advertisements on our apps by engaging advertising agencies, which enter into contracts with us. The advertising agencies generally pay us for display-based advertisements on a cost-per-time (CPT) fixed price basis, calculated based on the period of time for which advertisements are displayed. During the Track Record Period, we had limited our number of in-app advertisements to maintain quality user experience, and we believe this decision contributed to the increasing popularity of our apps and the value of our advertisements to advertisers. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, revenue from online advertising amounted to RMB34.5 million, RMB58.2 million, RMB72.6 million, RMB41.0 million and RMB25.9 million respectively, constituting 40.2%, 11.9%, 9.8%, 22.7% and 4.4% of our total revenue, respectively.

*Internet value-added services and others revenue.* Internet value-added services and other revenue primarily comprise revenue from the sale of virtual items in our mobile game *Beauty Box* and on *Meipai* (starting in June 2016) and one-off software licensing fees. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, revenue from Internet value-added services and others amounted to RMB31,000, RMB1.5 million, RMB2.0 million, RMB0.9 million and RMB2.7 million, respectively, constituting less than 1% of our total revenue for each of those periods.

### **Cost of Sales**

Our cost of sales primarily comprises: (i) cost of components and materials for our Meitu smartphones, (ii) bandwidth and server custody fees and (iii) other costs.

The following table sets forth a breakdown of our segment cost of sales by amount and as a percentage of segment cost of sales for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	% of Segment Cost of Sales	RMB	% of Segment Cost of Sales	RMB	% of Segment Cost of Sales	RMB	% of Segment Cost of Sales	RMB	% of Segment Cost of Sales
(in thousands, except percentages)										
(unaudited)										
<b>Segment Costs:</b>										
Smart hardware .....	32,913	100.0	372,751	100.0	541,954	100.0	102,098	100.0	448,139	100.0
Cost of components.....	29,371	89.2	357,125	95.8	516,046	95.2	97,123	95.1	438,575	97.9
Other smart hardware costs....	2,687	8.2	7,000	1.9	6,976	1.3	918	0.9	1,662	0.4
Accessories costs.....	855	2.6	8,626	2.3	18,932	3.5	4,057	4.0	7,902	1.7
Internet services and others .....	3,359	100.0	28,625	100.0	99,369	100.0	40,208	100.0	62,857	100.0
Bandwidth and server custody fees .....	2,066	61.5	16,998	59.4	65,970	66.4	25,179	62.6	34,496	54.9
Others .....	1,293	38.5	11,627	40.6	33,399	33.6	15,029	37.4	28,361	45.1
<b>Total .....</b>	<b>36,272</b>		<b>401,376</b>		<b>641,323</b>		<b>142,306</b>		<b>510,996</b>	

### *Smart Hardware*

The segment cost for smart hardware primarily comprises the cost of smartphone components and materials, as well as other costs, which primarily includes the cost of molding and license expenses. The main components and materials used in the manufacture of our smartphones, as measured by cost as a percentage of our total cost of sales, include displays, processors, memory chips, and front and rear cameras. The significant increase in the segment costs for smart hardware during the Track Record Period reflected the increasing number

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of Meitu smartphones we sold. The sales volume of our smartphones increased by 249,678, 110,180 and 211,304 from 2013 to 2014, from 2014 to 2015 and from the six months ended June 30, 2015 to June 30, 2016, respectively.

### Internet Services and Others

The segment cost for Internet services and others primarily comprises bandwidth and server custody fees, as well as other costs.

Bandwidth and server custody fees comprise fees payable to content delivery network service and other service providers for the purchase of bandwidth and the hosting of servers at their Internet data centers. Bandwidth and server custody fees are affected by the volume of our concurrent user traffic, particularly on *Meipai*, which has videos live streaming that consume relatively large volumes of bandwidth, the number of apps we operate, and data storage and analytics. The significant increase in the bandwidth and server custody fees paid over the Track Record Period reflected the growth of our business operations, user base and user activities.

Other costs primarily comprise video content monitoring fees paid to the vendors to which we have outsourced the content-monitoring work of *Meipai* and cloud computing and storage fees and, to a lesser extent, depreciation and amortization of servers.

For the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016, 88.8%, 92.1% and 91.8% of the segment cost for Internet services and others was attributable to *Meipai*, respectively.

### Gross Profit

The following table sets forth our gross profit and gross margin by segment for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	% of Segment Revenue	RMB	% of Segment Revenue	RMB	% of Segment Revenue	RMB	% of Segment Revenue	RMB	% of Segment Revenue
	(in thousands, except percentages)									
	(unaudited)									
<b>Gross Profit by Segment:</b>										
Smart hardware .....	18,392	35.8	55,609	13.0	125,168	18.8	36,682	26.4	108,708	19.5
Internet services and others .....	31,213	90.3	31,064	52.0	(24,678)	(33.0)	1,612	3.9	(34,227)	(119.5)
<b>Total .....</b>	<b>49,605</b>	<b>57.8</b>	<b>86,673</b>	<b>17.8</b>	<b>100,490</b>	<b>13.5</b>	<b>38,294</b>	<b>21.2</b>	<b>74,481</b>	<b>12.7</b>

### Selling and Marketing, Administrative and Research and Development Expenses

The following table sets forth a breakdown of our selling and marketing expenses, administrative expenses and research and development expenses for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(unaudited)									
Selling and marketing expenses .....	16,201	34.6	120,955	57.8	649,092	75.2	267,067	77.1	196,760	55.0
Administrative expenses .....	14,134	30.2	38,281	18.3	94,742	11.0	32,867	9.5	70,424	19.7
Research and development expenses .....	16,478	35.2	50,149	23.9	119,605	13.8	46,356	13.4	90,511	25.3
<b>Total .....</b>	<b>46,813</b>	<b>100.0</b>	<b>209,385</b>	<b>100.0</b>	<b>863,439</b>	<b>100.0</b>	<b>346,290</b>	<b>100.0</b>	<b>357,695</b>	<b>100.0</b>

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### *Selling and Marketing Expenses*

Our selling and marketing expenses primarily comprise promotion and advertising expenses, salaries and benefits (including employee benefit expenses and share-based compensation) relating to selling and marketing personnel, and other promotion and advertising expenses. Other promotion and advertising expenses mainly include expenses incurred for smartphones and phone accessories that we give out to users for free as promotion and production fee for the creation of promotional videos.

Selling and marketing expenses increased over the Track Record Period primarily due to (i) the increasing number of products and services we offer, including apps, smartphones and IVAS, (ii) an expanded marketing team to help promote our brand and products, in particular our core apps, and (iii) increased promotional activities in overseas markets. We conducted marketing campaigns to increase user awareness of the apps, including marketing the apps through social media or in cooperation with KOLs. As we continued to expand our offerings and expand internationally, brand promotion and advertising for our international products also became necessary, adding to our overall selling and marketing expenses.

We manage and assess our overall level of selling and marketing expenses using the metrics of accumulated selling and marketing expenses per MAU. The following table sets forth a breakdown of our selling and marketing expenses and our accumulated selling and marketing expenses per MAU for the indicated periods, and also sets forth our selling and marketing expenses per net additional MAU and average monthly selling and marketing expenses per net additional MAU for the indicated periods.

	<u>For the Year Ended December 31,</u>			<u>For the Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
Advertising expenses (RMB'000) .....	9,930	101,615	598,439	250,188	149,001
Payments to celebrities (RMB'000) .....	—	—	6,026	1,250	4,487
Payments to brand ambassador(s) for Meitu smartphone (RMB'000) .....	—	3,916	9,587	4,909	4,847
Payments to brand ambassador(s) for apps (RMB'000) .....	—	—	987	—	1,561
Service fees to payment channels (RMB'000) .....	451	608	1,342	396	3,487
Service fees to logistics service providers for the sales of smart hardware (RMB'000) .....	698	2,400	2,293	1,064	2,539
Salaries and benefits (RMB'000) .....	1,922	5,688	13,523	4,755	12,932
Others (RMB'000) .....	3,200	6,728	16,895	4,505	17,906
<b>Selling and marketing expenses (RMB'000) .....</b>	<b><u>16,201</u></b>	<b><u>120,955</u></b>	<b><u>649,092</u></b>	<b><u>267,067</u></b>	<b><u>196,760</u></b>
Period-end MAUs (million) .....	87.6	184.5	372.5	246.5	446.3
<b>Accumulated selling and marketing expenses per MAU (RMB)<sup>(1)</sup> .....</b>	<b>0.185</b>	<b>0.743</b>	<b>2.111</b>	<b>1.640</b>	<b>2.203</b>
Net additional MAUs (million) <sup>(2)</sup> .....	N/A	96.9	188.0	62.0	73.8
<b>Selling and marketing expenses per net additional MAU (RMB)<sup>(3)</sup> .....</b>	<b>N/A</b>	<b>1.248</b>	<b>3.453</b>	<b>4.308</b>	<b>2.666</b>
<b>Average monthly selling and marketing expenses per net additional MAU (RMB)<sup>(4)</sup> .....</b>	<b>N/A</b>	<b>0.104</b>	<b>0.288</b>	<b>0.718</b>	<b>0.444</b>

*Notes:*

- (1) We did not incur significant selling and marketing expenses prior to January 1, 2013. Accumulated selling and marketing expenses per MAU equals our accumulated selling and marketing expenses from January 1, 2013 up to the end of the indicated period divided by the MAUs for the last month of the indicated period.
- (2) Net additional MAUs for an indicated period represents the difference between the period-end MAUs for the indicated period and the period-end MAUs for the preceding period.
- (3) Selling and marketing expenses per net additional MAU for an indicated period represents the selling and marketing expenses for the indicated period divided by the net additional MAU for the indicated period.
- (4) The average monthly selling and marketing expenses per net additional MAU for an indicated period represents the selling and marketing expenses per net additional MAU for the indicated period divided by the number of months within the indicated period.



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### *Administrative Expenses*

Our administrative expenses primarily comprise salaries and benefits (including employee benefit expenses and share-based compensation) relating to administrative personnel, operating lease payments, and other expenses primarily relating to professional services in connection with our business operations, pre-IPO financing and the Global Offering.

During the Track Record Period, administrative expenses increased steadily primarily due to increased headcount in line with our expanding business operations and, to a lesser extent, increased professional fees. We hired an increasing number of administrative staff as our business operations expanded, leading to increased overall salaries and benefits expenses. In addition, we also opened eight overseas offices in seven countries and regions in line with our overseas expansion, which increased our operating lease payments. Professional fees included fees paid for professional services in connection with our business operations, pre-IPO financing and the Global Offering, and such expenses increased in the year ended December 31, 2015 and the six months ended June 30, 2016.

### *Research and Development Expenses*

Our research and development expenses primarily comprise salaries and benefits (including employee benefit expenses and share-based compensation) relating to research and development personnel and outsourced technical fees primarily consisting of licensing fees paid to third parties for certain intellectual property used and testing fees incurred during our research and development process. All of the expenses incurred by our research and development activities are expensed rather than capitalized. The increase in research and development expenses over the Track Record Period was primarily attributable to an increase in the number of research and development personnel and outsourced technical fees. Our research and development expenses are expected to be between RMB210 million and RMB235 million and between RMB315 million and RMB400 million for the years ending December 31, 2016 and 2017, respectively, as we expect to hire additional research and development personnel to support our business expansion, including the development of our technological capabilities and various monetization initiatives.

### **Expected Expenditures on Monetization Initiatives**

Our costs and expenses consist of (i) direct cost of sales and (ii) costs and expenses that are fixed in nature or do not vary directly with revenue (“indirect costs and expenses”). Direct cost of sales of our business segments, such as the costs of components and materials relating to the sale of our smartphones and revenue-sharing fees for IVAS on *Meipai* relating to our Internet services and others segment, vary directly with the amount of revenues generated by these segments. In contrast, indirect costs and expenses, such as bandwidth and server custody fees and selling and marketing expenses, are either fixed in nature or do not vary directly with revenue. For example, while an increase in our user base and user activities on *Meipai* would lead to a corresponding increase in our bandwidth and server custody fees, such increase in user base and user activities will not necessarily lead to a corresponding increase in revenue.

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The table below sets forth a breakdown of the major indirect costs and expenses by business segment and our current and planned monetization initiatives for the year ending December 31, 2017.

	For the Year Ending December 31, 2017						
	Internet Services and Others					Common Expenses	Total
	Smart Hardware	Online Advertising	IVAS	E-Commerce	Sub-total		
(RMB in thousands)							
Segment indirect costs <sup>(1)</sup> .....	—	—	—	—	—	224,000	224,000
Selling and marketing expenses <sup>(2)</sup> .....	185,000	30,000	30,000	95,000	155,000	284,000	624,000
Research and development expenses <sup>(3)</sup> .....	63,000	20,000	15,000	30,000	65,000	188,000	316,000
General and administrative expenses.....	55,000	38,000	38,000	51,000	127,000	—	182,000
	<u>303,000</u>	<u>88,000</u>	<u>83,000</u>	<u>176,000</u>	<u>347,000</u>	<u>696,000</u>	<u>1,346,000</u>

*Notes:*

- (1) Segment indirect costs mainly comprise bandwidth and server custody fees and other costs. We do not believe that bandwidth and server custody fees can be accurately or meaningfully allocated to each monetization initiative, as (i) our apps may have multiple monetization initiatives and (ii) fluctuations in these fees are primarily related to the level of user activity instead of revenues generated by each monetization initiative. For example, *Meipai* generates revenues from IVAS and is expected to generate revenue from online advertising in the future. *Meipai* also accounts for substantially all of our bandwidth and server custody fees, which are primarily due to the activities of *Meipai* users rather than monetization initiatives. Other indirect costs mainly comprise video content monitoring fees during the Track Record Period, which were incurred for *Meipai* and generally fluctuated in line with the level of user activities on *Meipai*.
- (2) We do not believe that certain of our selling and marketing expenses can be accurately or meaningfully allocated to each monetization initiative, as our business model is to initially build a large user base and then monetize our users through various initiatives. With approximately 75% of Meitu smartphone users being Meitu app users prior to their purchases of Meitu smartphones, according to a survey that we conducted in August 2016, our sales and marketing activities may target promotion of both our apps and smartphones, or our Meitu brand. Furthermore, each of our apps may adopt multiple monetization initiatives, which precludes a reasonable allocation of selling and marketing expenses related to our apps among the monetization initiatives of our Internet services and others segment. For example, *Meiyin*, a new feature and e-commerce monetization initiative that is in the process of being rolled out, is expected to be made available on a number of apps such that promotion of any of these apps may have a positive impact on not only our monetization initiatives already undertaken (such as online advertising), but *Meiyin* as well. To the extent possible, we have estimated and allocated certain directly attributable selling and marketing expenses, such as advertising and promotional expenses and employee salaries and benefits, to each monetization initiative.
- (3) We incur research and development expenses to continually develop and improve our technology. We primarily focus on the development and maintenance of core technologies, including facial recognition technology, which is built into our smartphones as well as apps, and big data analytics, which supports our broader platform rather than specific monetization initiatives. To the extent possible, we have estimated and allocated certain directly attributable research and development expenses, such as employee salaries and benefits, to each monetization initiative. Research and development expenses that are expected to be incurred in connection with our broader technology platform are not allocated across the monetization initiatives of our business segments.
- (4) All of the expenses exclude share-based payment expenses.

The major indirect costs and expenses for the year ending December 31, 2017 are projected based on our current business plan. We expect, based on our current business plan, that we will incur no more than the amount shown in the above table for each category of costs and expenses, for each of our business segments, and for each of our current and planned monetization initiatives for the year ending December 31, 2017.

In the situation where our businesses do not generate any net cash flows from our monetization initiatives, our cash outflows for the year ending December 31, 2017 would be no more than RMB1,900 million, comprising estimated major indirect costs and expenses of RMB1,346 million and planned capital expenditure and long-term investments between RMB376 million and RMB495 million. According to our current business plan, an amount between RMB76 million and RMB95 million will be utilized on capital expenditure and an amount between RMB300 million and RMB400 million will be utilized on long-term investments. We may reallocate the fund to be utilized on capital expenditure and long-term investments according to our ongoing business needs.

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If our businesses generate more revenues or operating cash flows than expected, we may increase the total indirect costs and expenses, and/or reallocate some indirect costs and expenses into better performing monetization initiatives to support their further expansion. Conversely, if our businesses generate less revenues or operating cash flows than expected, we would scale down our planned expenditure on strategic investments and acquisitions and/or certain selling and marketing expenses to ensure sufficient funding for implementation of our monetization strategies. We may reallocate the fund to be utilized in each function of the indirect costs and expenses according to our ongoing business needs.

For the years ending December 31, 2017 and 2018, we expect that our ability to monetize and generate revenue from our user base will not vary directly with the amount of selling and marketing expenses that we expect to incur, as we already have a substantial base of existing users that we currently and plan to continue to monetize. While increasing selling and marketing expenses may increase our revenue by attracting more users to our platform and increasing user activity, a reduction in such expenditures would not necessarily adversely impact our ability to generate revenue on our existing user base to a significant extent.

The foregoing projections and hypothetical analysis involve estimates, judgments and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control. Accordingly, there can be no assurance that the foregoing projections and hypothetical analysis will be realized, and our actual costs and expenses for the year ending December 31, 2017 may differ materially from the foregoing projections and hypothetical analysis.

### **Other Income**

Other income primarily comprises government grants and investment income on short-term investments that we made to improve yields on surplus cash. The short-term investments are mostly redeemable at any time and are principal-guaranteed.

### **Other Losses, Net**

Other losses, net comprises loss on disposal of property and equipment and others, which includes charitable donations.

### **Finance Income/(Costs), Net**

Finance income/(costs), net primarily comprises interest income, offset by foreign exchange gains/(losses) primarily due to fluctuations of the U.S. dollar against the RMB.

### **Fair Value Loss of Issued Convertible Redeemable Preferred Shares**

Fair value loss of convertible redeemable preferred shares represents changes in fair value of the Preferred Shares issued by us. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our fair value loss of convertible redeemable preferred shares was RMB23.5 million, RMB1.7 billion, RMB1.5 billion and RMB1.9 billion, respectively. Assuming the completion of the Global Offering in the year ending December 31, 2016 with the indicative Offer Price ranging from HK\$8.50 to HK\$9.60, the estimated total fair value loss to be recorded in relation to the Preferred Shares in the year ending December 31, 2016 will be between RMB6.0 billion and RMB7.6 billion. Prior to the Global Offering, the Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 27 to the Accountant's Report included in Appendix I to this prospectus for details of the key assumptions of the valuations. Upon the completion of the Global Offering, all of our Preferred Shares will be automatically converted to our ordinary shares. The fair value of each of Preferred Share will then be equivalent to the fair value of each of our ordinary shares on the conversion date, which is the Offer Price in the Global Offering.

We monitor the Preferred Shares on a fair value basis in accordance with our risk management strategy and designate them as financial liabilities at fair value. Any changes in the fair value of the Preferred Shares are recorded as "fair value loss of convertible redeemable preferred shares" in the consolidated income statement.

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### TAXATION

#### *Cayman Islands*

Our Company is incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Law and is not subject to Cayman Islands income tax.

#### *Hong Kong*

Hong Kong profits tax rate is 16.5% for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

#### *China*

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, our PRC subsidiaries, and Meitu Networks and its subsidiaries are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy. Companies that qualify as “software enterprises” are exempt from PRC income tax for two years and subject to a preferred income tax rate of 12.5% for the following three years, starting from the first profit-making year. Enterprises that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15% for three years. Meitu Networks was certified as a “high and new technology enterprise” in November 2013. As a result, Meitu Networks was eligible for a preferential tax rate of 15% for each of the years ended December 31, 2013, 2014, 2015, respectively. As of June 30, 2016, Meitu Networks was in the process of renewing its qualification as a “high and new technology enterprise”. Meitu Home qualified as a “software enterprise” in August 2014. Since Meitu Home was under accumulated tax loss position during the Track Record Period, the preferential tax rate for Meitu Home remained unused as of June 30, 2016. Our remaining PRC entities were subject to enterprise income tax at a rate of 25% for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016.

For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2016, Meitu Networks, our PRC Operating Entity, generated taxable income, and was subject to a preferential tax rate of 15% for each of the periods. Meitu Networks is principally engaged in the provision of online advertising services on our photo apps in China and only online advertising revenue and the related expenses, such as business support, technical and consulting service fees paid to Meitu Home in accordance with the Exclusive Business Cooperation Agreement, salaries and benefits and other operating overheads that are directly attributable to the provision of online advertising businesses, are recorded in Meitu Networks. In addition, the income tax of RMB4.7 million of Meitu Networks for the year ended December 31, 2014 primarily arose from the taxable income generated from the transfer of certain Meitu app copyrights from Meitu Networks to Meitu Home as part of the Corporate Restructuring, which was a one-off event. As a result of the foregoing, although Meitu Networks generated taxable income during the Track Record Period, as other Group entities had combined accumulated operating losses during the Track Record Period in excess of the taxable income generated by Meitu Networks, the Group recorded accumulated operating losses on a consolidated basis during the Track Record Period.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. During the Track Record Period, we did not have any plan to require our PRC subsidiaries to distribute their retained earnings and intended to retain them to operate and expand our business in China. Accordingly, we did not accrue any deferred income tax liability as of December 31, 2013, 2014 and 2015 and June 30, 2016.

### NON-IFRS MEASURE: ADJUSTED NET LOSS

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net loss as an additional financial measure, which is not required by, or presented in accordance

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with, IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted net loss may not be comparable to a similarly titled measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net loss as loss for the year/period added back with fair value loss of convertible redeemable preferred shares and share-based compensation. The following table reconciles our adjusted net loss for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the year/period:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(RMB in thousands)				
Loss for the year/period.....	(25,813)	(1,772,336)	(2,217,557)	(1,269,628)	(2,189,739)
Add:					
Fair value loss of convertible redeemable preferred shares .....	23,501	1,651,464	1,482,643	972,840	1,912,208
Share-based compensation .....	—	8,529	24,426	6,399	19,911
<b>Adjusted net loss (unaudited)</b> .....	<b>(2,312)</b>	<b>(112,343)</b>	<b>(710,488)</b>	<b>(290,389)</b>	<b>(257,620)</b>

### PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

##### *Revenue*

Our revenue increased by 224.2% from RMB180.6 million for the six months ended June 30, 2015 to RMB585.5 million for the six months ended June 30, 2016.

*Smart hardware.* Revenue from the smart hardware segment increased by 301.2% from RMB138.8 million for the six months ended June 30, 2015 to RMB556.8 million for the six months ended June 30, 2016, primarily due to an increase in the number of smartphone units sold from 77,775 for the six months ended June 30, 2015 to 289,079 for the six months ended June 30, 2016, and an increase in the average selling price of our smartphones from RMB1,759 per unit for the six months ended June 30, 2015 to RMB1,903 per unit for the six months ended June 30, 2016. The increase in the number of smartphone units sold was primarily due to the increased popularity of our smartphones. The increase in the average selling price of our smartphones was attributable to the launch of new models, such as V4, V4s and M6.

*Internet services and others.* Revenue from the Internet services and others segment decreased by 31.5% from RMB41.8 million for the six months ended June 30, 2015 to RMB28.6 million for the six months ended June 30, 2016. Online advertising revenue decreased 36.8% from RMB41.0 million for the six months ended June 30, 2015 to RMB25.9 million for the six months ended June 30, 2016 primarily due to the restructuring of our sales teams. We dismissed our original sales team in Xiamen and hired new sales teams in Beijing and Shanghai to facilitate more frequent and effective in-person communication, such as discussions on creative advertising campaigns, with our target advertisers and advertising agencies, a majority of which are headquartered in Beijing and Shanghai. Having the sales teams located in Beijing and Shanghai, two of the biggest cities of China, is expected to attract more advertising talent to our Company, which is crucial for the long-term development of our advertising business. We determined that the restructuring would be the most cost-efficient approach, as compared to alternative proposals such as relocating our original sales team to Beijing and



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Shanghai or having our original sales team in Xiamen make frequent trips to Beijing and Shanghai. The restructuring, which required a number of months to complete given the need to recruit and build out our new sales teams, was completed at the end of September 2016.

### *Cost of sales*

Our cost of sales increased by 259.1% from RMB142.3 million for the six months ended June 30, 2015 to RMB511.0 million for the six months ended June 30, 2016.

*Smart hardware.* Segment cost for smart hardware increased by 338.9% from RMB102.1 million for the six months ended June 30, 2015 to RMB448.1 million for the six months ended June 30, 2016, primarily due to an increase in the cost of components and materials in line with the increase in the number of smartphone units sold. For details on the number of smartphone units sold, see “— Description of Major Components of Our Results of Operations — Revenue — Smart Hardware”.

*Internet services and others.* Segment cost for Internet services and others increased by 56.3% from RMB40.2 million for the six months ended June 30, 2015 to RMB62.9 million for the six months ended June 30, 2016, primarily due to a 37.0% increase in bandwidth and server custody fees from RMB25.2 million to RMB34.5 million, as a result of the increased number of total users on *Meipai* and the launch of live streaming services on *Meipai* in January 2016, which caused an increase in our requirements for more bandwidth.

Other costs increased by 88.7% from RMB15.0 million for the six months ended June 30, 2015 to RMB28.4 million for the six months ended June 30, 2016 primarily due to (i) a 337.1% increase in cloud computing and storage fees from RMB2.5 million for the six months ended June 30, 2015 to RMB11.0 million for the six months ended June 30, 2016 as a result of increased user activity on *Meipai*; and (ii) a 37.7% increase in video content monitoring fees from RMB7.3 million for the six months ended June 30, 2015 to RMB10.0 million for the six months ended June 30, 2016, primarily due to the expansion of, and strengthened video content monitoring on *Meipai*.

### *Gross profit and gross margin*

As a result of the foregoing, our gross profit increased by 94.5% from RMB38.3 million for the six months ended June 30, 2015 to RMB74.5 million for the six months ended June 30, 2016. Our gross margin decreased from 21.2% for the six months ended June 30, 2015 to 12.7% for the six months ended June 30, 2016.

The gross margin for the smart hardware segment decreased from 26.4% for the six months ended June 30, 2015 to 19.5% for the six months ended June 30, 2016 primarily due to the fact that an increasing percentage of our smartphones were sold through distributors and retailers, and we charge distributors and retailers lower prices than we do for the smartphones on our direct sales channel, and the sale of older M4 and M4s models, which had a lower gross margin. We had gross loss margin of 119.5% for the Internet services and others segment for the six months ended June 30, 2016, compared to a gross margin of 3.9% for the six months ended June 30, 2015, primarily due to additional bandwidth and server custody fees associated with *Meipai*, which engaged a growing number of users but only started to generate revenue in June 2016. For the six months ended June 30, 2015 and 2016, 92.6% and 91.8% of the segment cost for Internet services and others was attributable to *Meipai*, respectively.

### *Selling and marketing expenses*

Our selling and marketing expenses decreased by 26.3% from RMB267.1 million for the six months ended June 30, 2015 to RMB196.8 million for the six months ended June 30, 2016, primarily due to decreases in promotion and advertising expenses, which was partially offset by increases in salaries and benefits for selling and marketing personnel. Promotion and advertising expenses decreased by 38.4% from RMB254.1 million for the six months ended June 30, 2015 to RMB156.6 million for the six months ended June 30, 2016, primarily due to our improving sales and marketing efficiency. Salaries and benefits for selling and marketing personnel increased by 172.0% from RMB4.8 million for the six months ended June 30, 2015 to RMB12.9 million for the six months ended June 30, 2016, primarily due to an increase in the headcount of our selling and marketing personnel from 71 as of June 30, 2015 to 118 as of June 30, 2016.



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### *Administrative expenses*

Our administrative expenses increased by 114.3% from RMB32.9 million for the six months ended June 30, 2015 to RMB70.4 million for the six months ended June 30, 2016, primarily due to (i) a 70.4% increase in salaries and benefits relating to administrative personnel from RMB13.3 million for the six months ended June 30, 2015 to RMB22.7 million for the six months ended June 30, 2016, primarily due to an increase in the headcount of our administrative personnel (including our general administrative and operations personnel) from 142 as of June 30, 2015 to 234 as of June 30, 2016; (ii) a 118.0% increase in operating lease payments from RMB4.8 million for the six months ended June 30, 2015 to RMB10.5 million for the six months ended June 30, 2016, primarily due to rentals of new office space in China and overseas in 2016; and (iii) a 101.9% increase in professional fees from RMB5.4 million for the six months ended June 30, 2015 to RMB10.9 million for the six months ended June 30, 2016, primarily due to increases in professional fees associated with the preparation for the Global Offering.

### *Research and development expenses*

Our research and development expenses increased by 95.3% from RMB46.4 million for the six months ended June 30, 2015 to RMB90.5 million for the six months ended June 30, 2016, primarily due to a 132.7% increase in salaries and benefits relating to research and development personnel from RMB26.1 million for the six months ended June 30, 2015 to RMB60.8 million for the six months ended June 30, 2016. The increase in salaries and benefits relating to research and development personnel was primarily due to an increase in the headcount of research and development personnel from 372 as of June 30, 2015 to 649 as of June 30, 2016.

### *Other income*

Other income increased from RMB3.3 million for the six months ended June 30, 2015 to RMB4.5 million for the six months ended June 30, 2016.

### *Other losses, net*

Other losses increased from RMB0.2 million for the six months ended June 30, 2015 to RMB0.4 million for the six months ended June 30, 2016.

### *Finance income, net*

Our net finance income decreased by 75.1% from RMB8.3 million for the six months ended June 30, 2015 to RMB2.1 million for the six months ended June 30, 2016, due to a decrease in finance income and an increase in finance costs. Finance income decreased by 49.0% from RMB8.4 million for the six months ended June 30, 2015 to RMB4.3 million for the six months ended June 30, 2016, primarily due to a 43.0% decrease in interest income from RMB7.5 million for the six months ended June 30, 2015 to RMB4.3 million for the six months ended June 30, 2016, resulting from lower levels of interest-generating deposits and deposit interest rate for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. Finance costs increased from RMB94,000 for the six months ended June 30, 2015 to RMB2.2 million for the six months ended June 30, 2016, primarily due to foreign exchange losses of RMB2.1 million for the six months ended June 30, 2016 associated with fluctuations in the exchange rate of the U.S. dollar against the RMB.

### *Loss before income tax*

Primarily as a result of the foregoing and a 96.6% increase in fair value loss of convertible redeemable preferred shares from RMB972.8 million for the six months ended June 30, 2015 to RMB1.9 billion for the six months ended June 30, 2016, our loss before income tax increased by 72.5% from RMB1.3 billion for the six months ended June 30, 2015 to RMB2.2 billion for the six months ended June 30, 2016. For more detailed discussions about the Preferred Shares, which give rise to the fair value loss of convertible redeemable preferred shares, see Note 27 to the Accountant's Report included in Appendix I of this prospectus.

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### *Income tax expense*

Our income tax expense decreased by 57.4% from RMB0.3 million for the six months ended June 30, 2015 to RMB0.1 million for the six months ended June 30, 2016.

### *Loss for the period*

As a result of the foregoing, our loss for the period increased by 72.5% from RMB1.3 billion for the six months ended June 30, 2015 to RMB2.2 billion for the six months ended June 30, 2016.

### *Adjusted net loss for the period*

Our adjusted net loss decreased by 11.3% from RMB290.4 million for the six months ended June 30, 2015 to RMB257.6 million for the six months ended June 30, 2016. See the section headed “— Non-IFRS Measure: Adjusted Net Loss”.

## **Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**

### *Revenue*

Our revenue increased by 52.0% from RMB488.0 million for the year ended December 31, 2014 to RMB741.8 million for the year ended December 31, 2015.

*Smart hardware.* Revenue from the smart hardware segment increased by 55.7% from RMB428.4 million for the year ended December 31, 2014 to RMB667.1 million for the year ended December 31, 2015, primarily due to an increase in the number of smartphone units sold from 277,595 for 2014 to 387,775 for 2015, and an increase in the average selling price of our smartphones from RMB1,533 per unit in 2014 to RMB1,699 per unit in 2015. The increase in the number of smartphone units sold was primarily due to the increasing popularity of our smartphones. The increase in the average selling price of our smartphones was attributable to the launch of the new smartphone models such as M4, M4s and V4 models in 2015.

*Internet services and others.* Revenue from the Internet services and others segment increased by 25.1% from RMB59.7 million for the year ended December 31, 2014 to RMB74.7 million for the year ended December 31, 2015, which was primarily due to a 24.9% increase in online advertising revenue from RMB58.2 million for the year ended December 31, 2014 to RMB72.6 million for the year ended December 31, 2015. The increase was primarily due to the increasing popularity of our apps as demonstrated by our expanding and increasingly engaged user base, and the resulting higher perceived value of our advertisements to advertising customers.

### *Cost of sales*

Our cost of sales increased by 59.8% from RMB401.4 million for the year ended December 31, 2014 to RMB641.3 million for the year ended December 31, 2015.

*Smart hardware.* Segment cost for smart hardware increased by 45.4% from RMB372.8 million for the year ended December 31, 2014 to RMB542.0 million for the year ended December 31, 2015, primarily due to an increase in the cost of components and materials due to an increase in the number of smartphone units sold. For details on the number of smartphone units sold, see “Description of Major Components of Our Results of Operations — Revenue — Smart Hardware”.

*Internet services and others.* Segment cost for Internet services and others increased by 247.1% from RMB28.6 million for the year ended December 31, 2014 to RMB99.4 million for the year ended December 31, 2015, primarily due to increases in bandwidth and server custody fees and other costs.

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Bandwidth and server custody fees increased by 288.1% from RMB17.0 million for the year ended December 31, 2014 to RMB66.0 million for the year ended December 31, 2015, primarily due to the increased number of total users on *Meipai* and the increased number of videos shared and viewed on *Meipai*, which caused an increase in our requirements for more bandwidth.

Other costs increased by 187.3% from RMB11.6 million for the year ended December 31, 2014 to RMB33.4 million for the year ended December 31, 2015, primarily due to (i) a 199.8% increase in video content monitoring fees from RMB4.6 million for the year ended December 31, 2014 to RMB13.7 million for the year ended December 31, 2015 as a result of the increase in the number of videos uploaded to *Meipai*; and (ii) a 436.0% increase in cloud computing and storage fees from RMB1.3 million for the year ended December 31, 2014 to RMB6.8 million for the year ended December 31, 2015 as a result of increased user activities on *Meipai*.

### ***Gross profit and gross margin***

As a result of the foregoing, our gross profit increased by 15.9% from RMB86.7 million for the year ended December 31, 2014 to RMB100.5 million for the year ended December 31, 2015. Our gross margin decreased from 17.8% for the year ended December 31, 2014 to 13.5% for the year ended December 31, 2015.

The gross margin for the smart hardware segment increased from 13.0% for the year ended December 31, 2014 to 18.8% for the year ended December 31, 2015 primarily due to the increase in average selling price of smartphones, while costs per unit remained relatively stable. We had gross loss margin of 33.0% for the Internet services and others segment for the year ended December 31, 2015, compared to a gross margin of 52.0% for the year ended December 31, 2014, primarily due to additional bandwidth and server custody fees associated with *Meipai*, which did not generate any revenue during the period. For the years ended December 31, 2014 and 2015, 88.8% and 92.1% of the segment cost for Internet services and others was attributable to *Meipai*, respectively.

### ***Selling and marketing expenses***

Our selling and marketing expenses increased by 436.6% from RMB121.0 million for the year ended December 31, 2014 to RMB649.1 million for the year ended December 31, 2015, primarily due to increases in promotion and advertising expenses and salaries and benefits for selling and marketing personnel. Promotion and advertising expenses increased by 488.2% from RMB103.7 million for the year ended December 31, 2014 to RMB609.7 million for the year ended December 31, 2015, primarily due to the intensified marketing efforts for our brand and apps in China, including *Meipai* and *BeautyCam* and our overseas apps, including *BeautyPlus*. Salaries and benefits for selling and marketing personnel increased by 137.7% from RMB5.7 million for the year ended December 31, 2014 to RMB13.5 million for the year ended December 31, 2015 primarily due to an increase in the headcount of our selling and marketing personnel from 58 as of December 31, 2014 to 78 as of December 31, 2015.

### ***Administrative expenses***

Our administrative expenses increased by 147.5% from RMB38.3 million for the year ended December 31, 2014 to RMB94.7 million for the year ended December 31, 2015, primarily due to (i) a 120.2% increase in salaries and benefits for administrative personnel from RMB14.6 million for the year ended December 31, 2014 to RMB32.1 million for the year ended December 31, 2015, as a result of an increase in the headcount of our administrative personnel (including our general administrative and operations personnel) from 114 as of December 31, 2014 to 176 as of December 31, 2015 in line with the growth of our business; (ii) a 186.0% increase in operating lease payments from RMB4.3 million for the year ended December 31, 2014 to RMB12.3 million for the year ended December 31, 2015, as a result of rentals of new office space in China and overseas in 2015; and (iii) a 90% increase in professional fees from RMB7.0 million for the year ended December 31, 2014 to RMB13.3 million for the year ended December 31, 2015, as a result of increases in professional fees incurred as a result of expanded business operations.

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### *Research and development expenses*

Our research and development expenses increased by 138.5% from RMB50.1 million for the year ended December 31, 2014 to RMB119.6 million for the year ended December 31, 2015, primarily due to a 146.4% increase in salaries and benefits for research and development personnel from RMB30.4 million for the year ended December 31, 2014 to RMB75.0 million for the year ended December 31, 2015. The increase in salaries and benefits relating to research and development personnel was primarily due to an increase in the headcount of research and development personnel from 267 as of December 31, 2014 to 483 as of December 31, 2015. The increase in the headcount of research and development personnel was primarily due to (i) the development of several new apps during the year and (ii) research and development for live streaming on *Meipai*, which was subsequently launched in January 2016.

### *Other income*

Other income increased by 223.2% from RMB3.4 million for the year ended December 31, 2014 to RMB11.1 million for the year ended December 31, 2015. The increase was primarily due to an increase in our receipt of technology-related government grants from RMB2.2 million for the year ended December 31, 2014 to RMB6.9 million for the year ended December 31, 2015. In addition, our investment income from short-term investments consisting of wealth management products issued by certain Chinese banks increased from RMB0.6 million for the year ended December 31, 2014 to RMB4.1 million for the year ended December 31, 2015 due to an increase in additional cash used in investments for the year ended December 31, 2015 compared to the year ended December 31, 2014.

### *Other losses, net*

We had other losses of RMB0.9 million for the year ended December 31, 2015, compared to RMB0.2 million for the year ended December 31, 2014.

### *Finance income/(costs), net*

We had net finance income of RMB18.9 million for the year ended December 31, 2015, compared to RMB3.3 million for the year ended December 31, 2014. The increase was primarily due to an increase in finance income and a decrease in finance costs. Finance income, which comprises interest income, increased by 317.2% from RMB4.6 million for the year ended December 31, 2014 to RMB19.1 million for the year ended December 31, 2015, primarily due to short-term bank deposits made using the funds raised from the issuance and sale of our Preferred Shares. Finance costs decreased from RMB1.3 million for the year ended December 31, 2014 to RMB0.2 million for the year ended December 31, 2015, primarily due to (i) interest expenses in the amount of RMB0.6 million on a loan borrowed from Mr. Cai for the year ended December 31, 2013, which we fully repaid in 2014; and (ii) a decrease in the issuance costs of our Preferred Shares from RMB0.6 million for the year ended December 31, 2014 to RMB40,000 for the year ended December 31, 2015.

### *Loss before income tax*

Primarily as a result of the foregoing, partially offset by a 10.2% decrease in fair value loss of convertible redeemable preferred shares from RMB1.7 billion for the year ended December 31, 2014 to RMB1.5 billion for the year ended December 31, 2015, our loss before income tax increased by 25.4% from RMB1.8 billion for the year ended December 31, 2014 to RMB2.2 billion for the year ended December 31, 2015. For more detailed discussions about the Preferred Shares, which give rise to the fair value loss of convertible redeemable preferred shares, see Note 27 to the Accountant's Report included in Appendix I of this prospectus.

### *Income tax expense*

Our income tax expense decreased by 83.6% from RMB4.7 million for the year ended December 31, 2014 to RMB0.8 million for the year ended December 31, 2015, primarily due to the profit made by Meitu Networks in 2014, which resulted from the transfer of copyrights relating to our apps from Meitu Networks to Meitu Home as part of our Corporate Restructuring.

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### *Loss for the year*

As a result of the foregoing, our loss for the year increased by 25.1% from RMB1.8 billion for the year ended December 31, 2014 to RMB2.2 billion for the year ended December 31, 2015.

### *Adjusted net loss for the year*

Our adjusted net loss increased from RMB112.3 million for the year ended December 31, 2014 to RMB710.5 million for the year ended December 31, 2015. See “— Non-IFRS Measure: Adjusted Net Loss”.

## **Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

### *Revenue*

Our revenue increased by 468.3% from RMB85.9 million for the year ended December 31, 2013 to RMB488.0 million for the year ended December 31, 2014.

*Smart hardware.* Revenue from the smart hardware segment increased by 734.9% from RMB51.3 million for the year ended December 31, 2013 to RMB428.4 million for the year ended December 31, 2014, primarily due to an increase in the number of smartphone units sold from 27,917 for 2013 to 277,595 for 2014, offset by a decrease in the average selling price of smartphones from RMB1,834 per unit in 2013 to RMB1,533 per unit in 2014. The significant increase in the number of smartphone units sold was primarily due to the fact that we only commenced to sell smartphone units in the second half of 2013 to test the market response to our smartphone. The decrease in average selling price was primarily due to the introduction of distributors and retailers in 2014 to expand our market and geographical coverage and increase sales volume of our smartphones.

*Internet services and others.* Revenue from the Internet services and others segment increased by 72.7% from RMB34.6 million for the year ended December 31, 2013 to RMB59.7 million for the year ended December 31, 2014, primarily due to a 68.4% increase in online advertising revenue from RMB34.5 million for the year ended December 31, 2013 to RMB58.2 million for the year ended December 31, 2014. The increase in online advertising revenue was primarily due to the increasing popularity of our apps as demonstrated by our expanding user base, and the resulting higher perceived value of our advertisements to our advertising customers.

### *Cost of sales*

Our cost of sales increased significantly from RMB36.3 million for the year ended December 31, 2013 to RMB401.4 million for the year ended December 31, 2014.

*Smart hardware.* Segment cost for smart hardware increased from RMB32.9 million for the year ended December 31, 2013 to RMB372.8 million for the year ended December 31, 2014 primarily due to an increase in the number of smartphone units sold. For details on the number of smartphone units sold, see “— Description of Major Components of Our Results of Operations — Revenue — Smart Hardware”.

*Internet services and others.* Segment cost for Internet services and others increased by 752.2% from RMB3.4 million for the year ended December 31, 2013 to RMB28.6 million for the year ended December 31, 2014, which was primarily due to increases in bandwidth and server custody fees and other costs.

Bandwidth and server custody fees increased from RMB2.1 million for the year ended December 31, 2013 to RMB17.0 million for the year ended December 31, 2014, primarily due to the launch of *Meipai* in May 2014, which caused an increase in requirements for more bandwidth.

Other costs increased from RMB1.3 million for the year ended December 31, 2013 to RMB11.6 million for the year ended December 31, 2014, primarily due to certain incremental costs associated with *Meipai* since its launch in May 2014, including (i) video content monitoring fee of RMB4.6 million; and (ii) cloud computing and storage fees of RMB1.3 million.



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### *Gross profit and gross margin*

As a result of the foregoing, our gross profit increased by 74.7% from RMB49.6 million for the year ended December 31, 2013 to RMB86.7 million for the year ended December 31, 2014. Our gross margin decreased from 57.8% for the year ended December 31, 2013 to 17.8% for the year ended December 31, 2014.

The gross margin for the smart hardware segment decreased from 35.8% for the year ended December 31, 2013 to 13.0% for the year ended December 31, 2014 primarily due to the fact that an increasing percentage of our smartphones were sold through distributors and retailers. The price at which we sell to distributors and retailers is lower than that at which we sell to our end consumers through our direct sales channel. The gross margin for the Internet services and others segment decreased from 90.3% for the year ended December 31, 2013 to 52.0% for the year ended December 31, 2014 primarily due to a significant increase in our bandwidth and server custody fees as well as video content monitoring fees associated with the launch of *Meipai* in May 2014. For the year ended December 31, 2014, 88.8% of the segment cost for Internet services and others was attributable to *Meipai*.

### *Selling and marketing expenses*

Our selling and marketing expenses increased by 646.6% from RMB16.2 million for the year ended December 31, 2013 to RMB121.0 million for the year ended December 31, 2014, primarily due to increases in promotion and advertising expenses and salaries and benefits for selling and marketing personnel. Promotion and advertising expenses increased significantly from RMB9.9 million for the year ended December 31, 2013 to RMB103.7 million for the year ended December 31, 2014, primarily due to promotion and advertising activities for the then newly launched *Meipai*, a new smartphone model, as well as promotion of our brand in general. Salaries and benefits for selling and marketing personnel increased by 195.9% from RMB1.9 million for the year ended December 31, 2013 to RMB5.7 million for the year ended December 31, 2014, primarily due to an increase in the headcount of our selling and marketing personnel from 31 as of December 31, 2013 to 58 as of December 31, 2014.

### *Administrative expenses*

Our administrative expenses increased by 170.8% from RMB14.1 million for the year ended December 31, 2013 to RMB38.3 million for the year ended December 31, 2014, primarily due to (i) a 106.2% increase in salaries and benefits for administrative personnel from RMB7.1 million for the year ended December 31, 2013 to RMB14.6 million for the year ended December 31, 2014, primarily due to an increase in the headcount of our administrative personnel (including our general administrative and operations personnel) from 61 as of December 31, 2013 to 114 as of December 31, 2014; (ii) a 366.7% increase in professional fees from RMB1.5 million for the year ended December 31, 2013 to RMB7.0 million for the year ended December 31, 2014, primarily due to expanded business operations; and (iii) a 290.9% increase in operating lease payments from RMB1.1 million for the year ended December 31, 2013 to RMB4.3 million for the year ended December 31, 2014, primarily due to the rental of additional office space to house our expanded business operations.

### *Research and development expenses*

Our research and development expenses increased by 204.3% from RMB16.5 million for the year ended December 31, 2013 to RMB50.1 million for the year ended December 31, 2014, primarily due to a 153.3% increase in salaries and benefits for research and development personnel from RMB12.0 million in 2013 to RMB30.4 million in 2014. The increase in salaries and benefits relating to research and development personnel was primarily due to an increase in the number of research and development personnel from 126 as of December 31, 2013 to 267 as of December 31, 2014.

### *Other income*

Other income increased from RMB0.1 million for the year ended December 31, 2013 to RMB3.4 million for the year ended December 31, 2014. The increase was primarily due to an increase in the government grants



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we received, which increased from RMB0.1 million in 2013 to RMB2.2 million in 2014, and investment income from short-term investments of RMB0.6 million which comprised wealth management products issued by certain Chinese banks in 2014.

### *Other losses, net*

Other losses, net increased from RMB77,000 for the year ended December 31, 2013 to RMB0.2 million for the year ended December 31, 2014.

### *Finance income/(costs), net*

We had a net finance income of RMB3.3 million for the year ended December 31, 2014, compared to net finance costs of RMB4.7 million for the year ended December 31, 2013, due to an increase in finance income and a decrease in finance cost. Finance income, which comprises interest income, increased from RMB0.2 million for the year ended December 31, 2013 to RMB4.4 million for the year ended December 31, 2014, primarily due to short-term bank deposits made using the funds raised from the issuance and sale of our Preferred Shares. Finance costs decreased by 73.5% from RMB4.9 million for the year ended December 31, 2013 to RMB1.3 million for the year ended December 31, 2014, primarily due to foreign exchange gains associated with fluctuations in the exchange rate of the U.S. dollar against RMB.

### *Loss before income tax*

As a result of the foregoing and a significant increase in fair value loss of convertible redeemable preferred shares from RMB23.5 million for the year ended December 31, 2013 to RMB1.7 billion for the year ended December 31, 2014, our loss before income tax increased significantly from RMB25.4 million for the year ended December 31, 2013 to RMB1.8 billion for the year ended December 31, 2014. For more detailed discussions about the Preferred Shares, which give rise to the fair value loss of convertible redeemable preferred shares, see Note 27 to the Accountant's Report included in Appendix I of this prospectus.

### *Income tax expense*

Our income tax expense increased from RMB0.4 million for the year ended December 31, 2013 to RMB4.7 million for the year ended December 31, 2014, primarily due to the profit made by Meitu Networks in 2014, which resulted from the transfer of copyrights relating to our apps from Meitu Networks to Meitu Home as part of our Corporate Restructuring.

### *Loss for the year*

Primarily as a result of the foregoing, our loss for the year increased significantly from RMB25.8 million for the year ended December 31, 2013 to RMB1.8 billion for the year ended December 31, 2014.

### *Adjusted net loss for the year*

We had adjusted net loss of RMB112.3 million for the year ended December 31, 2014, compared to an adjusted net loss of RMB2.3 million for the year ended December 31, 2013. See “— Non-IFRS Measure: Adjusted Net Loss”.

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### DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this prospectus:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
(in thousands of RMB)				
Total non-current assets .....	7,461	40,840	261,975	440,840
Total current assets .....	86,605	1,770,844	1,446,843	2,030,792
<b>Total assets</b> .....	<u>94,066</u>	<u>1,811,684</u>	<u>1,708,818</u>	<u>2,471,632</u>
Total non-current liabilities .....	53,885	3,592,141	5,681,892	8,645,544
Total current liabilities .....	75,587	44,500	274,733	379,120
<b>Total liabilities</b> .....	<u>129,472</u>	<u>3,636,641</u>	<u>5,956,625</u>	<u>9,024,664</u>
<b>Net liabilities</b> .....	<u>35,406</u>	<u>1,824,957</u>	<u>4,247,807</u>	<u>6,553,032</u>
Share capital .....	123	121	121	121
Reserves .....	44,773	28,022	(176,787)	(292,273)
Accumulated losses .....	(80,302)	(1,853,100)	(4,071,141)	(6,260,880)
<b>Total equity</b> .....	<u>(35,406)</u>	<u>(1,824,957)</u>	<u>(4,247,807)</u>	<u>(6,553,032)</u>

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of
	2013	2014	2015	2016	October 31,
(in thousands of RMB)					2016
					(unaudited)
<b>Current assets</b>					
Inventories .....	9,586	12,756	125,901	229,466	184,205
Trade receivables .....	12,608	19,401	46,567	39,956	44,562
Prepayments and other receivables .....	24,665	13,648	53,512	83,200	88,522
Short-term investments .....	—	170,318	170,389	55,130	411,014
Short-term bank deposits .....	—	266,176	60,000	1,123,518	834,794
Restricted cash .....	1,214	200	600	1,000	600
Cash and cash equivalents .....	38,532	1,288,345	989,874	498,522	294,102
<b>Total current assets</b> .....	<u>86,605</u>	<u>1,770,844</u>	<u>1,446,843</u>	<u>2,030,792</u>	<u>1,857,799</u>
<b>Current liabilities</b>					
Trade and other payables .....	75,149	42,268	274,180	379,072	386,590
Income tax liabilities .....	438	2,232	553	48	113
<b>Total current liabilities</b> .....	<u>75,587</u>	<u>44,500</u>	<u>274,733</u>	<u>379,120</u>	<u>386,703</u>
<b>Net current assets</b> .....	<u>11,018</u>	<u>1,726,344</u>	<u>1,172,110</u>	<u>1,651,672</u>	<u>1,471,096</u>

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### Inventories

The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
(in thousands of RMB)				
Raw materials .....	—	—	78,895	198,165
Finished goods .....	9,586	12,756	47,211	31,861
	9,586	12,756	126,106	230,026
Less: provision for impairment <sup>(1)</sup> .....	—	—	(205)	(560)
<b>Total</b> .....	<b>9,586</b>	<b>12,756</b>	<b>125,901</b>	<b>229,466</b>

*Note:*

- (1) Provision for impairment is recognized for the amount by which the carrying amount of the inventories exceeds the recoverable amount, and was recorded in cost of sales in the consolidated income statement.

Our inventories increased by 82.3% from RMB125.9 million as of December 31, 2015 to RMB229.5 million as of June 30, 2016, primarily due to an increase in raw materials, which is partially offset by a decrease in finished goods. Raw materials increased by 151.2% from RMB78.9 million as of December 31, 2015 to RMB198.2 million as of June 30, 2016, primarily due to the purchase of an increased amount of raw materials for the V4s and M6 models, which were launched in June 2016. Finished goods decreased by 32.5% from RMB47.2 million as of December 31, 2015 to RMB31.9 million as of June 30, 2016, primarily due to higher turnover rate of our M6 models, which were launched in June 2016, compared to the previous models.

Our inventories increased significantly from RMB12.8 million as of December 31, 2014 to RMB125.9 million as of December 31, 2015, due to the significant increase in raw materials and finished goods as of December 31, 2015. The balance of raw materials as of December 31, 2015, which amounted to RMB78.9 million, was primarily due to the fact that we started to directly source and procure components and materials for our smartphones from April 2015 when we changed our smartphone production model from ODM to OEM, and the purchase of an increased amount of components and materials for the production of the M4 and V4 models. Finished goods increased by 270.1% from RMB12.8 million as of December 31, 2014 to RMB47.2 million as of December 31, 2015, primarily due to increased production for the launch of three new models in 2015.

Our inventories increased by 33.1% from RMB9.6 million as of December 31, 2013 to RMB12.8 million as of December 31, 2014, due to an increase in the popularity of our smartphones. There was no balance of raw materials as of December 31, 2013 or 2014, as we engaged an ODM manufacturer for the production of smartphones until April 2015 and did not purchase raw materials in 2013.

The following table sets forth our inventory turnover days for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2013	2014	2015	2016
Inventory turnover days <sup>(1)</sup> .....	48	10	39	63

*Note:*

- (1) Inventory turnover days for a period equals the average of the opening and closing inventory balances divided by the cost of sales for the same period and multiplied by the number of days in that period, being 365 days for a full-year period or 181 days for a six-month period.

Our inventory turnover days increased from 39 for the year ended December 31, 2015 to 63 for the six months ended June 30, 2016 primarily due to increased inventory balances in anticipation of strong demand in light of the increasing popularity of our smartphones.

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Our inventory turnover days increased from 10 days for the year ended December 31, 2014 to 39 days for the year ended December 31, 2015 primarily due to the purchase of raw materials since our adoption of the OEM production model, while we did not purchase any raw materials in 2014 while using our ODM production model during that year.

Our inventory turnover days decreased from 48 for the year ended December 31, 2013 to 10 for the year ended December 31, 2014 primarily because we sold a larger proportion of smartphones to large distributors and retailers, which had higher purchase volume and increased the turnover rate.

Approximately RMB216 million, or 94%, of our inventories as of June 30, 2016 had been sold as of October 31, 2016.

### Trade Receivables

Trade receivables represent outstanding amounts due from our customers for the purchase of our products or services. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in thousands of RMB)			
Trade receivables .....	12,608	19,401	46,567	39,977
Less: provision for impairment .....	—	—	—	(21)
Trade receivables, net .....	<u>12,608</u>	<u>19,401</u>	<u>46,567</u>	<u>39,956</u>

Our trade receivables decreased by 14.2% from RMB46.6 million as of December 31, 2015 to RMB40.0 million as of June 30, 2016, primarily due to the collection of trade receivables from a major advertising customer.

Our trade receivables increased by 140.0% from RMB19.4 million as of December 31, 2014 to RMB46.6 million as of December 31, 2015, primarily due to (i) increased revenue from online advertising customers which have longer credit terms compared to smartphone sales, and an increase in the amount due from certain distributors and retailers of our smartphones, for whom the credit terms are less than 30 days.

Our trade receivables increased by 53.9% from RMB12.6 million as of December 31, 2013 to RMB19.4 million as of December 31, 2014, primarily due to increased revenue from online advertising, customers of which have longer credit terms compared to those of smartphone distributors and retailers.

The following table sets forth an aging analysis of our trade receivables, based on the invoice date and net of allowance of doubtful debts, as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in thousands of RMB)			
Up to 3 months .....	10,060	7,556	42,548	31,880
3 to 6 months .....	550	3,348	3,602	6,633
6 months to 1 year .....	—	8,497	385	1,440
1 to 2 years .....	1,998	—	32	3
<b>Total</b> .....	<u>12,608</u>	<u>19,401</u>	<u>46,567</u>	<u>39,956</u>

We typically request advance payments from our smartphone distributors and retailers. We generally grant our advertising customers credit terms of 90 to 120 days. We assess the credit terms on a case-by-case basis,

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taking into account the customer's creditworthiness, prior dealing history and additional customer-specific information and the economic environment in which the customer operates. For trade receivables that have remained outstanding for significant periods of time, we evaluate the likelihood of collection based on each individual customer's situation and ability to pay in full. We have been successful in our collection efforts during the Track Record Period. For example, RMB2.0 million of outstanding trade receivables of 1 to 2 years as of December 31, 2013 was collected in 2014.

The following table sets forth the number of turnover days for our trade receivables for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2013	2014	2015	2016
Trade receivables turnover days <sup>(1)</sup> .....	38	12	16	13

*Note:*

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables divided by revenue for the same period and multiplied by the number of days in that period, being 365 days for a full-year period or 181 days for a six-month period.

There was no significant fluctuations in the trade receivables turnover days for the years ended December 31, 2014 and 2015 and for the six months ended June 30, 2016.

Our trade receivables turnover days decreased from 38 for the year ended December 31, 2013 to 12 for the year ended December 31, 2014 primarily due to the expansion of our smartphone business in 2014, for which we typically required advance payments from distributors and retailers.

Approximately RMB26 million, or 65%, of our trade receivables as of June 30, 2016 had been settled as of October 31, 2016.

### Prepayments and Other Receivables

Prepayments and other receivables included in our non-current and current assets primarily comprise prepayments for promotion and advertising, and prepayments to our suppliers recoverable value-added tax, and rental and other deposits.

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The following table sets forth our prepayments and other receivables included in non-current assets and current assets as of the dates indicated:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<b>Included in non-current assets</b>				
Rental and other deposits .....	1,908	950	4,816	7,713
Prepayments for software licenses .....	406	687	1,149	790
Prepayments for long-term investments <sup>(1)</sup> .....	—	1,000	1,000	—
Recoverable value-added tax .....	—	2,282	29,197	35,096
	<u>2,314</u>	<u>4,919</u>	<u>36,162</u>	<u>43,599</u>
<b>Included in current assets</b>				
Recoverable value-added tax .....	190	—	—	10,398
Rental and other deposits .....	1,082	3,759	15,627	17,153
Prepayments for promotion and advertising .....	327	1,960	11,661	9,651
Prepayments to suppliers .....	22,709	6,016	9,034	38,275
Loans to investee companies .....	—	—	8,347	3,316
Loans to shareholders of investee companies .....	—	—	7,000	2,000
Interest receivables .....	—	559	601	2,336
Amount due from Founders .....	123	121	121	—
Others .....	234	1,233	1,121	71
	<u>24,665</u>	<u>13,648</u>	<u>53,512</u>	<u>83,200</u>
Total prepayments and other receivables .....	<u>26,979</u>	<u>18,567</u>	<u>89,674</u>	<u>126,799</u>

*Note:*

(1) Long-term investments during our Track Record Period comprised investments in associates in the form of ordinary shares, financial assets at fair value through profit or loss and available-for-sale financial assets.

Our prepayments and other receivables increased by 41.4% from RMB89.7 million as of December 31, 2015 to RMB126.8 million as of June 30, 2016, primarily due to an increase in prepayments to suppliers and recoverable value-added tax as of June 30, 2016. Prepayments to suppliers increased by 323.7% from RMB9.0 million as of December 31, 2015 to RMB38.3 million as of June 30, 2016, primarily due to increased prepayments to our supplier to purchase our smartphone components and materials. Recoverable value-add tax increased by 55.8% from RMB29.2 million as of December 31, 2015 to RMB45.5 million as of June 30, 2016, primarily due to the expansion of promotional activities.

Our prepayments and other receivables increased by 383.0% from RMB18.6 million as of December 31, 2014 to RMB89.7 million as of December 31, 2015, primarily due to increases in rental and other deposits, prepayments for promotion and advertising and recoverable value-add tax as of December 31, 2015. Rental and other deposits increased by 334.1% from RMB4.7 million as of December 31, 2014 to RMB20.4 million as of December 31, 2015, primarily due to an increase in the number of our offices. Prepayments for promotion and advertising increased by 494.9% from RMB2.0 million as of December 31, 2014 to RMB11.7 million as of December 31, 2015, primarily due to an increase in advance payments associated with the expansion of our promotional activities. Recoverable value-add tax increased by 1179.4% from RMB2.3 million as of December 31, 2014 to RMB29.2 million as of December 31, 2015 primarily due to the expansion of promotional activities.

Our prepayments and other receivables decreased by 31.2% from RMB27.0 million as of December 31, 2013 to RMB18.6 million as of December 31, 2014 primarily due to a decrease in prepayments to suppliers, which was partially offset by increases in rental and other deposits, and prepayments for promotion and



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advertising. Prepayments to suppliers decreased by 73.5% from RMB22.7 million as of December 31, 2013 to RMB6.0 million as of December 31, 2014, primarily due to reduced business dealings with the original design manufacturer during the year. Rental and other deposits increased by 57.5% from RMB3.0 million as of December 31, 2013 to RMB4.7 million as of December 31, 2014, primarily due to an increase in deposits associated with an increase in the number of our offices. Prepayments for promotion and advertising increased significantly from RMB0.3 million as of December 31, 2013 to RMB2.0 million as of December 31, 2014, primarily due to an increase in advance payments associated with the expansion of our promotional activities.

### Trade and Other Payables

Trade payables represent outstanding amounts due on our payments to our contract manufacturers and purchases of components and materials from suppliers.

The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in thousands of RMB)			
Trade payables .....	3,182	16,163	214,619	292,263
Payroll and welfare payables .....	4,025	12,245	27,642	32,257
Advance from customers .....	1,708	5,348	3,778	31,263
Government grants .....	500	935	8,465	8,620
Other tax payables .....	1,318	3,180	7,776	5,762
Accrued auditors' remuneration .....	1,179	2,075	3,150	2,680
Warranty provisions .....	—	1,989	7,956	5,333
Notes payable .....	4,045	—	—	—
Loans payable to a shareholder .....	10,369	—	—	—
Payable to a former preferred shareholder .....	48,775	—	—	—
Others .....	48	333	794	894
	<u>75,149</u>	<u>42,268</u>	<u>274,180</u>	<u>379,072</u>

Our trade and other payables increased by 38.3% from RMB274.2 million as of December 31, 2015 to RMB379.1 million as of June 30, 2016 primarily due to increases in trade payables, advance from customers and payroll and welfare payables. Trade payables increased by 36.2% from RMB214.6 million as of December 31, 2015 to RMB292.3 million as of June 30, 2016, primarily due to an increase in trade payables balance relating to the components and materials we purchased for our newly launched M6 model. Advances from customers increased significantly from RMB3.8 million as of December 31, 2015 to RMB31.3 million as of June 30, 2016, primarily due to increased advance payments from distributors and retailers in relation to their purchase of our M6 model, which was then scheduled for launch in June 2016. Payroll and welfare payables increased by 16.7% from RMB27.6 million as of December 31, 2015 to RMB32.3 million as of June 30, 2016, primarily due to our expanded business operations and a corresponding increase in employee headcount from 737 as of December 31, 2015 to 1,001 as of June 30, 2016.

Our trade and other payables increased significantly from RMB42.3 million as of December 31, 2014 to RMB274.2 million as of December 31, 2015 primarily due to increases in trade payables, payroll and welfare payables and government grants. Trade payables increased significantly from RMB16.2 million as of December 31, 2014 to RMB214.6 million as of December 31, 2015, primarily due to the extent of our marketing efforts for promoting our apps and our decision to switch to OEM for Meitu smartphones in 2015 such that we need to source and procure raw materials. Payroll and welfare payables increased by 125.7% from RMB12.2 million as of December 31, 2014 to RMB27.6 million as of December 31, 2015, primarily due to our expanded business operations and a corresponding increase in employee headcount from 439 as of December 31, 2014 to 737 as of December 31, 2015. Government grants increased significantly from RMB0.9 million as of December 31, 2014

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to RMB8.5 million as of December 31, 2015, primarily due to increased amount of grants approved by the government in relation to our research and development activities.

Our trade and other payables decreased by 43.8% from RMB75.1 million as of December 31, 2013 to RMB42.3 million as of December 31, 2014 primarily due to increases in trade payables and payroll and welfare payables, which were partially offset by a decrease in payable to a former preferred shareholder, loans payable to a shareholder and notes payable. Trade payables increased by 408.0% from RMB3.2 million as of December 31, 2013 to RMB16.2 million as of December 31, 2014, primarily due to the expansion of our app promotional activities, and increases in costs relating to bandwidth requirements and video content-monitoring work associated with *Meipai*, which was launched in May 2014. Payroll and welfare payables increased by 204.2% from RMB4.0 million as of December 31, 2013 to RMB12.2 million as of December 31, 2014, primarily due to expanded business operations and a corresponding increase in employee headcount from 218 as of December 31, 2013 to 439 as of December 31, 2014. We had payable to a former preferred shareholder in the amount of RMB48.8 million as of December 31, 2013, as one preferred shareholder of our Company requested us to redeem its preferred shares, which we settled in February 2014. We had RMB10.4 million in loans payable to our Chairman Mr. Cai, as of December 31, 2013, which we borrowed for the purpose of working capital and fully repaid in 2014. See “— Material Related Party Transactions”. We had notes payable of RMB4.0 million as of December 31, 2013, which were fully repaid in 2014.

The following table sets forth an aging analysis of our trade payables (which are included in trade and other payables) as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in thousands of RMB)			
Up to 3 months .....	3,162	16,072	212,300	262,500
3 to 6 months .....	—	71	1,962	10,044
6 months to 1 year .....	4	—	225	19,565
1 to 2 years .....	—	4	128	150
Over 2 years .....	16	16	4	4
<b>Total</b> .....	<u>3,182</u>	<u>16,163</u>	<u>214,619</u>	<u>292,263</u>

We are typically granted credit terms of 30 to 60 days by our suppliers and their authorized distributors of smartphone components and materials, except for certain key components and materials for which advance payments are required. Our contract manufacturers typically require us to make prepayments for 50% of the contract price, and grant us credit terms of 15 to 20 days from the date of billing for the remaining 50% of the contract price. Our data storage and bandwidth providers typically grant us credit terms of 15 to 30 days. We are generally required to make prepayments to app distribution and user acquisition channels, and we are occasionally granted credit terms of 10 to 20 days.

The following table sets forth the number of turnover days for our trade payables for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2013	2014	2015	2016
Trade payables turnover days <sup>(1)</sup> .....	17	9	66	90

Note:

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by the number of days in that period, being 365 days for a full-year period or 181 days for a six-month period.

Our trade payables turnover days increased from 66 days for the year ended December 31, 2015 to 90 days for the six months ended June 30, 2016 primarily due to the increase in the amount of components and materials that we purchased for the production of our smartphones.

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Our trade payables turnover days increased from 9 days for the year ended December 31, 2014 to 66 days for the year ended December 31, 2015, primarily due to the fact that we began adopting an OEM model for the production of our smartphones and began purchasing smartphone components and materials, as well as an increased amount of payables on app promotional activities.

Our trade payables turnover days decreased from 17 days for the year ended December 31, 2013 to 9 days for the year ended December 31, 2014 primarily because the ODM manufacturer that we then engaged for the production of our smartphones required more prepayments.

Approximately RMB278 million, or 95%, of our trade payables as of June 30, 2016 had been settled as of October 31, 2016.

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
Total revenue growth (%).....	N/A	468.3	52.0	N/A	224.2
Revenue growth for smart hardware segment (%).....	N/A	734.9	55.7	N/A	301.2
Revenue growth for Internet services and others segment (%).....	N/A	72.7	25.1	N/A	(31.5)
Gross margin for smart hardware segment <sup>(1)</sup> (%).....	35.8	13.0	18.8	26.4	19.5
Gross margin for Internet services and others segment <sup>(1)</sup> (%).....	90.3	52.0	(33.0)	3.9	(119.5)
Period-end MAU growth (%).....	N/A	110.6	101.9	54.3	81.1
Average monthly revenue per MAU <sup>(2)</sup> (RMB).....	0.082	0.220	0.166	0.122	0.219
Average monthly smart hardware revenue per MAU <sup>(3)</sup> (RMB).....	0.049	0.193	0.149	0.094	0.208
Average monthly Internet services and others revenue per MAU <sup>(4)</sup> (RMB).....	0.033	0.027	0.017	0.028	0.011
Inventory turnover days <sup>(5)</sup> .....	48	10	39	64	63
Trade receivables turnover days <sup>(6)</sup> .....	38	12	16	30	13

*Notes:*

- (1) Gross margin equals gross profit/(loss) from the indicated segment divided by revenue from the indicated segment for the period and multiplied by 100%.
- (2) Average monthly revenue per MAU equals our total revenue for the indicated period divided by the number of months in the indicated period and the MAUs for the last month of the indicated period.
- (3) Average monthly smart hardware revenue per MAU equals revenue from our smart hardware segment for the indicated period divided by the number of months in such period and the MAUs for the last month of such period.
- (4) Average monthly Internet services and others revenue per MAU equals revenue from our Internet services and others segment for the indicated period divided by the number of months in such period and the MAUs for the last month of such period.
- (5) Inventory turnover days for a period equals the average of the opening and closing inventory balances of the indicated period divided by the cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 181 days for a six-month period.
- (6) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables of the indicated period divided by revenue for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 181 days for a six-month period.

See “— Period-to-Period Comparison of Results of Operations — Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015”, “— Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2015 Compared to Year Ended December 31, 2014” and “— Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2014 Compared to Year Ended December 31, 2013” for a discussion of the factors affecting our revenue growth and gross margin during the respective periods. See “— Discussion of Certain Key Balance Sheet Items” for a discussion of the factors affecting our inventory turnover days and trade receivables turnover days.

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### Average Monthly Revenue per MAU

The following table sets forth the calculation of our average monthly revenue per MAU for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
Revenue (RMB'000) .....	85,877	488,049	741,813	180,600	585,477
Period-end MAU (in millions) .....	87.6	184.5	372.5	246.5	446.3
Average Monthly Revenue per MAU (RMB) .....	0.082	0.220	0.166	0.122	0.219

Our average monthly revenue per MAU increased from RMB0.082 for the year ended December 31, 2013 to RMB0.220 for the year ended December 31, 2014, primarily due to revenue growth of 468.3% as a result of our monetization efforts. Our average monthly revenue per MAU decreased from RMB0.220 for the year ended December 31, 2014 to RMB0.166 for the year ended December 31, 2015, primarily due to the more rapid growth of our user base compared to revenue, although our revenue increased by 52.0%. Our average monthly revenue per MAU increased from RMB0.122 for the six months ended June 30, 2015 to RMB0.219 for the six months ended June 30, 2016, primarily due to revenue growth of 224.2% as a result of our monetization effort, although our user base also grew rapidly during the same period.

### *Hypothetical Breakeven Analysis*

For the six months ended June 30, 2016, we had adjusted net loss of RMB257.6 million and net operating cash outflows of RMB277.2 million. During this period, we recorded a gross profit of RMB108.7 million for our smart hardware segment and a gross loss of RMB34.2 million for our Internet services and others segment.

In order for us to have recorded adjusted net profit and had positive cash flows from operating activities during the six months ended June 30, 2016, our average monthly revenue per MAU would have needed to increase from RMB0.219 (RMB0.208 for our smart hardware segment and RMB0.011 for our Internet services and others segment) to RMB0.367 (RMB0.208 for smart hardware segment and RMB0.159 for the Internet services and others segment), representing a total increase in revenue of approximately RMB384 million, and assuming that:

- (i) the additional revenues generated during the period were solely derived from the online advertising portion of our Internet services and others segment and no additional revenues were generated from our smart hardware segment or the IVAS and proposed e-commerce portions of our Internet services and others segment;
- (ii) our selling and marketing expenses increased by 40% to increase the engagement of users on our platform;
- (iii) our bandwidth and server custody fees increased by 40% to accommodate the increased user activity resulting from the assumed increased user engagement;
- (iv) there had been no change in the size of our user base, which consisted of approximately 446 million MAUs in June 2016, even though the aforementioned increases in selling and marketing expenses would be expected to have led to an increase in our MAUs and increases in bandwidth and server custody fees would also have been driven by increases in our MAUs;
- (v) trade receivables resulting from the additional revenues are calculated using the actual trade receivable turnover days as of June 30, 2016; and
- (vi) there had been no changes in other balance sheet items.

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We believe that this required increase in revenue could reasonably be achieved as we implement our planned online advertising monetization initiatives. Assuming that:

- we generate advertising revenue through our six core apps, namely *Meitu*, *Meipai*, *BeautyCam*, *BeautyPlus*, *MakeupPlus* and *SelfieCity*;
- our users maintain the level of app engagement in terms of number of sessions across our six core apps as of June 30, 2016;
- we primarily leverage several existing and readily available advertising spaces across our core apps as of June 30, 2016, including the app launch display, app home page, app photo save-and-share page, and embedded spaces in *Meipai* videos;
- we utilize various commonly-seen mobile advertising formats, including banner, display, native and contextual advertising; and
- we use effective cost-per-mille that is at the lower end of the range of market rate cost-per-mille (CPM),

we believe that the foregoing increase in revenue could be attained with our current user base and engagement by selling no more than 15% of the possible advertising spaces under the foregoing assumptions in our core apps to our advertising customers. According to Frost & Sullivan, the current market rate of mobile display advertising in China typically ranges between CPM of RMB20 and RMB100. Cost-per-mille (CPM) is a typical pricing scheme for online and mobile display advertising, which represents the cost per thousand advertising impressions.

In addition, there are precedent cases where other leading Internet companies have successfully increased their monthly advertising revenue per MAU over time from relatively low levels. For example, a leading Chinese social media platform and a global online Internet platform generated relatively low levels of monthly advertising revenue per MAU when they first began to implement their online advertising strategies, and managed to grow their monthly advertising revenue per MAU over a three-year period from nil to over RMB0.80 and from below RMB0.10 to over RMB1.00, respectively.

We have successfully engaged a sizable user base across our portfolio of apps of approximately 456 million MAUs in October 2016. As we have historically focused on maintaining quality user experience and are currently at an early stage of monetizing our users, the average monthly revenue per MAU that we generated in the six months ended June 30, 2016 was still at a low level. We believe that mobile Internet companies with large user bases like us, as demonstrated above, are generally able to scale revenue rapidly upon successful implementation of monetization initiatives, particularly when starting from a low level of user monetization. Based on the foregoing, the Directors are of the view that the foregoing breakeven analysis is reasonable.

We started to focus on the monetization of our Internet services and others segment from the second half of 2016 and expect to generate revenue from this segment going forward based on the following:

- *Online advertising:* We expect our online advertising revenue will increase as we expect the total number of MAUs on our platform to continue to increase, offering our advertising customers broader reach in target audience, and as we make more advertising inventory in our apps available for purchase by our advertising customers. For example, with total MAUs of approximately 456 million across all of our apps in October 2016 and with users accessing our core photo apps on average approximately 3.4 times a day in October 2016, we are able to generate billions of user app sessions a month, during each of which we may incorporate multiple advertising inventories that can potentially be offered to our advertising customers. Our portfolio of innovative apps provides a powerful medium through which advertisers can engage our massive user base leveraging targeted and big data-driven advertising campaigns. We plan to leverage our proprietary technologies and big data analytical capabilities to further optimize our advertising infrastructure and offer more comprehensive and creative advertising solutions. We intend to start rolling out an upgraded advertising platform by the end of 2016, which would enable connection with programmatic

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advertising networks, and would offer more advertisement inventory to advertisers, whose offerings we believe would interest our users, making advertising part of a quality and rich user experience.

For the year ending December 31, 2017, we plan to increase the in-app inventory that we offer for purchase by our advertising customers, including on app launch display, app home page, app photo save-and-share page, and embedded spaces in *Meipai* videos, and release more engaging advertising formats such as native ads and video ads tailored to each user's interests and preferences.

- *Internet value-added services:* We expect revenue from IVAS on *Meipai* to increase as more users learn to and choose to make virtual item purchases, increasing their spending per month. Since the launch of *Meipai* IVAS business in June 2016, revenue generated by such business has increased from approximately RMB0.7 million for the second quarter of 2016 to approximately RMB9.2 million for the third quarter of 2016, representing an increase of 1,160%, presenting significant monetization opportunities.
- *E-commerce:* We plan to launch a social e-commerce platform in the first half of 2017, which is aimed at making shopping for authentic, brand-name fashion merchandise an easy and enjoyable experience. The core of this platform is expected to be a community that connects our users, fashion KOLs and a wide variety of fashion brands. We expect to start generating revenue from our e-commerce platform in 2017. We intend to focus on facilitating transactions between merchants and consumers and to receive commission revenue from merchants when a transaction is completed.

Based on our expectations above, which has taken into account our current business development and expansion plans, and our major costs and indirect expenses of the Internet services and others segment for the six months ending December 31, 2016 and major indirect costs and expenses of the Internet services and others segment for the year ending December 31, 2017 as set out in “— Description of Major Components of Our Results of Operations — Expected Expenditures on Monetization Initiatives”, we expect the breakeven period for our Internet services and others segment would be approximately 18 months from July 2016. In addition, we expect to be able to cover our e-commerce platform's monthly operating expenses through revenue generated by the platform within 18 to 30 months from July 2016, when we started to develop the platform. However, the industry in which we operate is constantly evolving, and as a result our actual breakeven period may be longer. See “Risk Factors — Risks Relating to Our Business and Industries — We are in the early stage of monetization and cannot guarantee that our current or future monetization strategies will be successfully implemented or will generate sustainable revenue, profit or positive operating cash flows” and “Risk Factors — Risks Relating to Our Business and Industries — We have incurred significant net losses and negative operating cash flows in the past, and we may not be able to achieve profitability or generate positive operating cash flows” for a discussion of the associated risks.

### LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from capital contribution from shareholders and financing through issuance and sale of the Preferred Shares in private placement transactions.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any plans for material additional external financing.



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The following table sets forth our cash flows for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(in thousands of RMB)				
	(unaudited)				
Net cash used in operating activities .....	(27,570)	(80,868)	(675,345)	(274,663)	(277,236)
Net cash (used in)/generated from investing activities ...	(1,793)	(467,753)	3,291	(64,739)	(1,121,829)
Net cash generated from financing activities .....	60,482	1,803,757	307,121	307,164	879,878
Net increase/(decrease) in cash and cash equivalents .....	31,119	1,255,136	(364,933)	(32,238)	(519,187)
Exchange gains/(losses) on cash and cash equivalents ...	(360)	(5,323)	66,462	(615)	27,835
Cash and cash equivalents at the beginning of the year/ period .....	7,773	38,532	1,288,345	1,288,345	989,874
Cash and cash equivalents at the end of the year/period .....	<u>38,532</u>	<u>1,288,345</u>	<u>989,874</u>	<u>1,255,492</u>	<u>498,522</u>

### Net Cash Used in Operating Activities

Net cash used in operating activities primarily comprises our loss for the period adjusted by income tax paid and non-cash items, such as fair value loss of convertible redeemable preferred shares, share-based compensation, depreciation and amortization, and adjusted by changes in working capital, such as inventories, trade receivables, prepayment and other receivables and trade and other payables. The fluctuations of net cash used in operating activities largely correspond to the changes in our adjusted loss for the year/period.

For the six months ended June 30, 2016, net cash used in operating activities was RMB277.2 million, which was primarily attributable to our loss before income tax of RMB2.2 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value loss of convertible redeemable preferred shares of RMB1.9 billion, share-based compensation of RMB19.9 million and depreciation of property and equipment of RMB12.1 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other payables of RMB115.8 million, partially offset by an increase in inventories of RMB103.6 million and an increase in prepayments and other receivables of RMB45.9 million.

For the year ended December 31, 2015, net cash used in operating activities was RMB675.3 million, which was primarily attributable to our loss before income tax of RMB2.2 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value loss of convertible redeemable preferred shares of RMB1.5 billion, share-based compensation of RMB24.4 million and depreciation of property and equipment of RMB11.4 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other payables of RMB243.2 million, partially offset by an increase in inventories of RMB113.1 million, an increase in prepayments and other receivables of RMB55.7 million, and an increase in trade receivables of RMB27.2 million.

For the year ended December 31, 2014, net cash used in operating activities was RMB80.9 million, which was attributable to our loss before income tax of RMB1.8 billion, as adjusted by (i) the add-back of non-cash items primarily comprising fair value loss of convertible redeemable preferred shares of RMB1.7 billion, share-based compensation of RMB8.5 million and depreciation of property and equipment of RMB3.1 million; and (ii) changes in working capital, which primarily comprised an increase in trade and other payables of RMB28.4 million and decrease in prepayments and other receivables of RMB10.0 million, partially offset by an increase in trade receivables of RMB6.8 million and an increase in inventories of RMB3.2 million.

For the year ended December 31, 2013, net cash used in operating activities was RMB27.6 million, which was attributable to our loss before income tax of RMB25.4 million, as adjusted by (i) the add-back of non-cash items primarily comprising fair value loss of convertible redeemable preferred shares of RMB23.5 million, depreciation of property and equipment of RMB0.8 million; and (ii) changes in working capital, which primarily

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comprised an increase in trade and other payables of RMB13.7 million, partially offset by an increase in prepayments and other receivables of RMB26.7 million, an increase in inventories of RMB9.6 million and an increase in trade receivables of RMB7.3 million.

### Net Cash Used in Investing Activities

For the six months ended June 30, 2016, net cash used in investing activities was RMB1.1 billion, which was mainly attributable to net purchase of short-term bank deposits of RMB1.1 billion, purchase of long-term investments of RMB171.4 million, net proceeds from disposal of short-term investments of RMB115.0 million consisting of wealth management products issued by banks.

For the year ended December 31, 2015, net cash from investing activities was RMB3.3 million, which was mainly attributable to net proceeds from disposal of short-term bank deposits of RMB206.2 million, purchase of long-term investments of RMB151.6 million and purchase of property and equipment of RMB49.8 million.

For the year ended December 31, 2014, net cash used in investing activities was RMB467.8 million, which was mainly attributable to net purchase of short-term bank deposits of RMB266.2 million and short-term investment of RMB170.0 million consisting of wealth management products issued by banks.

For the year ended December 31, 2013, net cash used in investing activities was RMB1.8 million, which was mainly attributable to purchases of property and equipment of RMB1.7 million.

### Net Cash from Financing Activities

For the six months ended June 30, 2016, net cash from financing activities was RMB879.9 million, which primarily comprised proceeds from issuance of the Series D Preferred Shares of RMB879.9 million.

For the year ended December 31, 2015, net cash from financing activities was RMB307.2 million, which primarily comprised proceeds from issuance of the Series C Preferred Shares of RMB307.2 million.

For the year ended December 31, 2014, net cash from financing activities was RMB1.8 billion, which primarily comprised proceeds from issuance of the Series A-2A, Series A-2B and Series B Preferred Shares of RMB1.0 billion, and prepayment of proceeds received from issuance of the Series C Preferred Shares of RMB856.7 million, which were partially offset by the repurchase of ordinary shares with preferential rights of RMB48.8 million from a third-party shareholder, as well as return of capital contribution of a total of RMB20.0 million to Mr. Cai and Mr. Wu in connection with our Corporate Restructuring, and repayment of loan from a shareholder of RMB10 million.

For the year ended December 31, 2013, net cash from financing activities was RMB60.5 million, which primarily comprised proceeds from issuance of the Series A-1 Preferred Shares of RMB30.7 million, capital contributions from shareholders, including Mr. Cai and Mr. Wu, of RMB20.0 million, and a shareholder loan of RMB10.0 million borrowed from Mr. Cai.

### Financial Investment and Treasury Policy

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(in thousands of RMB)			
Short-term investments .....	—	170,318	170,389	55,130
Short-term bank deposits.....	—	266,176	60,000	1,123,518

With our surplus cash on hand, we make short-term bank deposits, which are bank deposits with original maturities over three months, and short-term investments, which are wealth management products issued by banks in China. The primary objective is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation.

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Before execution, all short-term bank deposits and short-term investments are authorized, reviewed and approved by our vice president of finance and chief financial officer, who also monitor such deposits and investments on an ongoing basis.

### INDEBTEDNESS

For the year ended December 31, 2013, we borrowed a loan with a principal amount of RMB10.0 million from Mr. Cai. The loan was unsecured with an annual interest rate of 9.6%, and was repayable on demand. We mainly used the proceeds of the loan for working capital purposes. The carrying value of the loan at December 31, 2013 was RMB10.4 million. We fully repaid this loan to Mr. Cai in 2014. For the year ended December 31, 2013, one preferred shareholder required us to redeem its preferred shares at a pre-determined fixed amount of US\$8.0 million with a carrying value of RMB48.8 million. These preferred shares were repurchased in 2014. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the Preferred Shares had fair values of RMB53.9 million, RMB2.7 billion, RMB5.7 billion and RMB8.6 billion, respectively. For further information regarding the Preferred Shares, see Note 27 to the Accountant's Report included in Appendix I to this prospectus. Since June 30, 2016 and up to October 31, 2016 (being the latest practicable date for the purpose of this indebtedness statement), there was no issue or repurchase of any Preferred Shares.

The agreements relating to the issuance of the Preferred Shares contain covenants that, among others, restrict us from using the proceeds from the sales of the Preferred Shares to repay any of our debts, to repurchase, redeem or cancel any of our equity securities, or to make any payments to shareholders, directors or officers of our Company or any of our affiliates. During the Track Record Period and up to the Latest Practicable Date, we have not been in violation of any of these covenants. Other than the foregoing, our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of October 31, 2016.

Except as discussed above, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at close of business on October 31, 2016. We did not have any banking facilities as of October 31, 2016.

### CONTINGENT LIABILITIES

As of December 31, 2013, 2014 and 2015, June 30, 2016 and October 31, 2016, we did not have any material contingent liabilities.

### CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures and long-term investments for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(in thousands of RMB) (unaudited)				
Purchase of property and equipment .....	1,742	17,715	49,787	17,639	20,804
Purchase of intangible assets .....	338	17,997	2,340	537	964
Long-term investments <sup>(1)</sup> .....	—	1,000	151,622	48,052	171,395
	<u>2,080</u>	<u>36,712</u>	<u>203,749</u>	<u>66,228</u>	<u>193,163</u>

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*Note:*

- (1) Long-term investments during our Track Record Period comprised investments in associates in the form of ordinary shares, financial assets at fair value through profit or loss and available-for-sale financial assets.

Our historical capital expenditures primarily included expenditures for purchases of property and equipment such as servers and computers and intangible assets such as online video license, domain names and computer software. We funded our capital expenditure requirements and long-term investments during the Track Record Period mainly from capital contributions from shareholders and the issuance and sale of the Preferred Shares in private placement transactions. Our capital expenditures and long-term investments amounted to RMB2.1 million, RMB36.7 million, RMB203.7 million, RMB66.2 million and RMB193.2 million for the years ended December 31, 2013, 2014 and 2015, and for the six months ended June 30, 2015 and 2016, respectively. The increase of RMB34.6 million in our total capital expenditures and long-term investments from the years ended December 31, 2013 to December 31, 2014 was primarily due to (i) the increase in our purchase of property and equipment of RMB16.0 million as a result of our business expansion during the year; and (ii) the increase in our intangible assets of RMB17.7 million, which mainly arose from the purchase of a license and domain names. The increase of RMB167.0 million in our total capital expenditures and long-term investments from the year ended December 31, 2014 to December 31, 2015 was primarily due to (i) the increase in our purchase of property and equipment of RMB32.1 million as a result of our further expansion of our business during the year; and (ii) the increase in our long-term investments of RMB150.6 million in various private companies. The increase of RMB126.9 million from the six months ended June 30, 2015 to the six months ended June 30, 2016 was primarily due to the increase in our long-term investments of RMB123.3 million in various private companies and a listed company.

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The table below sets forth details of our long-term investments as of June 30, 2016.

Investee companies	Investment amount <sup>(1)</sup> (in millions of RMB)	Type of securities held by the Group in the investee companies
<b>Social networking and social community apps</b> .....	<b>146.8</b>	
Online music community (Shanghai, China) .....	36.4	Redeemable convertible preferred shares
Augmented reality social networking app (Shenzhen, China) .....	55.3	Redeemable convertible preferred shares
Digital media company and social entertainment platform focusing on the Asian markets (Singapore) .....	38.7	Ordinary shares
Photo editing and sharing app (Beijing, China) .....	2.5	Ordinary shares with preference rights
Online horoscope community (Shanghai, China) .....	5.9	Ordinary shares with preference rights
Online photo community targeted at teenage demographic (Guangzhou, China) .....	8.0	Ordinary shares with preference rights
<b>Beauty-related online-to-offline businesses</b> .....	<b>81.0</b>	
Online booking platform for hair-styling services (Guangzhou, China) .....	45.0	Ordinary shares with preference rights
Online platform for reserving makeup services and sale of makeup products (Beijing, China) .....	36.0	Ordinary shares with preference rights
<b>Smart hardware and technology</b> .....	<b>67.8</b>	
3D photo and video technology developer (San Francisco, the United States) .....	6.6	Redeemable convertible preferred shares
Facial recognition technology developer (Hong Kong) .....	6.6	Redeemable convertible preferred shares
Virtual reality technology and hardware developer (Shanghai, China) .....	22.6	Ordinary shares with preference rights
Camera and virtual reality equipment producer (Shenzhen, China) .....	20.0	Ordinary shares with preference rights
Video encoding and compression technology developer (Beijing, China) .....	12.0	Ordinary shares with preference rights
<b>Video production and KOL management</b> .....	<b>10.6</b>	
Comedy and travel-related video production company (Xiamen, China) .....	2.6	Ordinary shares
Gourmet food-related short-form video production company (Shanghai, China) .....	4.0	Ordinary shares with preference rights
Short-form video production and KOL management company (Xiamen, China) .....	4.0	Ordinary shares with preference rights
Casting and video content production company and KOL agency (Changsha, China) <sup>(2)</sup> .....	—	Ordinary shares with preference rights
<b>E-commerce</b> .....	<b>10.2</b>	
E-commerce platform for travel-related smart products (Xiamen, China) .....	1.2	Ordinary shares with preference rights
E-commerce platform for fashion products (Beijing, China) .....	9.0	Ordinary shares with preference rights
<b>Video content monitoring</b> .....	<b>0.4</b>	
Content monitoring vendor for <i>Meipai</i> (Xiamen, China) .....	0.4	Ordinary shares
<b>Total</b> .....	<b>316.9</b>	

Note:

- (1) Represents carrying amounts of long-term investments as of June 30, 2016.
- (2) The relevant investment agreement was signed in June 2016. Total investment amount was RMB8.5 million, of which RMB2.0 million was paid in June 2016 in the form of a loan and the balance was fully settled in July 2016.

As of June 30, 2016, we had (i) approximately RMB146.8 million of long-term investments in companies developing and operating social networking or social community apps in China and overseas, which mainly include online music-based social community apps and photo-based social community or social networking apps; (ii) RMB81.0 million of long-term investments in companies engaged in beauty-related online-to-offline businesses in China; (iii) RMB67.8 million of long-term investments in companies engaged in the development of smart hardware and technologies primarily relating to virtual reality, video compression, and facial detection and recognition technologies; (iv) RMB10.6 million of long-term investments in companies engaged in the production of short-form videos and live streaming, and the management of KOLs on *Meipai*; (v) RMB10.2

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million of long-term investments in companies engaged in e-commerce businesses; and (vi) RMB0.4 million of long-term investments in a company that monitors content on *Meipai*. Each of our long-term investments was made in accordance with our general strategy of investing or acquiring businesses that are complementary to our business. See “— Major Factors Affecting Our Results of Operations — Strategic Investments and Acquisitions” for details of our investment strategy. We do not consider any one of these investments material to our Company as a whole.

As of June 30, 2016, we purchased an aggregate amount of US\$6.5 million (equivalent to RMB43.1 million) in 16,695,069 ordinary shares of migme Limited, a company listed on the Australian Stock Exchange (ASX Code: MIG), at an average share price of AUD0.54 per share. Such investment was classified as available-for-sale financial assets as of June 30, 2016 and a fair value loss on the investment of RMB4.4 million was recognized as other comprehensive income during the six months ended June 30, 2016. During our ongoing monitoring of our investee companies, we noted the following developments about migme Limited:

- (1) The share price of migme Limited has fallen significantly. As of the Latest Practicable Date, the share price of migme Limited was AUD0.20.
- (2) According to the announcements made by migme Limited on September 12, 2016 and October 13, 2016, convertible notes with an aggregate face value of approximately AUD3.0 million and AUD0.5 million issued by migme Limited were expected to be redeemed by early November 2016 and early December 2016, respectively, and migme Limited was in discussions with potential strategic partners and financiers to refinance the convertible notes. According to the announcement made by migme Limited, on November 8, 2016, convertible notes with an aggregate face value of approximately AUD2.3 million out of AUD3.0 million were redeemed. No further announcement regarding the redemption of such convertible notes has been made by migme Limited up to the Latest Practicable Date.

If the share price of migme Limited continues to remain below our average investment cost of AUD0.54 by December 31, 2016 and migme Limited cannot refinance the convertible notes, we intend to recognize an impairment loss on this investment, with the impairment loss being equal to the difference between our average investment cost and the market share price of migme Limited as of December 31, 2016. We will continue to monitor the performance of our long-term investments and assess their potential impact on our financial results.

We hold ordinary shares, ordinary shares with preference rights or redeemable convertible preferred shares in our investee companies. As of June 30, 2016, we had RMB41.7 million, RMB170.2 million and RMB105.0 million of long-term investments in ordinary shares, ordinary shares with preference rights and redeemable convertible preferred shares of our investee companies, respectively.

Our capital expenditure and long-term investments for the year ending December 31, 2016 is expected to amount to between RMB232 million and RMB255 million (comprising an amount between RMB52 million and RMB65 million for capital expenditure and an amount between RMB180 million and RMB190 million for long-term investments). Our capital expenditure and long-term investments for the year ending December 31, 2017 is expected to amount to between RMB376 million and RMB495 million (comprising an amount between RMB76 million and RMB95 million for capital expenditure and an amount between RMB300 million and RMB400 million for long-term investments). We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the net proceeds received from the Global Offering. See the section headed “Future Plans and Use of Proceeds” for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

See “Business — Risk Management and Internal Control — Investment Risk Management” for a discussion of our investment policy and investment risk management.



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### CONTRACTUAL OBLIGATIONS

#### Capital Commitments

Capital expenditures contracted for at the end of the year but not yet incurred are as follows:

	As at December 31,			As at
	2013	2014	2015	June 30, 2016
	(in thousands of RMB)			
Property and equipment.....	—	3,140	1,608	4,884
Intangible assets.....	—	—	1,044	—
Long-term investments.....	—	1,000	3,000	18,350
	<u>—</u>	<u>4,140</u>	<u>5,652</u>	<u>23,234</u>

Capital commitments that were contracted but not provided mainly represent our outstanding contractual commitments to purchase property and long-term investments. Of the RMB18.4 million of capital commitments on long-term investments as at June 30, 2016, RMB6.5 million was the outstanding commitment relating to our total capital contribution of RMB8.5 million in a newly set-up company engaging in video production and KOL management businesses, which we fully paid in July 2016. The remaining RMB11.9 million was our total capital contribution in a newly set-up investment fund that aims to make investments in early-stage companies engaging in, among others, video production and KOL management businesses in China. As of October 31, 2016, we had paid RMB2.9 million out of the RMB11.9 million.

#### Operating Lease Commitments

We lease all of our offices under non-cancellable operating lease agreements with terms between one to five years. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth our operating lease commitments by lease term as of the dates indicated:

	As of December 31,			As of
	2013	2014	2015	June 30, 2016
	(in thousands of RMB)			
Not later than 1 year .....	3,746	6,005	22,314	35,816
Later than 1 year and not later than 5 years.....	4,483	9,512	32,605	52,901
<b>Total</b> .....	<u>8,229</u>	<u>15,517</u>	<u>54,919</u>	<u>88,717</u>

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet arrangements.

### MATERIAL RELATED PARTY TRANSACTIONS

For the year ended December 31, 2015, we made a loan in the principal amount of RMB8.3 million to Coveredge (Cayman) Inc., which is our associate company, to fund their working capital. The loan bore interest at a rate of 6% per annum, and was fully repaid to us in March 2016.

For the year ended December 31, 2013, we borrowed a loan with a principal amount of RMB10.0 million from Mr. Cai. The loan was unsecured with an annual interest rate of 9.6%, and was repayable on demand. We mainly used the proceeds of the loan for working capital purposes. We fully repaid this loan to Mr. Cai in 2014.

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For more details about our related party transactions, see Note 32 to the Accountant's Report included in Appendix I to this prospectus.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

### FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (such as foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

#### Foreign Exchange Risk

The transactions of the Company are denominated and settled in its functional currency, the U.S. dollar. Our subsidiaries and PRC Operating Entities primarily operate in China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our PRC subsidiaries and PRC Operating Entities when receiving or to receive foreign currencies from overseas business partners. We did not hedge against any fluctuation in foreign currency during the Track Record Period.

Our PRC subsidiaries and PRC Operating Entities all have RMB as their functional currency. For the sensitivity analysis of the change on the exchange rate, please see Note 3.1(a)(i) to the Accountant's Report included in Appendix I to this prospectus.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, we had currency translation gains/(losses) of RMB0.2 million, RMB8.6 million, RMB(229.8) million, RMB4.5 million and RMB(130.7) million, respectively, recognized as other comprehensive loss in the consolidated statements of comprehensive income. Such currency translation differences primarily arose from the translation of the U.S. dollar denominated liabilities of the convertible redeemable preferred shares issued by our Company, which has U.S. dollar as its functional currency, into our presentation currency, which is RMB. The currency translation losses recognized as other comprehensive loss for the year ended December 31, 2015 and the six months ended June 30, 2016 were mainly attributable to the depreciation of RMB against the U.S. dollar during these periods and increase in the fair value of the liabilities of convertible redeemable preferred shares.

#### Interest Rate Risk

Our interest rate risk primarily arose from the Preferred Shares, the valuation of which is affected by market interest rate. We monitor the Preferred Shares on a fair value basis in accordance with our risk management strategy. We do not bifurcate any embedded derivatives from the host instruments and designate the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statement. Our Directors have used the discounted cash flow method to determine the underlying share value of our company and have adopted equity allocation model to determine the fair value of the Preferred Shares as at the dates of issuance and at the end of each reporting period. For the related sensitivity analysis, see Note 4(b) to the Accountant's Report included in Appendix I to this prospectus. For further information regarding the valuation of the Preferred Shares, see Note 27 to the Accountant's Report included in Appendix I to this prospectus.

During the Track Record Period, other than the foregoing, our Group's exposure to changes in interest rates is also attributable to our short-term investments, short-term deposits and cash and cash equivalents. For detailed breakdowns of our short-term investments, short-term deposits and cash and cash equivalents, please see Notes 18, 22(c) and 22(a) to the Accountant's Report included in Appendix I to this prospectus.

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### Price Risk

We are exposed to price risk in respect of our long-term investments held by our Group that are classified on the consolidated balance sheets as financial assets at fair value through profit or loss, available-for-sale financial assets, and the Preferred Shares issued by the Company and carried at fair value with changes in fair value recognized in the profit or loss. We are not exposed to commodity price risk.

To manage our price risk arising from the investments, we diversify our investment portfolio. Each of our investments is managed by us on a case-by-case basis. For the sensitivity analyses of the changes on the fair value of the long-term investments held by our Group, please see Note 3.1(a)(iii) to the Accountant's Report included in Appendix I to this prospectus.

### Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments and trade and other receivables. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and cash equivalents, short-term bank deposits, restricted cash and short-term investments, we only transact with state-owned or reputable financial institutions in China and reputable international financial institutions outside of China. There has been no recent history of default in relation to these financial institutions.

We have policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. We are not exposed to significant credit risk arising from sales of smart hardware as advance payment are generally required from most of our customers. For advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors.

For other receivables, our management make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

### Liquidity Risk

Due to the dynamic nature of our underlying businesses, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents to meet our liquidity requirements. During the Track Record Period, we have primarily funded our cash requirements principally from capital contribution from shareholders and financing through issuance and sale of the Preferred Shares in private placement transactions.

For the analysis of our non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date, please see Note 3.1(c) to the Accountant's Report included in Appendix I to this prospectus.

As of December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the Preferred Shares were classified as a non-current liability because we believe that the likelihood of occurrence of redemption event is remote and that we have unconditional rights to defer settlement of the liability for at least 12 months after the end of each reporting period.

Our maximum exposure of the redemption of Preferred Shares is the contractual redemption price, which is equal to 100% of issue price of the respective Preferred Shares plus interest at the rate of 8% per annum accrued during the period from the issuance of the Preferred Shares until the date on which the redemption price is paid in full, and plus any declared but unpaid dividends if a redemption event occurs. See Note 27 to the Accountant's Report included in Appendix I to this prospectus for a description of the redemption events. We recognize the Preferred Shares at fair value through profit or loss. Accordingly, Preferred Shares are managed on a fair value basis rather than by maturity dates. All of the Preferred Shares will be automatically converted into our ordinary shares immediately prior to the completion of the Global Offering.

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### FUTURE DIVIDENDS

We have no policy for future dividend payments. Under the Articles of Association, our Company in general meeting may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. We did not declare any dividend for the years ended December 31, 2013, 2014 and 2015 or for the six months ended June 30, 2016.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require a foreign-invested enterprise, such as Meitu Home or Meitu Mobile, to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend.

### WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

### DISTRIBUTABLE RESERVES

As of June 30, 2016, we did not have any distributable reserves.

### LISTING EXPENSE

Based on the mid-point Offer Price of HK\$9.05, the total estimated listing related expenses payable by us in relation to the Global Offering is approximately RMB183.7 million (or approximately RMB45.5 million after excluding underwriting commission of approximately RMB138.2 million). For the years ended December 2013, 2014 and 2015 and the six months ended June 30, 2016, we recognized and charged to our consolidated income statement RMB0.7 million, RMB0.9 million, RMB1.6 million and RMB2.4 million of such expenses, respectively. We estimate that listing expenses of RMB36.2 million (including RMB2.4 million recognized for the six months ended June 30, 2016) will be charged to our consolidated income statement for the year ending December 31, 2016. The balance of approximately RMB144.3 million, which includes underwriting commission, is expected to be capitalized. These listing expenses mainly comprise professional fees paid and payable to the Joint Sponsors, Joint Bookrunners, the Underwriters, legal advisors and the reporting accountants for their services rendered in relation to the Listing and the Global Offering.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the Global Offering on the net tangible assets of our Group as of June 30, 2016 as if the Global Offering had taken place on that date. The unaudited pro

## FINANCIAL INFORMATION

forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our net tangible assets had the Global Offering been completed as of June 30, 2016 or at any future date. It is prepared based on our consolidated net assets as of June 30, 2016 as set forth in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to June 30, 2016. Our unaudited pro forma adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this prospectus.

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Owners of the Company as at June 30, 2016 (Note 1)	Estimated Net Proceeds from the Global Offering (Note 2)	Estimated Impact to the Net Assets upon the Conversion of the Preferred Shares (Note 3)	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Owners of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Share (Note 4)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
<b>Based on an Offer Price of HK\$8.50 per Share .....</b>	<u>(6,574,391)</u>	<u>4,157,505</u>	<u>8,645,544</u>	<u>6,228,658</u>	<u>1.47</u>	<u>1.66</u>
<b>Based on an Offer Price of HK\$9.60 per Share .....</b>	<u>(6,574,391)</u>	<u>4,700,705</u>	<u>8,645,544</u>	<u>6,771,858</u>	<u>1.60</u>	<u>1.81</u>

*Notes:*

- (1) The audited consolidated net tangible liabilities attributable to the owners of the Company as at June 30, 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net liabilities of the Group attributable to the owners of the Company as at June 30, 2016 of RMB6,553,032,000 with an adjustment for the intangible assets as at June 30, 2016 of RMB21,359,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$8.50 and HK\$9.60 per Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB5,538,000 which have been accounted for prior to June 30, 2016) payable by the Company.
- (3) Upon the Listing and Global Offering, the Preferred Shares will have been automatically converted and subdivided (pursuant to the Share Subdivision) to 1,686,627,880 Shares under which the carrying amounts of the Preferred Shares recorded as a liability of the Company will be transferred to the Company's equity.
- (4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 4,227,294,550 Shares were in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), which is assumed to be on June 30, 2016 for the purpose of the pro forma financial information, and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1275. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

### NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2016, being the end date of the periods reported on in the Accountant's Report included in Appendix I to this prospectus, and there is no event since June 30, 2016 that would materially affect the information as set out in the Accountant's Report included in Appendix I to this prospectus.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please see “Business — Our Strategies” and “Business — Our Future Plans”, for further details of our future plans.

### USE OF PROCEEDS

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. The Over-allotment Option Grantor will be responsible for the underwriting commissions attributable to any Shares that it will sell upon any exercise of the Over-allotment Option, together with Stock Exchange trading fees, SFC transaction levy and any applicable fees in respect of the Sale Shares. 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, 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 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.



## FUTURE PLANS AND USE OF PROCEEDS

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.

The table below sets forth the implementation timetable of our planned use of the net proceeds from the Global Offering (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):

	Year Ending December 31,				Total
	2017	2018	2019	2020	
	(RMB in thousands)				
Monetization initiatives:					
Smart hardware .....	1,000,000	602,000	—	—	1,602,000
Internet services business:	310,000	220,000	50,000	—	580,000
Online advertising .....	100,000	70,000	—	—	170,000
IVAS .....	60,000	50,000	—	—	110,000
E-commerce .....	150,000	100,000	50,000	—	300,000
Common expenses .....	484,000	271,000	—	—	755,000
Corporate branding .....	39,000	48,000	—	—	87,000
Strategic investments and acquisitions .....	300,000	250,000	250,000	200,000	1,000,000
General working capital .....	200,000	200,000	—	—	400,000
Total use of proceeds .....	<u>2,333,000</u>	<u>1,591,000</u>	<u>300,000</u>	<u>200,000</u>	<u>4,424,000</u>

The above allocation of use of net proceeds is projected based on our current business plan and the amount of net proceeds that we expect to receive from the Global Offering. If we are unable to raise the expected amount of net proceeds from the Global Offering, we plan to scale down our planned expenditure on strategic investments and acquisitions to prioritize funding for the expansion of our monetization initiatives. Based on the current business plan, we expect to finance any difference between our major indirect costs and expenses and the expected net proceeds from the Global Offering through revenues or profits generated from our business segments and monetization initiatives, as well as our existing cash on hand. If the actual amount and/or timing of our funding needs for our monetization initiatives are different from our current implementation plan, we may modify the implementation timetable of, or reallocate among different monetization initiatives, our planned use of the expected net proceeds from the Global Offering allocated for implementing our monetization initiatives, and/or modify the implementation timetable of, or reallocate the net proceeds allocated for, strategic investment and acquisitions to implement our monetization initiatives. We may utilize the net proceeds allocated for strategic investments and acquisitions earlier than expected if we identify suitable investment opportunities.

We expect that each of our monetization initiatives would be sufficiently funded by the net proceeds from the Global Offering and our operating cash inflows in the future, based on the our current business and operating projections.

For further details regarding the implementation plans for our monetization initiatives, see “Business — Our Strategies”.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the Over-allotment Option is fully exercised by the Joint Global Coordinators, the Over-allotment Option Grantor will receive net proceeds of approximately HK\$756 million for 86,100,000 Shares to be sold and transferred upon the full exercise of the Over-allotment Option, respectively, based on the Offer Price of HK\$9.05 per Share, being the mid-point of the proposed Offer Price range, and after deducting the underwriting fees and commissions payable by the Over-allotment Option Grantor.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited  
Credit Suisse (Hong Kong) Limited  
China Merchants Securities (HK) Co., Limited  
CCB International Capital Limited  
CMB International Capital Limited  
UBS AG Hong Kong Branch  
AMTD Asset Management Limited  
GF Securities (Hong Kong) Brokerage Limited  
Head & Shoulders Securities Limited  
Futu Securities International (Hong Kong) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on December 2, 2016. Pursuant to the Hong Kong Underwriting Agreement, we are offering 57,400,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned in this prospectus (including any additional Shares which may be sold pursuant to the exercise of the Over-allotment Option and any additional Shares which may be issued pursuant to any exercise of the options under the ESOP and the Share Option Scheme and pursuant to any vesting of awards under the Share Award Scheme) and certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters)) and the Company (for itself and on behalf of the Over-allotment Option Grantor), agreeing upon the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly, to subscribe, or procure subscribers to subscribe, for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### *Grounds for Termination*

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall in their sole discretion be entitled to terminate the Hong Kong Underwriting Agreement, by notice (orally or in writing) to the Company, with immediate effect, if prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Singapore, the Cayman Islands or any other jurisdiction relevant to any member of the Group (“**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”); or
  - (ii) any change or development involving a prospective change, or any event or series of events resulting in or likely to result in any change or development, or prospective change or development, in local, national, regional or international financial, economic, political, military,

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## UNDERWRITING

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- industrial, fiscal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including conditions in stock and bond markets, money and foreign exchange markets, the inter-bank markets, credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Relevant Jurisdictions; or
- (iii) any event or series of events, in the nature of *force majeure* (including any acts of government, declaration of a national or international emergency, calamity, crisis, epidemic, pandemic, outbreak of infectious disease (including Severe Acute Respiratory Syndrome (SARS), H1N1, H5N1 and such related/mutated forms or accident or interruption or delay in transportation), economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), outbreak or escalation of hostilities (whether or not war is declared) or acts of God) in or affecting any Relevant Jurisdiction; or
  - (iv) the imposition of any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
  - (v) the imposition of any general moratorium on commercial banking activities in or affecting any Relevant Jurisdiction, or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdiction; or
  - (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, the United Nation or the European Union (or any member thereof), the PRC or any other jurisdiction relevant to any member of the Group; or
  - (vii) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
  - (viii) any material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group; or
  - (ix) a Director being found guilty of an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
  - (x) the resignation of the chairman or chief executive officer of the Company; or
  - (xi) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
  - (xii) any litigation, arbitration, proceeding or claim being threatened or instigated against the Company or any member of the Group that has a material adverse effect to the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group; or
  - (xiii) a material contravention by any member of the Group of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or applicable laws; or
  - (xiv) a prohibition on the Company for whatever reason from offering, allotting or selling the Shares pursuant to the terms of the Global Offering; or
  - (xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

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## UNDERWRITING

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- (xvi) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus or the post hearing information pack of the Company (“PHIP”) (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC without the prior consent of the Joint Sponsors; or
- (xvii) any order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

and which, individually or in the aggregate, in the opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (1) has or will have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, performance or prospects of the Group as a whole; or
  - (2) has or will have a material adverse effect on the completion of the Global Offering; or
  - (3) makes or will make it impracticable for any material part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or
  - (4) has or will have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
- (i) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the representation, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or
  - (ii) that any statement contained in any of this prospectus and the Application Forms and/or in any notices, announcements, PHIP, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or inaccurate in any material respect or misleading, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of this prospectus and the Application Forms and/or any notices, announcements, PHIP, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
  - (iii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus and the Application Forms, PHIP and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

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## UNDERWRITING

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- (iv) any material breach of any of the obligations imposed upon any party to this Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (v) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
- (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or any member of the Group, including any litigation or claim of any third party of material importance being threatened or instigated against the Company or any member of the Group; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or form the subject of any agreement to such issue within six months from date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except for:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules;
- (b) pursuant to the Global Offering; and
- (c) Shares that may be issued under the ESOP, the Share Award Scheme and the Share Option Scheme

Pursuant to the Hong Kong Underwriting Agreement, the Company has undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except for (a) the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), (b) any Shares issued upon the conversion of securities of the Company outstanding on the date of the Hong Kong Underwriting Agreement as disclosed in this prospectus, and (c) any Shares which may be issued pursuant to any exercise of the options under the ESOP and the Share Option Scheme and pursuant to any vesting of the awards under the Share Award Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), not to, and to procure each other member of the Group not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company, or any interest in any of the foregoing (including any



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## UNDERWRITING

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securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any shares, or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company, or in cash or otherwise provided that the foregoing restrictions shall not apply to the issue of Shares by the Company (a) pursuant to the Global Offering, (b) upon the exercise of any options under the ESOP or the Share Option Scheme, or (c) pursuant to any vesting of the awards under the Share Award Scheme (whether or not the allotment or issue of Shares or such other securities will be completed within the First Six-Month Period).

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Each of the Controlling Shareholders undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure the Company to comply with the above undertakings.

### *Undertaking by the Controlling Shareholders*

Pursuant to Rule 10.07(1) of the Listing Rules, each Controlling Shareholder has undertaken to each of the Stock Exchange and our Company that he or it shall not and shall procure that the relevant registered holder(s) (if any) shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the Listing Rules:

- (i) in the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

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## UNDERWRITING

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In addition, in accordance with Note 3 to Rule 10.07 of the Listing Rules, each Controlling Shareholder has undertaken to the Stock Exchange and our Company that, during the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

- (a) when he or it pledges and/or charges any Shares or other Securities of our Company beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged and/or charged Shares will be disposed of, immediately inform our Company of such indications.

Each of the Controlling Shareholders has undertaken to each of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) it will not, at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein in (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in Clause (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of the Company, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i)(a), (i)(b) or (i)(c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (i)(a), (i)(b) or (i)(c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

### ***Undertakings by other Shareholders***

Each of Innovation Works Development Fund, L.P., Innovation Works Development Fund II, L.P., Innovation Works Parallel Fund II, L.P., IDG-Accel China Growth Fund III L.P., IDG-Accel China III Investors L.P., Qiming Venture Partners III, L.P., Qiming Managing Directors Fund III, L.P., Internet Fund II Pte. Ltd., H Capital I, L.P., Ceyuan Ventures III, L.P., Ceyuan Ventures Advisors Fund III, LLC, Bright Ease Holdings Limited, Assets Eagle Global Limited, Colour Leap Limited, Keywise MT, Bliss Moment Limited, China Merchants Securities Investment Management (HK) Co., Limited, Harvest Investment Management Corporation,

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Lucky Hand Global Limited, A Plus Global Holdings Ltd. and King Terrace Limited (collectively, the “Investors”, or each an “Investor”) has undertaken to each of the Company, the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) that it will not, and procure that none of its affiliates will, without prior written consent of the Company, the Joint Sponsors and the Joint Global Coordinators at any time during the period commencing on the Listing Date and ending on a date which is six (6) months after the Listing Date (the “Lock-up Period”) and unless in compliance with the requirements of applicable Hong Kong laws:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly by such Investor as at the Listing Date or with respect to which such Investor has beneficial ownership) (collectively, the “Lock-up Shares”) (the foregoing restriction is expressly agreed to preclude such Investor from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than such Investor). Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares);
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Shares or any interest therein any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that present the right to receive, or any warrants or other rights to purchase, any Lock-up Shares);
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction described in (i), (ii) or (iii) above, in each case, whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of Lock-up Shares or in cash or otherwise.

The restrictions under (i) to (iv) above shall not apply (a) where the above arrangements or transactions are entered into, undertaken or consummated pursuant to a requirement of a governmental authority, a court of law, an arbitral tribunal or a requirement of any applicable law; (b) to any sale of any Shares acquired in the Global Offering or by any of the Investors after the Listing Date; or (c) to any transfer of Lock-up Shares pursuant to a bona fide third party offer, merger or other similar transaction in respect of the Company and such transaction is approved by the relevant regulators and conducted in accordance with applicable laws and regulations and the Hong Kong Takeovers Code.

### *Indemnity*

We have agreed to indemnify the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses incurred arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### *Commission and Expenses and Joint Sponsors’ Fee*

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares offered

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## UNDERWRITING

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under the Hong Kong Public Offering (excluding any Hong Kong Offer Shares reallocated to the International Offering). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and International Offer Shares reallocated to the Hong Kong Public Offering, if any, the Company will pay an underwriting commission at the rate applicable to the International Offering as set out in the International Underwriting Agreement, and such commission will be paid to the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), and no underwriting commission will be paid to the Hong Kong Underwriters for such reallocated Offer Shares. In addition, at the discretion of our Company, the Joint Sponsors may also receive an incentive fee of up to 0.5% of the aggregate Offer Price in respect of all Offer Shares (including any Shares to be issued pursuant to the exercise of the Over-allotment Option).

Without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the ESOP and the options that may be granted under the Share Option Scheme and any Shares that may be issued pursuant to any vesting of awards under the Share Award Scheme and based on an Offer Price of HK\$9.05 (being the mid-point of our Offer Price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee of 0.005% per Share, SFC transaction levy of 0.0027% per Share, legal and other professional fees and printing and other expenses relating to the Global Offering, payable by us, are estimated to be approximately HK\$207.5 million, which is subject to adjustment to be agreed by the Company, the Joint Global Coordinators and other parties.

An aggregate amount of US\$1 million is payable by the Company as sponsor fees to the Joint Sponsors.

### ***Hong Kong Underwriters' Interests in Our Company***

Save for the obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding or beneficial interests in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### ***The International Offering***

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators, the representatives of the International Underwriters, the Over-allotment Option Grantor and the Controlling Shareholders. Under the International Underwriting Agreement and subject to the Over-allotment Option, it is expected that the International Underwriters would, subject to certain conditions set out therein, severally but not jointly, agree to procure purchasers for, or to purchase, the International Offering Shares being offered pursuant to the International Offering or procure purchasers for their respective applicable proportions of International Offering Shares. Please refer to “Structure of the Global Offering — The International Offering” for details.

### ***Over-allotment Option***

The Over-allotment Option Grantor expect to grant to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell to the International Underwriters up to an aggregate of 86,100,000 Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

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### *Restrictions on the Offer Shares*

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

### **ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to

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the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises of:

- (a) the Hong Kong Public Offering of initially 57,400,000 Shares (subject to reallocation) in Hong Kong as described below in the section headed “— The Hong Kong Public Offering”; and
- (b) the International Offering of initially 516,600,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or other available exemption from the registration requirements of the US Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in International Offering Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

We are initially offering 57,400,000 Hong Kong Offer Shares, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price for subscription by the public in Hong Kong. Subject to the reallocation of Shares between (i) the International Offering, and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 1.36% of our Company’s issued share capital immediately after completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed “— Conditions of the Hong Kong Public Offering” below.

#### Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) will be divided into two pools for allocation purposes:

Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less.

Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B.

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## STRUCTURE OF THE GLOBAL OFFERING

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For the purpose of this sub-section only, the “subscription price” for Hong Kong Offer Shares means the price payable on application (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the two pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 28,700,000 Hong Kong Offer Shares (being 50% of the 57,400,000 Offer Shares initially available under the Hong Kong Public Offering) will be rejected.

### Reallocation

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are reached as further described below:

- (i) 57,400,000 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 10% of the Offer Shares initially available under the Global Offering;
- (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 172,200,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;
- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 229,600,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and
- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 287,000,000 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters). Subject to the foregoing paragraph, the Joint Global Coordinators may in their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any International Offering Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offering Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$9.60 per Offer Share in addition to the brokerage, SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$9.60 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares Offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the International Offering will be 516,600,000, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent approximately 12.22% of our Company's issued share capital immediately after completion of the Global Offering, without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the ESOP and the options that may be granted under the Share Option Scheme and any Shares that may be granted under the Share Award Scheme.

#### Allocation

Pursuant to the International Offering, the International Offering Shares will be conditionally placed on behalf of our Company by the International Purchasers or through selling agents appointed by them. International Offering Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs as defined in Rule 144A. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section headed “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely hold or sell, Shares, after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the section headed “— The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part described in the section headed “— Over-allotment Option”, and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Global Coordinators.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that the Over-allotment Option Grantor will grant the Over-allotment Option to the International Underwriters, which will be exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date to the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell to the International Underwriters up to 86,100,000 Shares, representing approximately 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offering Shares to be sold pursuant thereto will represent approximately 2.04% of our Company’s enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option (and without taking into account any Shares to be allotted and issued upon the exercise of the options granted under the ESOP and the options which may be granted under the Share Option Scheme and any Shares to be issued pursuant to the Share Award Scheme). In the event that the Over-allotment Option is exercised, a public announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent any decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action. Such stabilizing activity, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

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## STRUCTURE OF THE GLOBAL OFFERING

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Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 86,100,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling or agreeing to sell any of our Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Saturday, January 7, 2017. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager (or its affiliate(s)) may choose to borrow up to 86,100,000 Shares (being the maximum



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## STRUCTURE OF THE GLOBAL OFFERING

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number of Shares which may be sold upon the exercise of the Over-allotment Option) from the Over-allotment Option Grantor pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rules 10.07(3).

### PRICING AND ALLOCATION

#### Determining the Offer Price

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, December 8, 2016 and in any event no later than Wednesday, December 14, 2016, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

#### Offer Price Range

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the offer price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company and the Controlling Shareholders.

The Offer Price will not be more than HK\$9.60 per Offer Share and is expected to be not less than HK\$8.50 per Offer Share, unless otherwise announced by the Company no later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

#### Price Payable on Application

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$9.60 per each Hong Kong Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$9.60, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Controlling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, December 14, 2016, the Global Offering will not proceed and will lapse.

#### Reduction in Indicative Offer Price Range and/or Number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative offer price range as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, we will, as soon as practicable



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## STRUCTURE OF THE GLOBAL OFFERING

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following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [corp.meitu.com](http://corp.meitu.com), notices of the reduction. Upon issue of such a notice, the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company and the Controlling Shareholders, will be fixed within such a revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in the prospectus and any other financial information which may change materially as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Company and the Controlling Shareholders, will under no circumstances be set outside the offer price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

### **Announcement of Offer Price and Basis of Allocations**

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Wednesday, December 14, 2016, in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [corp.meitu.com](http://corp.meitu.com).

### **UNDERWRITING**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Controlling Shareholders and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section headed “Underwriting” in this prospectus.

### **CONDITIONS OF THE HONG KONG PUBLIC OFFERING**

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional

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## STRUCTURE OF THE GLOBAL OFFERING

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Shares which may be issued pursuant to the exercise of the Over-allotment Option), any additional Shares which may be issued pursuant to any exercise of options under the ESOP and Share Option Scheme and pursuant to any vesting of awards under the Share Award Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

- (b) the Offer Price having been duly agreed between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

**If, for any reason, the Offer Price is not agreed between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Wednesday, December 14, 2016, the Global Offering will not proceed and will lapse immediately.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [corp.meitu.com](http://corp.meitu.com) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and any additional Shares which may be issued pursuant to any exercise of options granted under the ESOP and the options that may be granted under the Share Option Scheme and Shares that may be granted under the Share Award Scheme).

No part of the Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

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## STRUCTURE OF THE GLOBAL OFFERING

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### SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, December 15, 2016, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, December 15, 2016. The Shares will be traded in board lots of 500 Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

- To apply for Hong Kong Offer Shares, you may:
- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Monday, December 5, 2016 until 12:00 noon on Thursday, December 8, 2016:

- (i) any of the following offices of the Hong Kong Underwriters:

<b>Morgan Stanley Asia Limited</b>	Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
<b>Credit Suisse (Hong Kong) Limited</b>	Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
<b>China Merchants Securities (HK) Co., Limited</b>	48/F, One Exchange Square Central Hong Kong
<b>CCB International Capital Limited</b>	12/F., CCB Tower 3 Connaught Road Central Central Hong Kong
<b>CMB International Capital Limited</b>	Units 1803-4, 18/F, Bank of America Tower 12 Harcourt Road Central Hong Kong
<b>UBS AG Hong Kong Branch</b>	52 <sup>nd</sup> Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
<b>AMTD Asset Management Limited</b>	Suite 1308, 13/F, AIA Central 1 Connaught Road Central Hong Kong
<b>GF Securities (Hong Kong) Brokerage Limited</b>	29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Head &amp; Shoulders Securities Limited</b>	Room 2511, 25/F, Cosco Tower 183 Queen's Road Central Hong Kong
<b>Futu Securities International (Hong Kong) Limited</b>	11/F, Bangkok Bank Building 14-20 Bonham Strand West Sheung Wan, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) or any of the following branches of the receiving banks of the Company:

### Bank of China (Hong Kong) Limited

District	Branch	Address
<b>Hong Kong Island</b> .....	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (King's Centre) Branch	193-209 King's Road, North Point
<b>Kowloon</b> .....	Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
<b>New Territories</b> .....	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O
	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po

### Standard Chartered Bank (Hong Kong) Limited

District	Branch	Address
<b>Hong Kong Island</b> .....	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6-12 Nam Ning Street, Aberdeen
<b>Kowloon</b> .....	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
<b>New Territories</b> .....	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Metroplaza Branch	Shop No. 175, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, December 5, 2016 until 12:00 noon on Thursday, December 8, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — MEITU INC PUBLIC OFFER", should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Monday, December 5, 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, December 6, 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, December 7, 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, December 8, 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, December 8, 2016, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- undertake to execute all relevant documents and instruct the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States and are not a U.S. person (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, December 5, 2016 until 11:30 a.m. on Thursday, December 8, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, December 8, 2016 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “MEITU, INC.” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address. If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, December 5, 2016 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, December 6, 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, December 7, 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, December 8, 2016 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, December 5, 2016 until 12:00 noon on Thursday, December 8, 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, December 8, 2016, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a WHITE or YELLOW Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, December 8, 2016.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing and Allocation”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, December 8, 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, December 8, 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, December 14, 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at [corp.meitu.com](http://corp.meitu.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [corp.meitu.com](http://corp.meitu.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9 a.m. on Wednesday, December 14, 2016;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, December 14, 2016 to 12:00 midnight on Tuesday, December 20, 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, December 14, 2016 to Saturday, December 17, 2016;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, December 14, 2016 to Friday, December 16, 2016 at all the receiving banks' designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering". You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

#### (ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

#### (iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$9.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, December 14, 2016.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, December 14, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, December 15, 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### Personal Collection

#### (i) If you apply using a **WHITE** Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 14, 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 14, 2016, by ordinary post and at your own risk.

#### (ii) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 14, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, December 14, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Wednesday, December 14, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 14, 2016, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, December 14, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### **(iv) If you apply via Electronic Application Instructions to HKSCC**

#### ***Allocation of Hong Kong Offer Shares***

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### ***Deposit of Share Certificates into CCASS and Refund of Application Monies***

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, December 14, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Public Offering in the manner specified in “Publication of Results” above on Wednesday, December 14, 2016. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 14, 2016 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, December 14, 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, December 14, 2016.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

December 5, 2016

The Directors  
Meitu, Inc.

(incorporated under the name of "Meitu, Inc. 美图公司" and carrying on business in Hong Kong as "美圖之家")  
Morgan Stanley Asia Limited  
Credit Suisse (Hong Kong) Limited  
China Merchants Securities (HK) Co., Limited

Dear Sirs,

We report on the financial information of Meitu, Inc. (incorporated under the name of "Meitu, Inc. 美图公司" and carrying on business in Hong Kong as "美圖之家" (the "**Company**") and its subsidiaries (together, the "**Group**"), which comprises the consolidated balance sheets as at December 31, 2013, 2014 and 2015 and June 30, 2016, the balance sheets of the Company as at December 31, 2013, 2014 and 2015 and June 30, 2016, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated December 5, 2016 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on July 25, 2013 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1.2 of Section II headed "History and reorganization of the Group" below, which was completed on June 13, 2014, the Company became the holding company of the subsidiaries now comprising the Group (the "**Reorganization**").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No statutory audited financial statements have been prepared by the Company as there is no statutory audit requirement. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

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The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISAs”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustments made thereon, and on the basis set out in Note 2.1 of Section II below.

### **Directors’ Responsibility for the Financial Information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Reporting Accountant’s Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at December 31, 2013, 2014 and 2015 and June 30, 2016 and of the consolidated financial position of the Group as at December 31, 2013, 2014 and 2015 and June 30, 2016 and of the Group’s consolidated financial performance and cash flows for the Relevant Periods.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information set out in Sections I to III below included in Appendix I to the Prospectus which comprises the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended June 30, 2015 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1.3 of Section II below and the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 1.3 of Section II below and the accounting policies set out in Note 2 of Section II below.

## I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2013, 2014 and 2015 and June 30, 2016, and for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 (the “Financial Information”).

## CONSOLIDATED INCOME STATEMENTS

	Section II Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue .....	5	85,877	488,049	741,813	180,600	585,477
Cost of sales.....	5, 8	(36,272)	(401,376)	(641,323)	(142,306)	(510,996)
<b>Gross profit</b> .....		49,605	86,673	100,490	38,294	74,481
Selling and marketing expenses .....	8	(16,201)	(120,955)	(649,092)	(267,067)	(196,760)
Administrative expenses.....	8	(14,134)	(38,281)	(94,742)	(32,867)	(70,424)
Research and development expenses...	8	(16,478)	(50,149)	(119,605)	(46,356)	(90,511)
Other income .....	6	115	3,430	11,085	3,327	4,498
Other losses, net .....	7	(77)	(164)	(858)	(158)	(418)
<b>Operating profit/(loss)</b> .....		2,830	(119,446)	(752,722)	(304,827)	(279,134)
Finance income .....	10	187	4,567	19,053	8,403	4,285
Finance costs .....	10	(4,891)	(1,296)	(155)	(94)	(2,216)
Finance income/(costs), net.....	10	(4,704)	3,271	18,898	8,309	2,069
Fair value loss of convertible redeemable preferred shares.....	27	(23,501)	(1,651,464)	(1,482,643)	(972,840)	(1,912,208)
Share of losses of investments accounted for using the equity method .....	11(a)	—	—	(319)	—	(351)
<b>Loss before income tax</b> .....		(25,375)	(1,767,639)	(2,216,786)	(1,269,358)	(2,189,624)
Income tax expense .....	12	(438)	(4,697)	(771)	(270)	(115)
<b>Loss for the year/period</b> .....		<u>(25,813)</u>	<u>(1,772,336)</u>	<u>(2,217,557)</u>	<u>(1,269,628)</u>	<u>(2,189,739)</u>
<b>Loss attributable to:</b>						
- Owners of the Company .....		(25,813)	(1,772,336)	(2,217,557)	(1,269,628)	(2,189,739)
- Non-controlling interests .....		—	—	—	—	—
		<u>(25,813)</u>	<u>(1,772,336)</u>	<u>(2,217,557)</u>	<u>(1,269,628)</u>	<u>(2,189,739)</u>
<b>Loss per share</b> (expressed in RMB per share) .....	13					
- Basic .....		<u>(0.23)</u>	<u>(9.00)</u>	<u>(11.28)</u>	<u>(6.46)</u>	<u>(11.13)</u>
- Diluted.....		<u>(0.23)</u>	<u>(9.00)</u>	<u>(11.28)</u>	<u>(6.46)</u>	<u>(11.13)</u>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Section II Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Loss for the year/period</b> .....		(25,813)	(1,772,336)	(2,217,557)	(1,269,628)	(2,189,739)
<b>Other comprehensive income/(loss)</b>						
<i>Items that may be reclassified to profit or loss</i>						
Change in fair value of available-for- sale financial assets						
- short-term investments.....	18	—	318	71	(195)	(259)
- long-term investments .....	11(c)	—	—	—	—	(4,432)
Currency translation differences.....		229	8,586	(229,790)	4,513	(130,706)
<b>Total comprehensive loss for the year/period, net of tax</b> .....		<u>(25,584)</u>	<u>(1,763,432)</u>	<u>(2,447,276)</u>	<u>(1,265,310)</u>	<u>(2,325,136)</u>
<b>Total comprehensive loss attributable to:</b>						
- Owners of the Company .....		(25,584)	(1,763,432)	(2,447,276)	(1,265,310)	(2,325,136)
- Non-controlling interests .....		—	—	—	—	—
		<u>(25,584)</u>	<u>(1,763,432)</u>	<u>(2,447,276)</u>	<u>(1,265,310)</u>	<u>(2,325,136)</u>

## CONSOLIDATED BALANCE SHEETS

	Section II Note	As at December 31,			As at June 30,
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property and equipment .....	14	2,417	16,099	53,374	58,967
Intangible assets .....	15	2,730	19,822	21,136	21,359
Long-term investments					
Investments in associates in the form of ordinary shares .....	11(a)	—	—	3,381	3,030
Financial assets at fair value through profit or loss .....	11(b)	—	—	147,922	275,214
Available-for-sale financial assets .....	11(c)	—	—	—	38,671
Prepayments and other receivables .....	20	2,314	4,919	36,162	43,599
		<u>7,461</u>	<u>40,840</u>	<u>261,975</u>	<u>440,840</u>
<b>Current assets</b>					
Inventories .....	21	9,586	12,756	125,901	229,466
Trade receivables .....	19	12,608	19,401	46,567	39,956
Prepayments and other receivables .....	20	24,665	13,648	53,512	83,200
Short-term investments .....	18	—	170,318	170,389	55,130
Short-term bank deposits .....	22(c)	—	266,176	60,000	1,123,518
Restricted cash .....	22(b)	1,214	200	600	1,000
Cash and cash equivalents .....	22(a)	38,532	1,288,345	989,874	498,522
		<u>86,605</u>	<u>1,770,844</u>	<u>1,446,843</u>	<u>2,030,792</u>
<b>Total assets</b> .....		<u>94,066</u>	<u>1,811,684</u>	<u>1,708,818</u>	<u>2,471,632</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital .....	23	123	121	121	121
Reserves .....	24	44,773	28,022	(176,787)	(292,273)
Accumulated losses .....		(80,302)	(1,853,100)	(4,071,141)	(6,260,880)
<b>Total equity</b> .....		<u>(35,406)</u>	<u>(1,824,957)</u>	<u>(4,247,807)</u>	<u>(6,553,032)</u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Convertible redeemable preferred shares .....	27	53,885	2,735,481	5,681,892	8,645,544
Other long-term liabilities .....	28	—	856,660	—	—
		<u>53,885</u>	<u>3,592,141</u>	<u>5,681,892</u>	<u>8,645,544</u>
<b>Current liabilities</b>					
Trade and other payables .....	26	75,149	42,268	274,180	379,072
Income tax liabilities .....		438	2,232	553	48
		<u>75,587</u>	<u>44,500</u>	<u>274,733</u>	<u>379,120</u>
<b>Total liabilities</b> .....		<u>129,472</u>	<u>3,636,641</u>	<u>5,956,625</u>	<u>9,024,664</u>
<b>Total equity and liabilities</b> .....		<u>94,066</u>	<u>1,811,684</u>	<u>1,708,818</u>	<u>2,471,632</u>



## BALANCE SHEETS — COMPANY

	Section II Note	As at December 31,			As at June 30,
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investments in subsidiaries .....	16	8	8,537	32,963	53,199
		8	8,537	32,963	53,199
<b>Current assets</b>					
Prepayments and other receivables .....	20	72,861	601,268	2,338,022	2,667,528
Short-term bank deposits .....	22(c)	—	266,176	—	596,808
Cash and cash equivalents .....	22(a)	2,812	1,041,352	13,613	39,039
		75,673	1,908,796	2,351,635	3,303,375
<b>Total assets</b> .....		<u>75,681</u>	<u>1,917,333</u>	<u>2,384,598</u>	<u>3,356,574</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital .....	23	123	121	121	121
Reserves .....	24	111	972	(142,730)	(223,537)
Accumulated losses .....		(27,213)	(1,675,901)	(3,154,685)	(5,065,554)
<b>Total equity</b> .....		<u>(26,979)</u>	<u>(1,674,808)</u>	<u>(3,297,294)</u>	<u>(5,288,970)</u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Convertible redeemable preferred shares .....	27	53,885	2,735,481	5,681,892	8,645,544
Other long-term liabilities .....	28	—	856,660	—	—
		53,885	3,592,141	5,681,892	8,645,544
<b>Current liabilities</b>					
Trade and other payables .....	26	48,775	—	—	—
<b>Total liabilities</b> .....		<u>102,660</u>	<u>3,592,141</u>	<u>5,681,892</u>	<u>8,645,544</u>
<b>Total equity and liabilities</b> .....		<u>75,681</u>	<u>1,917,333</u>	<u>2,384,598</u>	<u>3,356,574</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section II Note	Attributable to owners of the Company			
		Share capital	Reserves	Accumulated losses	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at January 1, 2013</b> .....		—	24,544	(54,489)	(29,945)
<b>Comprehensive loss</b>					
Loss for the year.....		—	—	(25,813)	(25,813)
Currency translation differences .....	24(c)	—	229	—	229
<b>Total comprehensive loss</b> .....		—	229	(25,813)	(25,584)
<b>Transactions with owners as their capacity as owners</b>					
Issuance of ordinary shares.....	23	123	—	—	123
Capital contribution from owners .....	24(a)	—	20,000	—	20,000
<b>Total transactions with owners as their capacity as owners</b> .....		123	20,000	—	20,123
<b>Balances at December 31, 2013</b> .....		123	44,773	(80,302)	(35,406)
<b>Balance at January 1, 2014</b> .....		123	44,773	(80,302)	( 35,406)
<b>Comprehensive loss</b>					
Loss for the year.....		—	—	(1,772,336)	(1,772,336)
Change in fair value of available-for-sale financial assets					
- short-term investments .....	18	—	318	—	318
Currency translation differences .....	24(c)	—	8,586	—	8,586
<b>Total comprehensive loss</b> .....		—	8,904	(1,772,336)	(1,763,432)
<b>Transactions with owners as their capacity as owners</b>					
Repurchase of ordinary shares from a shareholder .....	23(f)	(2)	(14,646)	—	(14,648)
Distribution to owners .....	24(b)	—	(20,000)	—	(20,000)
Share options awarded under 2014 Share Incentive Plan (the “2014 Plan”).....	25	—	8,529	—	8,529
Appropriation to statutory reserves .....	24(d)	—	462	(462)	—
<b>Total transactions with owners as their capacity as owners</b> .....		(2)	(25,655)	(462)	(26,119)
<b>Balances at December 31, 2014</b> .....		121	28,022	(1,853,100)	(1,824,957)

	Section II Note	Attributable to owners of the Company			
		Share capital	Reserves	Accumulated losses	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at January 1, 2015</b> .....		121	28,022	(1,853,100)	(1,824,957)
<b>Comprehensive loss</b>					
Loss for the year .....		—	—	(2,217,557)	(2,217,557)
Change in fair value of available-for-sale financial assets					
- short-term investments .....	18	—	71	—	71
Currency translation differences .....	24(c)	—	(229,790)	—	(229,790)
<b>Total comprehensive loss</b> .....		—	(229,719)	(2,217,557)	(2,447,276)
<b>Transactions with owners as their capacity as owners</b>					
Share options awarded under 2014 Plan .....	25	—	24,426	—	24,426
Appropriation to statutory reserves .....	24(d)	—	484	(484)	—
<b>Total transactions with owners as their capacity as owners</b> .....		—	24,910	(484)	24,426
<b>Balances at December 31, 2015</b> .....		121	(176,787)	(4,071,141)	(4,247,807)

(Unaudited)	Section II Note	Attributable to owners of the Company			
		Share capital	Reserves	Accumulated losses	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at January 1, 2015</b> .....		121	28,022	(1,853,100)	(1,824,957)
<b>Comprehensive loss</b>					
Loss for the period .....		—	—	(1,269,628)	(1,269,628)
Change in fair value of available-for-sale financial assets					
- short-term investments .....	18	—	(195)	—	(195)
Currency translation differences .....	24(c)	—	4,513	—	4,513
<b>Total comprehensive loss</b> .....		—	4,318	(1,269,628)	(1,265,310)
<b>Transactions with owners as their capacity as owners</b>					
Share options awarded under 2014 Plan .....	25	—	6,399	—	6,399
<b>Total transactions with owners as their capacity as owners</b> .....		—	6,399	—	6,399
<b>Balances at June 30, 2015</b> .....		121	38,739	(3,122,728)	(3,083,868)

	Section II Note	Attributable to owners of the Company			
		Share capital	Reserves	Accumulated losses	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at January 1, 2016</b> .....		121	(176,787)	(4,071,141)	(4,247,807)
<b>Comprehensive loss</b>					
Loss for the period .....		—	—	(2,189,739)	(2,189,739)
Change in fair value of available-for-sale financial assets					
- short-term investments .....	18	—	(259)	—	(259)
- long-term investments .....	11(c)	—	(4,432)	—	(4,432)
Currency translation differences .....	24(c)	—	(130,706)	—	(130,706)
<b>Total comprehensive loss</b> .....		—	(135,397)	(2,189,739)	(2,325,136)
<b>Transactions with owners as their capacity as owners</b>					
Share options awarded under 2014 Plan .....	25	—	19,911	—	19,911
<b>Total transactions with owners as their capacity as owners</b> .....		—	19,911	—	19,911
<b>Balances at June 30, 2016</b> .....		121	(292,273)	(6,260,880)	(6,553,032)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Cash flows from operating activities</b>						
Cash used in operations .....	30	(27,570)	(77,965)	(672,896)	(272,380)	(276,621)
Income tax paid .....		—	(2,903)	(2,449)	(2,283)	(615)
<b>Net cash used in operating activities ....</b>		<b>(27,570)</b>	<b>(80,868)</b>	<b>(675,345)</b>	<b>(274,663)</b>	<b>(277,236)</b>
<b>Cash flows from investing activities</b>						
Purchase of property and equipment .....		(1,742)	(17,715)	(49,787)	(17,639)	(20,804)
Purchase of intangible assets .....		(338)	(17,997)	(2,340)	(537)	(964)
Proceeds from disposal of property and equipment .....	30	100	690	769	—	3,065
Investments in available-for-sale financial assets .....	11(c)	—	—	—	—	(43,103)
Investments in financial assets at fair value through profit or loss .....	11(b)	—	—	(146,922)	(48,052)	(128,292)
Proceeds from disposal of financial assets at fair value through profit or loss .....	11(b)	—	—	—	—	2,000
Investments in associates in the form of ordinary shares .....	11(a)	—	—	(3,700)	—	—
Prepayments for long-term investments .....	20	—	(1,000)	(1,000)	—	—
Purchases of short-term investments .....	18	—	(260,000)	(609,500)	(359,500)	(50,000)
Proceeds from disposal of short-term investments .....	18	—	90,000	609,500	494,500	165,000
Investment income received from short- term investments .....	18	—	606	4,106	2,767	2,765
Purchases of short-term bank deposits ....		—	(510,936)	(1,008,066)	(556,338)	(1,123,518)
Proceeds from disposal of short-term bank deposits .....		—	244,760	1,214,242	419,017	60,000
Loans to investee companies .....	20(a)	—	—	(8,347)	—	(3,316)
Repayments from an investee company .....	20(a)	—	—	—	—	8,347
Loans to shareholders of investee companies .....	20(b)	—	—	(7,000)	(5,000)	(2,000)
Repayment received from a shareholder of investee company .....	20(b)	—	—	—	—	7,000
Interest received .....		187	3,839	11,336	6,043	1,991
<b>Net cash (used in)/generated from investing activities .....</b>		<b>(1,793)</b>	<b>(467,753)</b>	<b>3,291</b>	<b>(64,739)</b>	<b>(1,121,829)</b>

	Section II Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Cash flows from financing activities</b>						
Proceeds from issuance of convertible redeemable preferred shares .....	27	30,706	1,042,089	307,204	307,204	879,920
Prepayment received from issuance of convertible redeemable preferred shares .....	28	—	856,660	—	—	—
Payment of issuance cost of convertible redeemable preferred shares .....	10	(224)	(556)	(40)	(40)	(42)
Repurchase of ordinary shares with preferential rights .....		—	(48,828)	—	—	—
Repurchase of ordinary shares .....	23(f)	—	(14,648)	—	—	—
Proceeds of borrowing from a shareholder .....	26(a)	10,000	—	—	—	—
Repayments of borrowing from a shareholder .....	26(a)	—	(10,000)	—	—	—
Proceeds from bank borrowings .....	10(b)	—	—	40,000	—	—
Repayments of bank borrowings .....	10(b)	—	—	(40,000)	—	—
Interest expenses paid .....		—	(960)	(43)	—	—
Capital contribution from owners .....	24(a)	20,000	—	—	—	—
Distribution to owners .....	24(b)	—	(20,000)	—	—	—
<b>Net cash generated from financing activities .....</b>		<b>60,482</b>	<b>1,803,757</b>	<b>307,121</b>	<b>307,164</b>	<b>879,878</b>
<b>Net increase/(decrease) in cash and cash equivalents .....</b>		<b>31,119</b>	<b>1,255,136</b>	<b>(364,933)</b>	<b>(32,238)</b>	<b>(519,187)</b>
Cash and cash equivalents at the beginning of the year/period .....	22	7,773	38,532	1,288,345	1,288,345	989,874
Exchange gains/(losses) on cash and cash equivalents .....		(360)	(5,323)	66,462	(615)	27,835
<b>Cash and cash equivalents at the end of the year/period .....</b>	22	<b>38,532</b>	<b>1,288,345</b>	<b>989,874</b>	<b>1,255,492</b>	<b>498,522</b>



## II. NOTES TO THE FINANCIAL INFORMATION

### 1 General information, reorganization and basis of presentation

#### 1.1 General information

Meitu, Inc. (the “**Company**”), was incorporated in the Cayman Islands under the name of “Meitu, Inc. 美图公司” and carries on business in Hong Kong as “美图之家” on July 25, 2013 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in developing, manufacturing and sales of smart hardware, and provision of Internet services and others (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”), Hong Kong and other countries and regions.

Mr. Cai Wensheng and his family, and Mr. Wu Zeyuan (collectively as the “Controlling Shareholders”, or the “**Founders**”) are ultimate controlling shareholders of the Company as at the date of this report.

The Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.

#### 1.2 History and reorganization of the Group

Prior to the completion of the Group reorganization (as described below), the Listing Business was carried out through two domestic companies and their subsidiaries, incorporated in the PRC, namely Xiamen Meitu Mobile Technology Co., Ltd. (廈門美图移动科技有限公司, “**Meitu Mobile**”) and Xiamen Meitu Networks Technology Co., Ltd. (廈門美图网科技有限公司, “**Meitu Networks**”). Meitu Networks was incorporated on June 18, 2003 by Mr. Wu Zeyuan and two other individuals. Through a series of subsequent equity transfers, Mr. Cai Wensheng and Mr. Wu Zeyuan have become the controlling shareholders of Meitu Networks since July 11, 2008. Meitu Mobile was incorporated on March 1, 2013 by Mr. Cai Wensheng, Mr. Wu Zeyuan and Mr. Cai Wensheng’s majority owned fund Xiamen Longling Investment Partnership (廈門隆領投資合夥企業 (有限合夥)). Meitu Networks and Meitu Mobile are collectively defined as the “PRC Operating Entities” thereafter.

For the purpose of introduction of overseas investors and preparation for a listing of the Company’s shares on the overseas capital markets, the Group underwent a Group reorganization (the “**Reorganization**”) to establish the Company as the ultimate holding company of the Listing Business. The Reorganization mainly involved the following:

- (i) On July 25, 2013, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000, consisting of 500,000,000 ordinary shares of US\$0.0001 each. 100,000,000 ordinary shares with par value of US\$0.0001 each were allocated and issued to Baolink Capital Ltd. (“**Baolink**”), Longlink Capital Ltd. (“**Longlink**”), Xinhong Capital Limited (“**Xinhong**”), and Ultra Colour Limited (“**Ultra Colour**”).
- (ii) On August 12, 2013, Meitu (China) Limited (“**Meitu HK**”) was incorporated in Hong Kong as a wholly-owned subsidiary of the Company.
- (iii) On October 14, 2013, Xiamen Home Meitu Technology Co., Ltd. (廈門美图之家科技有限公司, “**Meitu Home**”) was established as a wholly foreign-owned enterprise in the PRC with Meitu HK being its sole equity holder. It was established to carry out the business of software development and to provide related information technology services.
- (iv) Pursuant to a series of contractual agreements dated December 25, 2015 (collectively, the “**Contractual Arrangements**”) between Meitu Home, the PRC Operating Entities and their respective equity holders, Meitu Home is able to effectively control, recognize and receive

substantially all the economic benefit of the business and operations of the PRC Operating Entities. Accordingly, the PRC Operating Entities are treated as controlled structured entities of the Company and consolidated by the Company. The above Contractual Agreements have been updated on December 25, 2015 and then amended on August 17, 2016 and further amended and restated on October 12, 2016. Further details of the Contractual Arrangements are set out in Note 2.2.1(a) below.

- (v) On June 13, 2014, Meitu HK acquired 100% share ownership of Meitu Mobile from its equity holders after the Contractual Arrangements dated December 10, 2013 among Meitu Home, Meitu Mobile and their respective equity holders ceased to have effect. The Company considered these transactions were transactions within the Group and have no impact on the financial information of Group as a whole, except for the transaction with owners as set out in Note 24(b).

Upon completion of the Reorganization, the Company became the ultimate holding company of the companies now comprising the Group. Subsequent to the completion of the Reorganization, the Group established additional subsidiaries for business development.

Particulars of the subsidiaries of the Group as at the date of this report and during the Relevant Periods are set out below:

Name of subsidiaries	Place and date of incorporation / establishment	Issued and paid-in capital/ registered capital	Equity interest held as at				Date of this report	Principal activities and place of operation	Note
			December 31,		June 30,				
			2013	2014	2015	2016			
<b>Directly held by the Company</b>									
Meitu (China) Limited	Hong Kong/ August 12, 2013	HK\$10,000	100%	100%	100%	100%	100%	Investment holding, Hong Kong	(a)
Meitu Investment Ltd	British Virgin Islands (the "BVI")/ January 30, 2015	US\$1	—	—	100%	100%	100%	Investment holding, The BVI	(b)
Meitu Holdings Ltd	the Cayman Islands/ June 2, 2015	US\$50,000	—	—	100%	100%	100%	Investment holding, Cayman Islands	(c)
Meipai Ltd	the Cayman Islands/ June 2, 2015	US\$1	—	—	100%	100%	100%	Investment holding, Cayman Islands	(c)

Particulars of the subsidiaries of the Group as at the date of this report and during the Relevant Periods are set out below:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity interest held as at				Date of this report	Principal activities and place of operation	Note
			December 31,		June 30,				
			2013	2014	2015	2016			
<b>Indirectly held by the Company</b>									
Meipai Global Limited	Hong Kong/ June 19, 2015	HK\$1	—	—	100%	100%	100%	Investment holding, Hong Kong	(c)
Meitu Technology, Inc. (previously known as MIXVID Inc. and MagicV, Inc.)	United States of America (the "US")/ August 29, 2014	US\$4,970,050	—	100%	100%	100%	100%	Development and operation of apps, the US	(d)
Meitu Technology (US), LLC (previously known as Commsource, LLC)	the US/ April 1, 2015	US\$4,760,000	—	—	100%	100%	100%	Development and operation of apps, the US	(c)
Meitu Technology (Singapore) Pte. Ltd.	Singapore April 22, 2016	US\$100,000	—	—	—	100%	100%	Development and operation of apps, Singapore	(c)
Xiamen Meitu Home Technology Co., Ltd.	the PRC/ October 14, 2013	US\$170,000,000	100%	100%	100%	100%	100%	Provision of information technology services, the PRC	(e)
Beijing Meitu Home Technology Co., Ltd.	the PRC/ July 27, 2016	RMB10,000,000	—	—	—	—	100%	Provision of information technology services, the PRC	(c),(h),(k)
Xiamen Meitu Mobile Technology Co., Ltd. (Controlled by the Company pursuant to the Contractual Agreements before June 13, 2014)	the PRC/ March 1, 2013	RMB600,000,000	100%	100%	100%	100%	100%	Development, manufacturing and sales of smartphones, the PRC	(e)
<b>Controlled by the Company pursuant to the Contractual Agreements (note(i))</b>									
Xiamen Meitu Networks Technology Co., Ltd.	the PRC/ June 18, 2003	RMB32,000,000	100%	100%	100%	100%	100%	Development and operation of apps, the PRC	(e)

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity interest held as at				Date of this report	Principal activities and place of operation	Note
			December 31,		June 30,				
			2013	2014	2015	2016			
Beijing Meitu Huyu Technology Co., Ltd. (previously known as Beijing Meitu Chuangxiang Advertisement Co., Ltd and Beijing Meihao Huyu Technology Co., Ltd.)	the PRC / February 22, 2011	RMB10,000,000	100%	100%	100%	100%	100%	Development and research of apps, the PRC	(f),(k)
Xiamen Meipai Technology Co., Ltd. (previously known as Beijing Meitu Networks Technology Co., Ltd.)	the PRC / November 17, 2005	RMB10,000,000	—	100%	100%	100%	100%	Development and operation of apps, the PRC	(g),(j)

## Notes:

- (a) The statutory auditor of this subsidiary for the period from August 12, 2013 (date of incorporation) to December 31, 2014 was Conpak Certified Public Accountants Co., Ltd.
- (b) No statutory financial statements have been prepared by this subsidiary as BVI does not have any statutory audit requirements.
- (c) No statutory financial statements have been prepared by these subsidiaries as they were newly established in 2015 and 2016.
- (d) No statutory financial statements have been prepared by this subsidiary as it was established in August 2014 and commenced operations from 2015.
- (e) The statutory auditor of these subsidiaries for the year ended December 31, 2013 was 廈門和正會計師事務所有限公司 (Xiamen Hezheng Certified Public Accountants Co., Ltd.). The statutory auditor of these subsidiaries for the years ended December 31, 2014 and 2015 was 廈門泓正會計師事務所有限公司 (Xiamen Hongzheng Certified Public Accountants Co., Ltd.).
- (f) The statutory auditor of this subsidiary for the years ended December 31, 2013, 2014 and 2015 was 北京博碩會計師事務所有限公司 (Beijing Boyan Certified Public Accountants Co., Ltd.).
- (g) The statutory auditor of this subsidiary for the year ended December 31, 2015 was 廈門和正會計師事務所有限公司 (Xiamen Hezheng Certified Public Accountants Co., Ltd.).
- (h) Beijing Meitu Home Technology Co., Ltd. is a company established by the Group in the PRC on July 27, 2016. It is a wholly-owned subsidiary of Meitu Home.
- (i) These subsidiaries are controlled through Contractual Arrangements and the Group does not have legal ownership in equity of these subsidiaries, as the PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Meitu Networks and its subsidiaries.
- (j) Xiamen Meipai Technology Co., Ltd. (“Xiamen Meipai”) was established in the PRC on November 17, 2005 and was subsequently acquired by the Group for RMB7,000,000 on October 14, 2014 (investment transfer agreement was signed on September 20, 2014). Xiamen Meipai, which holds certain license assets, was a dormant company and did not conduct any business before being acquired by the Group. The acquisition of shares of Xiamen Meipai was therefore accounted for as an acquisition of asset instead of a business combination.
- (k) On August 17, 2016, certain businesses were transferred from Beijing Meitu Huyu Technology Co., Ltd to Beijing Meitu Home Technology Co., Ltd.

The English names of some of the subsidiaries referred in the above represent management’s best efforts in translating the Chinese names of these subsidiaries as they do not have official English names.

All companies comprising the Group have adopted December 31 as their financial year-end date.

The Group’s major subsidiaries are based in the PRC and the majority of their transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As at December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, other than the restrictions from exchange control regulations, there is no significant restriction on the Group’s ability to access or use the assets and settle the liabilities of the Group.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganization, the Listing Business was carried out by the PRC Operating Entities which were under the control of the Controlling Shareholders. Pursuant to the Reorganization,

the Listing Business are effectively controlled by Meitu Home, and ultimately controlled by the Company, through direct equity holding and the Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business and does not result in any changes in business substance, nor in any management or the Controlling Shareholders of the Listing Business. Accordingly, the Financial Information of the companies now comprising the Group is presented using the carrying value of the Listing Business for all periods presented.

Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

### 2.1 Basis of preparation

The Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2016, are consistently applied to the Group for the Relevant Periods.

#### 2.1.1 Changes in accounting policy and disclosures

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2016. They are relevant to the operations of the Group but have not been early adopted.

		<u>Effective for annual periods beginning on or after</u>
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Lease	January 1, 2019

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group’s operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting IFRS 9 and IFRS 15. The directors also do not expect the adoption of IFRS 16 would result in significant impact on the Group’s financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Company as a lessee.

- IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes

three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

- IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretation's on revenue recognition. IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018.
- IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The Group is a lessee of various properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.26 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheet, set out in note 31(b). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. As for the financial performance impact in the income statement, the operating lease expenses will decrease, while depreciation and amortization and the interest expense will increase. The new standard is not expected to apply until the financial year 2019. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at June 30, 2016 are RMB88.7 million. (Less than one year is RMB35.8 million, more than one year and less than five years is RMB52.9 million).



## 2.2 Subsidiaries

### 2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (a) *Subsidiaries controlled through Contractual Agreements*

As described in note 1.2, the wholly-owned subsidiary of the Company, Meitu Home, has entered into the Contractual Agreements, including the Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, and Powers of Attorney, with Meitu Networks and its equity holders, which enable Meitu Home and the Group to:

- govern the financial and operating policies of Meitu Networks;
- exercise equity holders' voting rights of Meitu Networks;
- receive substantially all of the economic interest returns generated by Meitu Networks in consideration for the business support, technical and consulting services provided by Meitu Home;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase all or part of the equity interests in Meitu Networks from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Meitu Home may exercise such options at any time until it has acquired all equity interests of Meitu Networks. The right is automatically renewable upon expiry unless it is superseded by a new term confirmed by Meitu Home; and
- obtain a pledge over the entire equity interests of Meitu Networks from its respective equity holders as collateral security for all of Meitu Networks' payments due to Meitu Home and to secure performance of Meitu Networks' obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Meitu Networks, receive variable returns from its involvement with Meitu Networks, has the ability to affect those returns through its power over Meitu Networks and is considered to control Meitu Networks. Consequently, the Company regards Meitu Networks and its subsidiaries as controlled structured entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group during the Relevant Periods (Refer to Note 1.3 of Section II above for details of the related presentation basis).

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Meitu Networks and its subsidiaries and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Meitu Networks and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Meitu Home, Meitu Networks and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

#### (b) *Business combinations*

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The

consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

*(c) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(d) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### **2.2.2 Separate financial statements**

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend

is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

#### (a) *Investments in associates in the form of ordinary shares*

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

#### (b) *Investments in associates in the form of redeemable convertible preferred shares*

Investments in associates in the form of ordinary shares with preferential rights or redeemable convertible preferred shares are accounted for as hybrid financial instruments and designated as financial assets measured at fair value through profit or loss (Note 2.9).

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

## 2.5 Foreign currency translation

### (a) *Functional and presentation currency*

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollars ("US\$"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Relevant Periods are within the PRC, the Group determined to present its Financial Information in RMB (unless otherwise stated).

### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement within "finance income/(costs), net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

### (c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

## 2.6 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Furniture and office equipment	5 years
- Server and other equipment	3 years
- Motor vehicles	4 years
- Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses, net" in the consolidated income statement.

## 2.7 Intangible assets

### (a) *Online video license*

Online video license is a license issued by PRC government authorities that enable the Group to broadcast video content through an Internet online platform. This acquired online video license is shown at historical cost. The online video license is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the years over which the asset is expected to generate economic benefits for the Group.

Online video license impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the online video license is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### (b) *Domain names*

Domain names are initially recognized and measured at costs incurred to acquire and bring to use the domain names. The costs are amortized on a straight-line basis over the domain names' estimated useful lives of 10 years.

### (c) *Other intangible assets*

Other intangible assets mainly include computer software and copyrights. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives (generally 3 to 10 years), and recorded in amortization within operating expenses in the consolidated income statement.

### (d) *Research and development expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development

expenditures that do not meet those criteria are recognized as expenses as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as at December 31, 2013, 2014 and 2015 and June 30, 2016.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

## 2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.9 Financial assets

### 2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (a) *Financial assets at fair value through profit or loss*

The Group has the following instruments falling into this category: certain ordinary shares with preferential rights or redeemable convertible preferred shares issued by investee companies, which are hybrid instruments with embedded derivatives not closely related to the host contract. The Company designated the whole instruments as financial assets at fair value through profit or loss instead of bifurcating the embedded derivatives from the host contract.

Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. As at December 31, 2013, 2014 and 2015 and June 30, 2016 the Group's investment in this category are all classified as non-current assets.

#### (b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "short-term bank deposits", "restricted cash" and "cash and cash equivalents" in the balance sheet.

#### (c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.



### 2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statement within “other losses, net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated income statement as part of “other income” when the Group’s right to receive payments is established.

Changes in the fair value of financial assets classified as available-for-sale financial assets are recognized in other comprehensive income.

When financial assets classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement as “gains and losses from investment financial assets”.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the consolidated income statement as part of “other income”. Dividends on available-for-sale financial assets are recognized in the consolidated income statement as part of “other income” when the Group’s right to receive payments is established.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.11 Impairment of financial assets

#### (a) *Assets carried at amortized cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “**loss event**”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

*(b) Assets classified as available-for-sale financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial assets below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

## **2.12 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises raw materials and original equipment manufacturer related production costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## **2.13 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

## **2.14 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

## **2.15 Share capital**

Ordinary shares are classified as equity. Convertible redeemable preferred shares (“**Preferred Shares**”) are classified as liabilities (Note 2.17).

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

### 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.17 Convertible redeemable preferred shares

Convertible redeemable preferred shares issued by the Company are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Company or agreed by majority of the holders as detailed in Note 27.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

The convertible redeemable preferred shares are classified as non-current liabilities because the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.18 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) *Deferred income tax*

##### Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred

income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

#### *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

#### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **2.19 Employee benefits**

#### *(a) Pension obligations*

The Group operates a mandatory provident fund scheme (“**MPF Scheme**”) for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee — administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in the PRC have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statement as and when incurred. The Group has no legal or constructive obligations to pay further contributions.

#### *(b) Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

#### *(c) Bonus plans*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

## 2.20 Share-based payments

### (a) *Equity-settled share-based payment transactions*

The Group operates the 2014 Share Incentive Plan, under which it receives services from employees and non-employees as consideration for equity instruments (options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (options) is recognized as an expense on the consolidated income statement.

In terms of the share options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the equity instruments (options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

In terms of share options awarded to non-employees, the total amount to be expensed is determined by reference to the fair value of the services unless that fair value cannot be estimated reliably. In such cases, the expense will be measured indirectly by reference to the fair value of the equity instruments options granted at the date when such non-employees render services.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value), and share premium.

### (b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees and non-employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employee and non-employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of the Company.

## 2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

### (a) Sales of Smart Hardware Products

#### Sales of products — Distributors and retailers

The Group manufactures and sells a range of smart hardware products to distributors and retailers. Sales of smart hardware products are recognized when the products have been delivered and accepted by the distributors and retailers. The distributors and retailers have certain discretion over the sales channels and prices to sell the products to end customers, and there is no unfulfilled obligation that could affect the distributors' and retailers' acceptance of the products. Delivery does not occur until all of the following occurs: (i) the products have been shipped to the specified location; (ii) the risks of obsolescence and loss have been transferred to the distributors and retailers; (iii) either the distributors and retailers have accepted the products in accordance with the terms of sales contracts, the acceptance provisions have lapsed, or management have objective evidence that all criteria for acceptance have been satisfied. Other than a limited number of selected retailer who may return unsold products under specific circumstances, the Group usually does not allow distributors and retailers to return products to the Group except when the products have certain specified defects. The Group also provides cash incentive to the distributors and retailers based on the accumulated sales volumes of each distributor and retailer. Past experience is used to estimate and provide for such returns and cash incentives. Revenues from sale of smart hardware products are recognized based on the price as specified in the sales orders, net of the estimated returns and cash incentives.

#### Sales of products — Direct sales

Revenue from the sale of goods directly to end customers is recognized at the point that the risks and rewards of the inventory have passed to the end customers, which is upon acceptance of the delivery of the products by the customers. The Group collects cash from end customers before or upon deliveries of products mainly through banks or third party online payment platforms. Cash collected from end customers before product delivery is recognized as advances from customers. Provisions are made for sales return based on the expected level of returns, which in turn is based upon the historical rate of returns.

### (b) Internet Services and Others

#### Online advertising

Online advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from displaying advertisements to the users of online and mobile platforms operated by the Group is recognized ratably over the contracted period in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of pay-per-click or pay-per-display advertisements for advertisers to users of the Group based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to users.

#### Internet value-added services and others

Internet value-added services and other revenues mainly comprise the revenue earned by granting license to customer to access and use the Group's self-developed software for a contracted period of time, service revenue derived from operating the Group's mobile game and video and live streaming community. The license revenue is recognized over the period of the license granted. Revenue from operating the Group's mobile game is



earned by selling in-game virtual items to game players. Revenue from operating the video and live streaming community is earned by selling in-app virtual gifts to the users who send paid virtual gifts to live streaming hosts and short-form video creators as a gesture of friendship or support. The Group's revenues from operating its mobile game and video and live streaming community are recognized when the virtual items are consumed and are insignificant for all the periods presented.

### **2.23 Interest income**

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

### **2.24 Dividend income**

Dividend income is recognized when the right to receive payment is established.

### **2.25 Government grants**

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the current liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

### **2.26 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

### **2.27 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## **3 Financial risk management**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

The transactions of the Company are denominated and settled in its functional currency, US\$. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's PRC subsidiaries when receiving or to receive foreign currencies from overseas business partners. The Group did not hedge against any fluctuation in foreign currency during the Relevant Periods.

For the Group's PRC subsidiaries whose functional currency is RMB, if US\$ had strengthened/ weakened by 5% against RMB with all other variables held constant, the loss before income tax for the years ended December 31, 2013, 2014 and 2015 and six months ended June 30, 2015 and 2016 would have been approximately RMB953,000 lower/higher, RMB1,940,000 lower/higher, RMB10,715,000 lower/higher, RMB16,949,000 and RMB805,000 lower/higher, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

(ii) Interest rate risk

The Group's and the Company's interest rate risk primarily arose from Preferred Shares, the valuation of which is affected by market interest rate. Please refer to Note 4(b) for related sensitivity analysis.

During the Relevant Periods, other than those mentioned above, the Group's exposure to changes in interest rates is also attributable to its short-term investments, short-term bank deposits and cash and cash equivalents details of which have been disclosed in Note 18, Note 22(c), and Note 22(a).

(iii) Price risk

The Group is exposed to price risk in respect of long-term investments held by the Group that are classified on the consolidated balance sheets as financial assets at fair value through profit or loss, available-for-sale financial assets, and Preferred Shares issued by the Company and carried at fair value with changes in fair value recognized in the profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

If the fair values of the financial assets at fair value through profit or loss held by the Group had been 5% higher/lower, the loss before income tax for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 would have been approximately nil, nil, RMB7,396,000 lower/higher, RMB2,453,000 lower/higher and RMB13,761,000 lower/higher, respectively.

One of the Group's investment in equity of other entities is publicly traded in Australia Stock Exchange which is designed as available-for-sale financial assets. If the equity price of the investment held by the Group had been 5% higher/lower, the other comprehensive loss for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 would have been approximately nil, nil, nil, nil and RMB1,934,000 lower/higher, respectively.

Fair value of Preferred Shares is affected by changes in the Group's market value. If the Group's equity value had increased/decreased by 10% with all other variables held constant, loss before income tax for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 would have been approximately RMB2,769,000 higher/RMB2,721,000 lower, RMB254,164,000 higher/RMB240,389,000 lower RMB473,984,000 higher/RMB494,122,000 lower, RMB436,412,000 higher/RMB415,823,000 lower and RMB815,050,000 higher/RMB815,553,000 lower, respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments and trade and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and cash equivalents, short-term bank deposits, restricted cash and short-term investments, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The Group is not exposed to significant credit risk arising from sales of smart hardware as advance payment are

generally required from most of its customers. For advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
<b>At December 31, 2013</b>			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) .....	67,582	16	67,598
<b>At December 31, 2014</b>			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) .....	20,540	20	20,560
<b>At December 31, 2015</b>			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) .....	226,387	132	226,519
<b>At June 30, 2016</b>			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables) .....	301,016	154	301,170

As at December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, Preferred Shares were classified as a non-current liability because the Group believes the likelihood of the occurrence of redemption event is remote and has unconditional rights to defer settlement of the liability for at least 12 months after the end of each reporting period.

The maximum exposure of the redemption of Preferred Shares is the contractual redemption price, which is equal to 100% of the issue price of the respective Preferred Shares plus interest at the rate of 8% per annum accrued during the period from the issuance of the Preferred Shares until the date on which the redemption price is paid in full, and plus any declared but unpaid dividends if a redemption event occurs as described in Note 27. The Group recognizes the Preferred Shares at fair value through profit or loss. Accordingly, Preferred Shares are managed on a fair value basis rather than by maturing dates.

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital, capital reserves and Preferred Shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Company considers the

cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's liabilities that are measured at fair value as at December 31, 2013:

	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
<b>Liabilities:</b>				
Convertible redeemable preferred shares (Note 27) .....	<u>—</u>	<u>—</u>	<u>53,885</u>	<u>53,885</u>

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2014:

	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
<b>Assets:</b>				
Short-term investments (Note 18) .....	<u>—</u>	<u>—</u>	<u>170,318</u>	<u>170,318</u>
<b>Liabilities:</b>				
Convertible redeemable preferred shares (Note 27) .....	<u>—</u>	<u>—</u>	<u>2,735,481</u>	<u>2,735,481</u>

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2015:

	<u>Level 1</u> RMB'000	<u>Level 2</u> RMB'000	<u>Level 3</u> RMB'000	<u>Total</u> RMB'000
<b>Assets:</b>				
Long-term investments				
- Financial assets at fair value through profit or loss (Note 11(b)) .....	<u>—</u>	<u>—</u>	<u>147,922</u>	<u>147,922</u>
Short-term investments (Note 18) .....	<u>—</u>	<u>—</u>	<u>170,389</u>	<u>170,389</u>
	<u>—</u>	<u>—</u>	<u>318,311</u>	<u>318,311</u>
<b>Liabilities:</b>				
Convertible redeemable preferred shares (Note 27) .....	<u>—</u>	<u>—</u>	<u>5,681,892</u>	<u>5,681,892</u>

The following table presents the Group's assets and liabilities that are measured at fair value as at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>Assets:</b>				
Long-term investments				
- Financial assets at fair value through profit or loss				
(Note 11(b)) .....	—	—	275,214	275,214
- Available-for-sale financial assets (Note 11(c)) .....	38,671	—	—	38,671
Short-term investments (Note 18) .....	—	—	55,130	55,130
	<u>38,671</u>	<u>—</u>	<u>330,344</u>	<u>369,015</u>
<b>Liabilities:</b>				
Convertible redeemable preferred shares (Note 27) .....	<u>—</u>	<u>—</u>	<u>8,645,544</u>	<u>8,645,544</u>

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) *Financial instruments in level 3*

Level 3 instruments of the Group's assets and liabilities include short-term investments, financial assets at fair value through profit or loss and convertible redeemable preferred shares.

The changes in level 3 instruments of convertible redeemable preferred shares for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 are presented in the Note 27.

The following table presents the changes in level 3 instruments of financial assets at fair value through profit or loss for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period.....	—	—	—	—	147,922
Addition.....	—	—	147,922	49,052	129,292
Disposals.....	—	—	—	—	(2,000)
At the end of the year/period .....	<u>—</u>	<u>—</u>	<u>147,922</u>	<u>49,052</u>	<u>275,214</u>
Total unrealized gains/(losses) and change in fair value for the year included in “other losses, net” for financial assets at fair value through profit or loss held at the end of the year/period .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The following table presents the changes in level 3 instruments of short-term investments for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period.....	—	—	170,318	170,318	170,389
Addition.....	—	260,000	609,500	359,500	50,000
Disposal.....	—	(90,000)	(609,500)	(494,500)	(165,000)
Change in fair value .....	—	924	4,177	2,572	2,506
Investment income recognized in profit or loss .....	—	(606)	(4,106)	(2,767)	(2,765)
At the end of the year/period .....	<u>—</u>	<u>170,318</u>	<u>170,389</u>	<u>35,123</u>	<u>55,130</u>
Total investment income for the year/period included in “other income” for short-term investments held at the end of the year/period ....	—	606	4,106	2,767	2,765
Unrealized gains/(losses) for the year/period included in “other comprehensive income” for short-term investments held at the end of the year/period .....	<u>—</u>	<u>318</u>	<u>71</u>	<u>(195)</u>	<u>(259)</u>

The Group has a team that manages the valuation exercise of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included investments in private companies. As these instruments are not traded in an active market, their fair value have been determined using various applicable valuation techniques, including discounted cash flows, and comparable companies etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of weighted average cost of capital (WACC), recent market transactions, estimate discount for marketing and other exposure etc.



#### 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### (a) Fair value of financial assets

The fair value of financial assets that are not traded in an active market (for example, investments in private companies) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial assets is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

##### (b) Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The directors have used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions, such as discount rate, risk-free interest rate and volatility are disclosed in Note 27.

The estimated carrying amount of convertible redeemable preferred shares as at December 31, 2013, 2014 and 2015 and June 30, 2016, would have been RMB3,153,000 lower/RMB3,479,000 higher, RMB166,734,000 lower/RMB203,174,000 higher, RMB365,482,000 lower/RMB374,067,000 higher, and RMB662,848,000 lower/RMB783,635,000 higher, should the discount rate used in discount cash flow analysis be higher/lower by 100 basis points from management's estimates.

##### (c) Recognition of share-based compensation expenses

As mentioned in Note 25, the Group has granted share options to its employees. The directors have used the Binomial option-pricing model to determine the total fair value of the options granted to employees, which is to be expensed over the vesting period. Significant estimate on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the directors in applying the Binomial option-pricing model.

##### (d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

##### (e) Impairment provision for trade and other receivable

Management assesses the impairment of trade and other receivables according to the trade and other receivable's aging, management's prior experiences and customers' conditions as well as applying management's judgments and estimates when determining the impairment to be recognized. Management

reassesses the provision at each balance sheet date. Where the basis of judgments and estimates is different from the initial assessment, such differences will impact the provision for impairment and the carrying values of the trade and other receivables in the year.

(f) *Sales returns and cash incentives*

The distributors and retailers of smart hardware products have the right to return products with certain specified defects to the Group. The Group also provides cash incentives to the distributors and retailers based on the accumulated sales volumes of each distributor and retailer. Management estimates such returns and cash incentives based on historical experience and makes provisions accordingly. Revenue is recognized to the extent of goods delivered less estimated returns and cash incentives. Management will adjust the provision where actual returns and cash incentives are more or less than previously estimated.

## 5 Revenue and segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smart Hardware
- Internet Services and Others

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other losses, net, finance income/(costs), net, fair value loss of convertible redeemable preferred shares, shares of loss of investments accounted for using the equity method, and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of revenue primarily comprises cost of inventories consumed, bandwidth and server custody fees, salary and compensation expenses, video content monitoring fee and warranty expenses, and others.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue segment information reported to CODM for Relevant Periods is as follows:

The segment information provided to the Group's CODM for the reportable segments for the Relevant Periods is as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Smart Hardware .....	51,305	428,360	667,122	138,780	556,847
Internet Services and Others:					
- Online advertising .....	34,541	58,170	72,644	40,967	25,903
- Internet value-added services and others .....	31	1,519	2,047	853	2,727
	<u>34,572</u>	<u>59,689</u>	<u>74,691</u>	<u>41,820</u>	<u>28,630</u>
<b>Total revenue .....</b>	<u><u>85,877</u></u>	<u><u>488,049</u></u>	<u><u>741,813</u></u>	<u><u>180,600</u></u>	<u><u>585,477</u></u>

The segment results for the year ended December 31, 2013 as follows:

	Year ended December 31, 2013		
	Smart Hardware	Internet Services and Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue .....	51,305	34,572	85,877
Segment cost of sales .....	(32,913)	(3,359)	(36,272)
Gross profit .....	<u>18,392</u>	<u>31,213</u>	<u>49,605</u>

The segment result for the year ended December 31, 2014 as follows:

	Year ended December 31, 2014		
	Smart Hardware	Internet Services and Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue .....	428,360	59,689	488,049
Segment cost of sales .....	(372,751)	(28,625)	(401,376)
Gross profit .....	<u>55,609</u>	<u>31,064</u>	<u>86,673</u>

The segment result for the year ended December 31, 2015 as follows:

	Year ended December 31, 2015		
	Smart Hardware	Internet Services and Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue .....	667,122	74,691	741,813
Segment cost of sales .....	(541,954)	(99,369)	(641,323)
Gross profit/(loss) .....	<u>125,168</u>	<u>(24,678)</u>	<u>100,490</u>

The segment result for the six months ended June 30, 2015 as follows:

(Unaudited)	Six months ended June 30, 2015		
	Smart Hardware	Internet Services and Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue .....	138,780	41,820	180,600
Segment cost of sales .....	(102,098)	(40,208)	(142,306)
Gross profit .....	<u>36,682</u>	<u>1,612</u>	<u>38,294</u>

The segment result for the six months ended June 30, 2016 as follows:

	Six months ended June 30, 2016		
	Smart Hardware	Internet Services and Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue .....	556,847	28,630	585,477
Segment cost of sales .....	(448,139)	(62,857)	(510,996)
Gross profit/(loss) .....	<u>108,708</u>	<u>(34,227)</u>	<u>74,481</u>

The major customers which contributed more than 10% of the total revenue of the Company for the year ended December 31, 2013, 2014 and 2015, and six months ended June 30, 2015 and 2016 are listed as below.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	%	%	%	%	%
				(Unaudited)	
<b>Internet Services and Others</b>					
Customer A .....	11.5%	*	*	*	—
<b>Smart Hardware</b>					
Customer B .....	—	65.3%	*	*	*
Customer C .....	—	*	45.1%	23.5%	50.5%
Customer D .....	—	*	25.0%	23.1%	10.7%

Note: \* represents that the amount of revenue from such customer is less than 10% of the total revenue for that period.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

As at December 31, 2013, 2014 and 2015 and June 30, 2016, substantially all of the non-current assets of the Group other than certain long-term investments were located in the PRC.

The reconciliation of segment profit/loss to loss before income tax for the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2015 and 2016 are presented in the consolidated income statement of the Group.

## 6 Other income

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Government grants .....	115	2,243	6,945	560	1,733
Investment income on short-term investments (Note 18) .....	—	606	4,106	2,767	2,765
Others .....	—	581	34	—	—
	<u>115</u>	<u>3,430</u>	<u>11,085</u>	<u>3,327</u>	<u>4,498</u>

## 7 Other losses, net

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Loss on disposal of property and equipment .....	(163)	(286)	(376)	—	—
Others .....	86	122	(482)	(158)	(418)
	<u>(77)</u>	<u>(164)</u>	<u>(858)</u>	<u>(158)</u>	<u>(418)</u>

## 8 Expenses by nature

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Inventories consumed and recognized as: (Note 21)					
- cost of sales .....	31,956	365,660	534,344	97,591	449,862
- selling and marketing expenses .....	3,537	5,473	9,428	2,850	11,848
Bandwidth and server custody fees .....	2,066	16,998	65,970	25,179	34,496
Video content monitoring fee .....	—	4,571	13,703	7,263	10,003
Warranty expenses .....	730	5,210	7,640	3,030	4,500
Cloud computing and storage fees .....	—	1,261	6,759	2,507	10,959
Promotion and advertising expenses .....	9,930	103,656	609,675	254,097	156,610
Employee benefit expenses (Note 9) .....	20,988	55,178	135,550	49,001	108,952
Depreciation of property and equipment (Note 14) .....	821	3,057	11,367	3,610	12,146
Amortization of intangible assets (Note 15) .....	391	905	1,026	737	741
Operating lease payments .....	1,220	6,045	17,768	5,749	16,289
Auditors' remuneration					
- audit services .....	1,179	1,390	1,588	794	1,350
- non-audit services .....	—	636	201	201	1,112
Outsourced technical services .....	1,273	8,212	18,856	9,158	4,770
Tax and levies .....	1,089	2,777	5,027	1,609	1,340
Travelling and entertainment expenses .....	1,935	5,495	12,099	4,571	6,845
Utilities and office expenses .....	2,179	6,568	10,516	4,994	6,849
Others .....	3,791	17,669	43,245	15,655	30,019
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses .....	<u>83,085</u>	<u>610,761</u>	<u>1,504,762</u>	<u>488,596</u>	<u>868,691</u>

## 9 Employee benefit expenses

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses.....	18,411	42,024	101,177	37,461	80,711
Pension costs — defined contribution plans .....	1,009	2,247	5,383	1,833	4,143
Other social security costs, housing benefits and other employee benefits .....	1,568	4,263	9,926	5,558	7,480
Share-based compensation expenses (Note 25) .....	—	6,644	19,064	4,149	16,618
	<u>20,988</u>	<u>55,178</u>	<u>135,550</u>	<u>49,001</u>	<u>108,952</u>

## (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 include nil, 1, nil, nil, and nil directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining 5, 4, 5, 5 and 5 individuals for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 are as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses.....	1,800	2,097	4,349	1,619	2,743
Pension costs — defined contribution plans .....	51	57	29	38	3
Other social security costs, housing benefits and other employee benefits .....	128	124	120	92	36
Share-based compensation expenses .....	—	184	17,615	1,817	13,166
	<u>1,979</u>	<u>2,462</u>	<u>22,113</u>	<u>3,566</u>	<u>15,948</u>

The emoluments fell within the following bands:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(Unaudited)	
Nil to HK\$500,000 .....	4	—	—	3	1
HK\$500,001 to HK\$1,000,000 .....	1	3	—	1	2
HK\$1,000,001 to HK\$1,500,000 .....	—	1	3	—	1
HK\$2,500,001 to HK\$3,000,000 .....	—	—	—	1	—
HK\$4,500,001 to HK\$5,000,000 .....	—	—	1	—	—
HK\$15,500,001 to HK\$16,000,000.....	—	—	—	—	1
HK\$19,000,001 to HK\$19,500,000.....	—	—	1	—	—
	<u>5</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>5</u>



## 10 Finance income/(costs), net

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Finance income:</b>					
- Interest income .....	187	4,398	11,378	7,518	4,285
- Foreign exchange gains .....	—	169	7,675	885	—
	<u>187</u>	<u>4,567</u>	<u>19,053</u>	<u>8,403</u>	<u>4,285</u>
<b>Finance costs:</b>					
- Foreign exchange losses .....	(3,642)	—	—	—	(2,072)
- Interest expenses on borrowing from a shareholder (Note a) .....	(369)	(591)	—	—	—
- Interest expenses on bank borrowing (Note b) .....	—	—	(43)	—	—
- Issuance costs of convertible redeemable preferred shares .....	(224)	(556)	(40)	(40)	(42)
- Others .....	(656)	(149)	(72)	(54)	(102)
	<u>(4,891)</u>	<u>(1,296)</u>	<u>(155)</u>	<u>(94)</u>	<u>(2,216)</u>
	<u>(4,704)</u>	<u>3,271</u>	<u>18,898</u>	<u>8,309</u>	<u>2,069</u>

## Notes:

- (a) In August 2013, one of the Company's Founders, Mr. Cai Wensheng, provided a loan of RMB10,000,000 to the Group at an interest rate of 9.6% per annum. The loan was fully settled by the Group in August 2014.
- (b) On September 9, 2015, the Group borrowed RMB40,000,000 from a bank at an interest rate of 2.42% per annum. The bank borrowing was fully settled by the Group on September 29, 2015.

## 11(a) Investments in associates in the form of ordinary shares

	As at December 31,			As at June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period .....	—	—	—	—	3,381
Addition .....	—	—	3,700	—	—
Share of losses of the associates .....	—	—	(319)	—	(351)
At the end of the year/period .....	<u>—</u>	<u>—</u>	<u>3,381</u>	<u>—</u>	<u>3,030</u>

The investments in associates in the form of ordinary shares as at June 30, 2016 are as follows:

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method	Investment date
Xiamen Xiao Ti Ying Shi Co., Ltd.....	PRC	20	Note 1	Equity	July 1, 2015
Xiamen Mei Xin Lian Network Technology Co., Ltd .....	PRC	49	Note 2	Equity	August 15, 2015

Note 1: On July 1, 2015, the Group invested in Xiamen Xiao Ti Ying Shi Co., Ltd ("Xiao Ti Ying Shi") as a 20% shareholder for consideration of RMB3,000,000. Xiao Ti Ying Shi is a company focusing on production of short-form videos.

Note 2: On August 15, 2015, the Group invested in Xiamen Mei Xin Lian Network Technology Co., Ltd ("Mei Xin Lian") as a 49% shareholder for consideration of RMB700,000. Mei Xin Lian is a company focusing on Internet video content monitoring.

**Summarized financial information for investments in associates in form of ordinary shares**

Set out below are the summarized financial information for Xiao Ti Ying Shi and Mei Xin Lian as at December 31, 2015 and June 30, 2016 which are accounted for using the equity method.

**Summarized balance sheets**

	As at December 31, 2015			As at June 30, 2016		
	Xiao Ti Ying Shi	Mei Xin Lian	Total	Xiao Ti Ying Shi	Mei Xin Lian	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets .....	1,192	150	1,342	782	696	1,478
Non-current assets .....	1,213	406	1,619	639	20	659
Current liabilities .....	(133)	(158)	(291)	(366)	(53)	(419)
<b>Net assets</b> .....	<u>2,272</u>	<u>398</u>	<u>2,670</u>	<u>1,055</u>	<u>663</u>	<u>1,718</u>

**Summarized statements of comprehensive income**

	Year ended December 31, 2015			Six months ended June 30, 2016		
	Xiao Ti Ying Shi	Mei Xin Lian	Total	Xiao Ti Ying Shi	Mei Xin Lian	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue .....	35	146	181	467	1,652	2,119
Total comprehensive loss .....	(728)	(353)	(1,081)	(1,218)	(220)	(1,438)

**Reconciliation of summarized financial information**

Reconciliation of the summarized financial information presented to the carrying amount of its interest in investments in associates:

	As at December 31, 2015			As at June 30, 2016		
	Xiao Ti Ying Shi	Mei Xin Lian	Total	Xiao Ti Ying Shi	Mei Xin Lian	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening investments at the beginning of the year/period .....	—	—	—	2,854	527	3,381
Addition .....	3,000	700	3,700	—	—	—
Share of loss of investments in associates (20%; 49%) .....	(146)	(173)	(319)	(244)	(107)	(351)
Carrying value at the end of the year/ period .....	<u>2,854</u>	<u>527</u>	<u>3,381</u>	<u>2,610</u>	<u>420</u>	<u>3,030</u>

**11(b) Financial assets at fair value through profit or loss**

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period .....	—	—	—	—	147,922
Additions .....	—	—	147,922	49,052	129,292
Disposals .....	—	—	—	—	(2,000)
At the end of the year/period .....	<u>—</u>	<u>—</u>	<u>147,922</u>	<u>49,052</u>	<u>275,214</u>

The Group made investments in some redeemable convertible preferred shares and ordinary shares with preference rights of certain private companies, these investments held by the Company contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group does not bifurcate the embedded derivatives from the host instruments and designates the entire hybrid contracts as financial assets at fair value through profit or loss, with the changes in the fair value recorded in "other losses, net" in the income statement. The Company determines the respective fair values as at balance sheet date based on the expected discounted cash flow and market multiple of comparable companies.

**11(c) Available-for-sale financial assets**

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period .....	—	—	—	—	—
Additions .....	—	—	—	—	43,103
Fair value losses .....	—	—	—	—	(4,432)
At the end of the year/period .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,671</u>

In March 2016 and June 2016, the Group entered into two subscription agreements with a third-party company listed on the Australia Stock Exchange providing social entertainment services in the South and Southeast Asia market. According to the above subscription agreements, the Group subscribed an aggregate of 5.71%, on an outstanding basis, equity interest in the investee company for total consideration of US\$6,500,000 (equivalent to approximately RMB43,103,000). Since the Group planned to hold the equity interest of the investee Company as a long-term strategy, the Group designated the financial assets as available-for-sale financial assets.

Fair value losses recognized for the listed equity interest during the six months ended June 30, 2016 of RMB4,432,000 were recognized in the other comprehensive income.

**12 Income tax expense**

The income tax expense of the Group for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 is analyzed as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax .....	438	4,697	771	270	115

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Loss before income tax:</b> .....	(25,375)	(1,767,639)	(2,216,786)	(1,269,358)	(2,189,624)
Tax calculated at PRC statutory income tax rate of 25% .....	(6,344)	(441,910)	(554,197)	(317,340)	(547,406)
Tax effects of:					
- Differential income tax rates applicable to subsidiaries (Note i) .....	6,861	413,131	382,627	248,767	481,045
- Preferential income tax rates applicable to subsidiaries .....	(739)	(2,766)	(561)	(43)	(55)
- Tax losses and temporary differences for which no deferred income tax asset was recognized .....	1,133	35,730	173,901	69,433	68,243
- Expenses not deductible for income tax purposes:					
- Share-based compensation .....	—	1,897	4,693	1,372	3,621
- Others .....	384	1,201	1,592	885	744
- Super deduction for research and development expenses (Note (c)) .....	—	(2,586)	(7,284)	(2,804)	(4,228)
- Utilization of previously unrecognized tax losses .....	(857)	—	—	—	(1,849)
<b>Income tax expense</b> .....	<u>438</u>	<u>4,697</u>	<u>771</u>	<u>270</u>	<u>115</u>

Note:

- (i) The Company is exempt from the Cayman Islands income tax. As such, the operating results reported by the Company on a stand-alone basis, including the fair value loss of Preferred Shares, is not subject to any income tax.

**(a) Cayman Islands and BVI Income Tax**

The Company is incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) *Hong Kong Income Tax*

Hong Kong income tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Relevant Periods.

(c) *PRC Enterprise Income Tax (“EIT”)*

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

Meitu Networks qualified as “High and New Technology Enterprises” (“**HNTES**”) under the EIT Law in 2013. Therefore, Meitu Networks was entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015. As at June 30, 2016, Meitu Networks is in the process of renewing its qualification as a HNTES under the EIT Law.

Meitu Home was accredited as a “software enterprise” under the relevant PRC laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years, whichever is later. Since Meitu Home was in an accumulated tax loss position during the Relevant Periods, the tax exemption period for Meitu Home had not yet commenced as at June 30, 2016.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the Relevant Periods.

(d) *PRC Withholding Tax (“WHT”)*

According to the New Corporate Income Tax Law (“**New EIT Law**”), distribution of profits earned by PRC companies since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies.

During the Relevant Periods, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

### 13 Loss per share

For the purpose of computing basic and diluted loss per share, ordinary shares were assumed to have been issued and allocated on January 1, 2012 as if the Company has been established by then.

*(a) Basic*

Basic loss per share for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 are calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Loss attributable to owners of the Company.....	(25,813)	(1,772,336)	(2,217,557)	(1,269,628)	(2,189,739)
Weighted average number of ordinary shares in issue (thousand) .....	114,465	196,877	196,667	196,667	196,667
Basic loss per share (expressed in RMB per share) .....	<u>(0.23)</u>	<u>(9.00)</u>	<u>(11.28)</u>	<u>(6.46)</u>	<u>(11.13)</u>

*(b) Diluted*

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company (Note 27) and the shares options awarded under 2014 Plan (Note 25). As the Group incurred losses for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 are the same as basic loss per share of the respective years/period.

Note: The loss per share as presented above has not taken into account the proposed share subdivision pursuant to the shareholders' resolution passed on November 25, 2016 whereby the ordinary shares in issue will increase from 196,666,667 shares to 1,966,666,670 shares. The proposed share subdivision has not become effective as of the date of this report and will only take place on the Listing Date prior to the listing of the shares of the Company. See note 23(k) for more information on the share subdivision.



## 14 Property and equipment

	Furniture and office equipment	Servers and other equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2013</b>					
Cost .....	426	1,774	636	—	2,836
Accumulated depreciation .....	(139)	(852)	(86)	—	(1,077)
<b>Net book amount</b> .....	<u>287</u>	<u>922</u>	<u>550</u>	<u>—</u>	<u>1,759</u>
<b>Year ended December 31, 2013</b>					
Opening net book amount .....	287	922	550	—	1,759
Additions .....	110	1,165	467	—	1,742
Disposal .....	—	—	(263)	—	(263)
Depreciation charge .....	(96)	(553)	(172)	—	(821)
<b>Closing net book amount</b> .....	<u>301</u>	<u>1,534</u>	<u>582</u>	<u>—</u>	<u>2,417</u>
<b>At December 31, 2013</b>					
Cost .....	536	2,939	750	—	4,225
Accumulated depreciation .....	(235)	(1,405)	(168)	—	(1,808)
<b>Net book amount</b> .....	<u>301</u>	<u>1,534</u>	<u>582</u>	<u>—</u>	<u>2,417</u>
<b>Year ended December 31, 2014</b>					
Opening net book amount .....	301	1,534	582	—	2,417
Additions .....	1,941	8,785	2,268	4,721	17,715
Disposal .....	(172)	(804)	—	—	(976)
Depreciation charge .....	(184)	(1,776)	(222)	(875)	(3,057)
<b>Closing net book amount</b> .....	<u>1,886</u>	<u>7,739</u>	<u>2,628</u>	<u>3,846</u>	<u>16,099</u>
<b>At December 31, 2014</b>					
Cost .....	2,138	10,165	3,018	4,721	20,042
Accumulated depreciation .....	(252)	(2,426)	(390)	(875)	(3,943)
<b>Net book amount</b> .....	<u>1,886</u>	<u>7,739</u>	<u>2,628</u>	<u>3,846</u>	<u>16,099</u>
<b>Year ended December 31, 2015</b>					
Opening net book amount .....	1,886	7,739	2,628	3,846	16,099
Additions .....	895	34,657	2,558	11,677	49,787
Disposal .....	(121)	(208)	(816)	—	(1,145)
Depreciation charge .....	(388)	(7,201)	(858)	(2,920)	(11,367)
<b>Closing net book amount</b> .....	<u>2,272</u>	<u>34,987</u>	<u>3,512</u>	<u>12,603</u>	<u>53,374</u>
<b>At December 31, 2015</b>					
Cost .....	2,798	43,967	4,558	16,398	67,721
Accumulated depreciation .....	(526)	(8,980)	(1,046)	(3,795)	(14,347)
<b>Net book amount</b> .....	<u>2,272</u>	<u>34,987</u>	<u>3,512</u>	<u>12,603</u>	<u>53,374</u>
<b>Six months ended June 30, 2015 (Unaudited)</b>					
Opening net book amount .....	1,886	7,739	2,628	3,846	16,099
Additions .....	404	13,802	415	3,018	17,639
Depreciation charge .....	(224)	(2,059)	(381)	(946)	(3,610)
<b>Closing net book amount</b> .....	<u>2,066</u>	<u>19,482</u>	<u>2,662</u>	<u>5,918</u>	<u>30,128</u>

	Furniture and office equipment	Servers and other equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At June 30, 2015 (Unaudited)</b>					
Cost .....	2,542	23,967	3,433	7,739	37,681
Accumulated depreciation .....	(476)	(4,485)	(771)	(1,821)	(7,553)
<b>Net book amount</b> .....	<u>2,066</u>	<u>19,482</u>	<u>2,662</u>	<u>5,918</u>	<u>30,128</u>
<b>Six months ended June 30, 2016</b>					
Opening net book amount .....	2,272	34,987	3,512	12,603	53,374
Additions .....	2,476	13,787	3	4,538	20,804
Disposal .....	(732)	(43)	—	(2,290)	(3,065)
Depreciation charge .....	(465)	(7,438)	(520)	(3,723)	(12,146)
<b>Closing net book amount</b> .....	<u>3,551</u>	<u>41,293</u>	<u>2,995</u>	<u>11,128</u>	<u>58,967</u>
<b>At June 30, 2016</b>					
Cost .....	4,451	57,701	4,573	18,051	84,776
Accumulated depreciation .....	(900)	(16,408)	(1,578)	(6,923)	(25,809)
<b>Net book amount</b> .....	<u>3,551</u>	<u>41,293</u>	<u>2,995</u>	<u>11,128</u>	<u>58,967</u>

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenue .....	302	685	4,436	1,241	4,203
Administrative expenses .....	408	865	2,519	1,524	3,015
Selling and marketing expenses .....	16	105	191	62	434
Research and development expenses .....	95	1,402	4,221	783	4,494
	<u>821</u>	<u>3,057</u>	<u>11,367</u>	<u>3,610</u>	<u>12,146</u>

## 15 Intangible assets

	Online video license	Domain names	Computer software	Copyrights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2013</b>					
Cost.....	—	—	3,111	—	3,111
Accumulated amortization .....	—	—	(328)	—	(328)
<b>Net book amount</b> .....	<u>—</u>	<u>—</u>	<u>2,783</u>	<u>—</u>	<u>2,783</u>
<b>Year ended December 31, 2013</b>					
Opening net book amount .....	—	—	2,783	—	2,783
Additions.....	—	—	338	—	338
Amortization .....	—	—	(391)	—	(391)
<b>Closing net book amount</b> .....	<u>—</u>	<u>—</u>	<u>2,730</u>	<u>—</u>	<u>2,730</u>
<b>At December 31, 2013</b>					
Cost.....	—	—	3,449	—	3,449
Accumulated amortization .....	—	—	(719)	—	(719)
<b>Net book amount</b> .....	<u>—</u>	<u>—</u>	<u>2,730</u>	<u>—</u>	<u>2,730</u>
<b>Year ended December 31, 2014</b>					
Opening net book amount .....	—	—	2,730	—	2,730
Additions.....	7,000	9,938	764	295	17,997
Amortization .....	—	(430)	(444)	(31)	(905)
<b>Closing net book amount</b> .....	<u>7,000</u>	<u>9,508</u>	<u>3,050</u>	<u>264</u>	<u>19,822</u>
<b>At December 31, 2014</b>					
Cost.....	7,000	9,938	4,213	295	21,446
Accumulated amortization .....	—	(430)	(1,163)	(31)	(1,624)
<b>Net book amount</b> .....	<u>7,000</u>	<u>9,508</u>	<u>3,050</u>	<u>264</u>	<u>19,822</u>
<b>Year ended December 31, 2015</b>					
Opening net book amount .....	7,000	9,508	3,050	264	19,822
Additions.....	—	988	1,352	—	2,340
Amortization .....	—	(559)	(452)	(15)	(1,026)
<b>Closing net book amount</b> .....	<u>7,000</u>	<u>9,937</u>	<u>3,950</u>	<u>249</u>	<u>21,136</u>
<b>At December 31, 2015</b>					
Cost.....	7,000	11,473	5,565	312	24,350
Accumulated amortization .....	—	(1,536)	(1,615)	(63)	(3,214)
<b>Net book amount</b> .....	<u>7,000</u>	<u>9,937</u>	<u>3,950</u>	<u>249</u>	<u>21,136</u>
<b>Six months ended June 30, 2015 (Unaudited)</b>					
Opening net book amount .....	7,000	9,508	3,050	264	19,822
Additions.....	—	335	202	—	537
Amortization .....	—	(508)	(214)	(15)	(737)
<b>Closing net book amount</b> .....	<u>7,000</u>	<u>9,335</u>	<u>3,038</u>	<u>249</u>	<u>19,622</u>
<b>At June 30, 2015 (Unaudited)</b>					
Cost.....	7,000	10,266	4,415	293	21,974
Accumulated amortization .....	—	(931)	(1,377)	(44)	(2,352)
<b>Net book amount</b> .....	<u>7,000</u>	<u>9,335</u>	<u>3,038</u>	<u>249</u>	<u>19,622</u>

	Online video license	Domain names	Computer software	Copyrights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Six months ended June 30, 2016</b>					
Opening net book amount .....	7,000	9,937	3,950	249	21,136
Additions .....	—	39	925	—	964
Amortization .....	—	(404)	(326)	(11)	(741)
<b>Closing net book amount .....</b>	<b><u>7,000</u></b>	<b><u>9,572</u></b>	<b><u>4,549</u></b>	<b><u>238</u></b>	<b><u>21,359</u></b>
<b>At June 30, 2016</b>					
Cost .....	7,000	11,723	6,490	318	25,531
Accumulated amortization .....	—	(2,151)	(1,941)	(80)	(4,172)
<b>Net book amount .....</b>	<b><u>7,000</u></b>	<b><u>9,572</u></b>	<b><u>4,549</u></b>	<b><u>238</u></b>	<b><u>21,359</u></b>

Amortization charges were expensed in the following categories in the consolidated income statements:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenue .....	79	145	213	123	107
Administrative expenses .....	1	460	513	435	495
Research and development expenses .....	311	300	300	179	139
	<u>391</u>	<u>905</u>	<u>1,026</u>	<u>737</u>	<u>741</u>

#### Impairment tests for the online video license

The net book amount of online video license is allocated to a group of CGUs related to the online advertising and Internet value-added services. Management determined the recoverable amount of the CGUs based on the value-in-use calculation. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates of 5%. Pre-tax discount rate of 30% is used and reflects market assessments of time value and the specific risks relating to the industry the Group operates. The financial projection was determined by the management based on its expectation for market development.

#### 16 Investments in subsidiaries — Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Investment in subsidiaries (Note a) .....	8	8	8	333
Deemed investments arising from share-based compensation (Note b) .....	—	8,529	32,955	52,866
	<u>8</u>	<u>8,537</u>	<u>32,963</u>	<u>53,199</u>

*Notes:*

- (a) The Company's investment in subsidiaries was US\$51,290 (equivalent to approximately RMB333,000).
- (b) The amount represents share-based compensation expenses arising from the grant of share options of the Company to employees and non-employees (note 25) in exchange for their services provided to certain subsidiaries now comprising the Group, which were deemed to be investments made by the Company into these subsidiaries.

## 17 Financial instruments by category

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<b>Assets as per balance sheet</b>				
Available-for-sale financial assets:				
- Short-term investments (Note 18) .....	—	170,318	170,389	55,130
- Long-term investments (Note 11(c)).....	—	—	—	38,671
Financial assets at fair value through profit or loss:				
- Long-term investments (Note 11(b)) .....	—	—	147,922	275,214
Loans and receivables:				
- Trade and other receivables (excluding prepayments) .....	13,494	21,664	73,575	66,126
- Short-term bank deposits (Note 22(c)) .....	—	266,176	60,000	1,123,518
- Restricted cash (Note 22(b)) .....	1,214	200	600	1,000
- Cash and cash equivalents (Note 22(a)).....	38,532	1,288,345	989,874	498,522
	<u>53,240</u>	<u>1,746,703</u>	<u>1,442,360</u>	<u>2,058,181</u>
	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<b>Liabilities as per balance sheet</b>				
Financial liabilities at fair value through profit or loss:				
- Convertible redeemable preferred shares (Note 27) .....	53,885	2,735,481	5,681,892	8,645,544
Financial liabilities at amortized cost:				
- Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables).....	67,598	20,560	226,519	301,170
	<u>121,483</u>	<u>2,756,041</u>	<u>5,908,411</u>	<u>8,946,714</u>

## 18 Short-term investments

	Year ended December 31,			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period .....	—	—	170,318	170,318	170,389
Additions .....	—	260,000	609,500	359,500	50,000
Disposals .....	—	(90,000)	(609,500)	(494,500)	(165,000)
Change in fair value .....	—	924	4,177	2,572	2,506
Investment income recognized in profit or loss.....	—	(606)	(4,106)	(2,767)	(2,765)
At the end of the year/period .....	<u>—</u>	<u>170,318</u>	<u>170,389</u>	<u>35,123</u>	<u>55,130</u>

The short-term investments represent investment in wealth management products issued by banks in the PRC with expected investment income rates ranging from 2.48% to 5.80% per annum during the Relevant Periods. The returns on all of these wealth management products are not guaranteed, and therefore the Group

designated them as available-for-sale financial assets. As at June 30, 2016, the carrying amount of short-term investments approximates their fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

The maximum exposure to credit risk at the reporting date is the carrying value of these short-term investments. None of these short-term investments are either past due or impaired.

## 19 Trade receivables

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
Trade receivables .....	12,608	19,401	46,567	39,977
Less: provision for impairment .....	—	—	—	(21)
Trade receivables, net .....	<u>12,608</u>	<u>19,401</u>	<u>46,567</u>	<u>39,956</u>

- (a) The Group allows a credit period of 20 to 120 days to its customers. An aging analysis of trade receivables (net of allowance for doubtful debts) based on invoice date is as follows:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
Up to 3 months .....	10,060	7,556	42,548	31,880
3 to 6 months .....	550	3,348	3,602	6,633
6 months to 1 year .....	—	8,497	385	1,440
1 to 2 years .....	1,998	—	32	3
	<u>12,608</u>	<u>19,401</u>	<u>46,567</u>	<u>39,956</u>

As at December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values at each of the reporting date.

- (b) As at December 31, 2013, 2014 and 2015 and June 30, 2016, trade receivables of RMB2,548,000, RMB11,846,000, RMB4,018,000, and RMB8,018,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
Up to 3 months .....	550	3,348	3,602	6,574
3 to 6 months .....	—	7,350	385	1,438
6 months to 1 year .....	595	1,148	20	6
1 to 2 years .....	1,403	—	11	—
	<u>2,548</u>	<u>11,846</u>	<u>4,018</u>	<u>8,018</u>



## 20 Prepayments and other receivables

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>				
<b>Included in non-current assets</b>				
Rental and other deposits .....	1,908	950	4,816	7,713
Prepayments for software licenses.....	406	687	1,149	790
Prepayments for long-term investments .....	—	1,000	1,000	—
Recoverable value-added tax.....	—	2,282	29,197	35,096
	<u>2,314</u>	<u>4,919</u>	<u>36,162</u>	<u>43,599</u>
<b>Included in current assets</b>				
Recoverable value-added tax.....	190	—	—	10,398
Rental and other deposits .....	1,082	3,759	15,627	17,153
Prepayments for promotion and advertising .....	327	1,960	11,661	9,651
Prepayments to suppliers .....	22,709	6,016	9,034	38,275
Loans to investee companies (Note a) .....	—	—	8,347	3,316
Loans to shareholders of investee companies (Note b) .....	—	—	7,000	2,000
Interest receivables .....	—	559	601	2,336
Amount due from Founders (Note c) .....	123	121	121	—
Others .....	234	1,233	1,121	71
	<u>24,665</u>	<u>13,648</u>	<u>53,512</u>	<u>83,200</u>
<b>Company</b>				
Amount due from Founders (Note c) .....	123	121	121	—
Amount due from subsidiaries .....	72,738	600,636	2,337,901	2,666,343
Interest receivables .....	—	511	—	1,185
	<u>72,861</u>	<u>601,268</u>	<u>2,338,022</u>	<u>2,667,528</u>

*Notes:*

- (a) In July 2015, the Group provided a loan of RMB8,347,000 (US\$1,285,356) to an investee company, Coveredge (Cayman) Inc., at an interest rate of 6% per annum with maturity of 6 months, which was fully repaid in February 2016. In March 2016, the Group provided a loan of RMB3,316,000 (US\$500,000) to an investee company, Bellus 3D, Inc., at an interest rate of 5% per annum with maturity of 12 months.
- (b) In June and July 2015, the Group provided loans of RMB5,000,000 and RMB2,000,000 to a shareholder of an investee company, Jiaxing Long Jun Information Technology Co., Ltd., at an interest rate of 10% per annum with maturity of 10 months, which were fully repaid in March 2016. In May 2016, the Group provided a loan of RMB2,000,000 to a shareholder of an investee company, at an interest rate of 5% per annum with maturity of 3 months which was fully repaid in July 2016.
- (c) The amounts due from Founders were unsecured and interest-free and were fully repaid in June 2016.

As at December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, the carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates. As at December 31, 2013, 2014 and 2015, and June 30, 2015 and 2016, there were no significant balances that are past due.

## 21 Inventories

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
Raw materials .....	—	—	78,895	198,165
Finished goods .....	9,586	12,756	47,211	31,861
	9,586	12,756	126,106	230,026
Less: Provision for impairment (Note a) .....	—	—	(205)	(560)
	<u>9,586</u>	<u>12,756</u>	<u>125,901</u>	<u>229,466</u>

*Note:*

- (a) Provision for impairment is recognized for the amount by which the carrying amount of the inventories exceeds its recoverable amount, and was recorded in "cost of sales" in the income statement.

The cost of inventories recognized as expense and included in "cost of sales" for the years ended December 31, 2013, 2014 and 2015 and six months ended June 30, 2015 and 2016 amounted to RMB31,956,000, RMB365,660,000, RMB534,344,000, RMB97,591,000 and RMB449,862,000, respectively.

## 22 Cash and bank balances

## (a) Cash and cash equivalents

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
<b>Group</b>				
Cash at bank and in hand .....	38,532	1,046,487	637,458	432,034
Short-term bank deposits with initial terms within three months .....	—	241,858	352,416	66,488
	<u>38,532</u>	<u>1,288,345</u>	<u>989,874</u>	<u>498,522</u>

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
<b>Company</b>				
Cash at bank and in hand .....	2,812	983,220	13,613	39,039
Short-term bank deposits with initial terms within three months .....	—	58,132	—	—
	<u>2,812</u>	<u>1,041,352</u>	<u>13,613</u>	<u>39,039</u>

## (b) Restricted cash

As at December 31, 2013, RMB1,214,000 of restricted deposits were held in a bank as reserve for bank's acceptance bill. As at December 31, 2014 and 2015 and June 30, 2016, RMB200,000, RMB600,000 and RMB1,000,000 of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

## (c) Short-term bank deposits

As at December 31, 2014 and 2015 and June 30, 2016, the short-term bank deposits amounted to RMB266,176,000, RMB60,000,000 and RMB1,123,518,000 are bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated in RMB and the weighted average effective interest rate was 1.14%, 1.25%, 1.25% and 1.33% for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

## 23 Share capital

	Note	Number of ordinary shares <u>'000</u>	Nominal value of ordinary shares <u>US\$'000</u>	Number of preferred shares <u>'000</u>	Nominal value of preferred shares <u>US\$'000</u>
<b>Authorized:</b>					
Ordinary shares upon incorporation .....	(a)	500,000	50	—	—
Reclassification and re-designation on issuance of series A-1 preferred shares.....	(b)	<u>(11,111)</u>	<u>(1)</u>	11,111	1
<b>As at December 31, 2013</b> .....		488,889	49	11,111	1
Reclassification and re-designation on issuance of series A-2A preferred shares .....	(d)	<u>(41,731)</u>	<u>(4)</u>	41,731	4
Reclassification and re-designation on issuance of series A-2B preferred shares .....	(e)	<u>(14,445)</u>	<u>(2)</u>	14,445	2
Reclassification and re-designation on issuance of series B preferred shares .....	(g)	<u>(52,603)</u>	<u>(5)</u>	52,603	5
<b>As at December 31, 2014</b> .....		380,110	38	119,890	12
Reclassification and re-designation on issuance of series C preferred shares .....	(h)	<u>(34,457)</u>	<u>(3)</u>	34,457	3
Increase of authorized ordinary shares.....	(i)	<u>100,000</u>	<u>10</u>	—	—
<b>As at December 31, 2015</b> .....		445,653	45	154,347	15
Reclassification and re-designation on issuance of series D preferred shares .....	(j)	<u>(14,316)</u>	<u>(2)</u>	14,316	2
<b>As at June 30, 2016</b> .....		<u>431,337</u>	<u>43</u>	<u>168,663</u>	<u>17</u>
	Note	Number of ordinary shares <u>'000</u>	Nominal value of ordinary shares <u>US\$'000</u>	Equivalent nominal value of ordinary shares <u>RMB'000</u>	
<b>Issued:</b>					
Ordinary shares issued upon incorporation .....	(a)	100,000	10	62	
Newly issued ordinary shares.....	(c)	<u>100,000</u>	<u>10</u>	61	
<b>As at December 31, 2013</b> .....		200,000	20	123	
Repurchase of ordinary shares .....	(f)	<u>(3,333)</u>	—	<u>(2)</u>	
<b>As at December 31, 2014 and 2015 and June 30, 2016</b> .....		<u>196,667</u>	<u>20</u>	<u>121</u>	

## Notes:

- (a) The Company was incorporated on July 25, 2013 with an authorized share capital of US\$50,000 divided into 500,000,000 ordinary shares of US\$0.0001 each. On the same date, 100,000,000 ordinary shares of US\$0.0001 each were issued, totaling US\$10,000 (equivalent to approximately RMB62,000), to the Baolink, Longlink, Xinhong and Ultra Colour. As at June 30, 2016, all issued ordinary shares had been fully paid by the Founders.

- (b) On October 22, 2013, the Company entered into a share purchase agreement with the series A-1 preferred shares investors (“**the Series A-1 Investors**”) and pursuant to which, the Company issued 11,111,111 shares of series A preferred shares at a price of US\$0.45 per share with total consideration of US\$5,000,000 (equivalent to approximately RMB30,706,000). The issuance of the series A preferred shares was completed on October 30, 2013 and the series A preferred shares were subsequently reclassified as series A-1 preferred shares on January 24, 2014.
- (c) On December 10, 2013, the Board of Directors of the Company approved a new issuance of 100,000,000 ordinary shares of US\$0.0001 each, totaling US\$10,000 (equivalent to approximately RMB61,000), to the Founder Companies. As at June 30, 2016, all issued ordinary shares had been fully paid by Baolink, Longlink, Xinhong and Ultra Colour.
- (d) On January 16, 2014, the Company entered into a share purchase agreement with the series A-2A preferred shares investors (“**the Series A-2A Investors**”) and pursuant to which, the Company issued 41,730,994 shares of series A-2A preferred shares at a price of US\$1.06875 per share with total consideration of US\$44,600,000 (equivalent to approximately RMB272,216,000). The issuance of the series A-2A preferred shares was completed on January 24, 2014.
- (e) On January 16, 2014, the Company entered into a share purchase agreement with the series A-2B preferred shares investors (“**the Series A-2B Investors**”) and pursuant to which, the Company issued 14,444,444 shares of series A-2B preferred shares at price of US\$0.72 per share with total consideration of US\$10,400,000 (equivalent to approximately RMB63,476,000). The issuance of the series A-2B preferred shares was completed on January 24, 2014.
- (f) On January 24, 2014, the Company and a shareholder entered into an ordinary shares repurchase agreement, under which the Company repurchased 3,333,333 ordinary shares of US\$0.72 each for a total consideration of US\$2,400,000 (equivalent to approximately RMB14,648,000) from a shareholder. The repurchased ordinary shares were cancelled immediately and the share capital of the Company was reduced by US\$333 (equivalent to approximately RMB2,000). The directors of the Company concluded that there was no separate component in the transaction between the Company and the shareholder. The difference of US\$2,399,667 (equivalent to RMB14,646,000) between the repurchase amount and the initial value of related share capital was debited to other reserves.
- (g) On May 28, 2014, the Company entered into a share purchase agreement with the series B preferred shares investors (“**the Series B Investors**”) and pursuant to which, the Company issued 52,603,041 shares of series B preferred shares at a price of US\$2.17668 per share with total consideration of US\$114,500,000 (equivalent to approximately RMB706,397,000). The issuance of the series B preferred shares was completed on May 28, 2014.
- (h) On January 6, 2015, the Company entered into a share purchase agreement with the series C preferred shares investors (“**the Series C Investors**”) and pursuant to which, the Company issued 34,457,408 shares of series C preferred shares at a price of US\$5.51405 per share with total consideration of US\$190,000,000 (equivalent to approximately RMB1,163,864,000). The issuance of the series C preferred shares was completed on January 6, 2015.
- (i) On January 6, 2015, the Company increased its authorized share capital by US\$10,000 divided into 100,000,000 shares with a par value of US\$0.0001 each.
- (j) On April 19, 2016, the Company entered into a share purchase agreement with the series D preferred shares investors (“**the Series D Investors**”) and pursuant to which, the Company issued 14,315,790 shares of series D preferred shares at a price of US\$9.5 per share with total consideration of US\$136,000,000 (equivalent to approximately RMB879,920,000). The issuance of the series D preferred shares was completed on April 20, 2016.
- (k) Pursuant to the shareholders’ resolution passed on November 25, 2016, each issued and unissued ordinary share of US\$0.0001 each of the Company will be subdivided into 10 ordinary shares of US\$0.00001 each so that the authorized share capital of the Company shall become US\$60,000 divided into 6,000,000,000 ordinary shares with par value of US\$0.00001 each, effective on the Listing Date prior to the listing of the shares of the Company.

## 24 Reserves

	Capital reserve	Statutory surplus reserve	Share-based compensation reserve	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>					
<b>At January 1, 2013</b> .....	2,000	—	22,544	—	24,544
Capital contribution from owners (Note a).....	20,000	—	—	—	20,000
Currency translation differences (Note c) .....	—	—	—	229	229
<b>At December 31, 2013</b> .....	<u>22,000</u>	<u>—</u>	<u>22,544</u>	<u>229</u>	<u>44,773</u>
<b>At January 1, 2014</b> .....	22,000	—	22,544	229	44,773
Repurchase of ordinary shares from a shareholder (Note 23) .....	—	—	—	(14,646)	(14,646)
Distribution to owners (Note b) .....	(20,000)	—	—	—	(20,000)
Appropriation to statutory reserves (Note d) .....	—	462	—	—	462
Share options awarded under 2014 Plan (Note 25) .....	—	—	8,529	—	8,529
Change in available-for-sale financial assets - short-term investments (Note 18).....	—	—	—	318	318
Currency translation differences (Note c) .....	—	—	—	8,586	8,586
<b>At December 31, 2014</b> .....	<u>2,000</u>	<u>462</u>	<u>31,073</u>	<u>(5,513)</u>	<u>28,022</u>
<b>At January 1, 2015</b> .....	2,000	462	31,073	(5,513)	28,022
Appropriation to statutory reserves (Note d) .....	—	484	—	—	484
Share options awarded under 2014 Plan (Note 25) .....	—	—	24,426	—	24,426
Change in available-for-sale financial assets - short-term investments (Note 18).....	—	—	—	71	71
Currency translation differences (Note c) .....	—	—	—	(229,790)	(229,790)
<b>At December 31, 2015</b> .....	<u>2,000</u>	<u>946</u>	<u>55,499</u>	<u>(235,232)</u>	<u>(176,787)</u>
<b>At January 1, 2015</b> .....	2,000	462	31,073	(5,513)	28,022
Share options awarded under 2014 Plan (Note 25) .....	—	—	6,399	—	6,399
Change in available-for-sale financial - short-term investments (Note 18).....	—	—	—	(195)	(195)
Currency translation differences (Note c) .....	—	—	—	4,513	4,513
<b>At June 30, 2015 (Unaudited)</b> .....	<u>2,000</u>	<u>462</u>	<u>37,472</u>	<u>(1,195)</u>	<u>38,739</u>
<b>At January 1, 2016</b> .....	2,000	946	55,499	(235,232)	(176,787)
Share options awarded under 2014 Plan (Note 25) .....	—	—	19,911	—	19,911
Change in available-for-sale financial assets - short-term investments (Note 18).....	—	—	—	(259)	(259)
- long-term investments (Note 11(c)).....	—	—	—	(4,432)	(4,432)
Currency translation differences (Note c) .....	—	—	—	(130,706)	(130,706)
<b>At June 30, 2016</b> .....	<u>2,000</u>	<u>946</u>	<u>75,410</u>	<u>(370,629)</u>	<u>(292,273)</u>

	Share-based compensation reserve	Other reserves	Total
	RMB'000	RMB'000	RMB'000
<b>Company</b>			
<b>At January 1, 2013</b> .....	—	—	—
Currency translation differences .....	—	111	111
<b>At December 31, 2013</b> .....	<u>—</u>	<u>111</u>	<u>111</u>
<b>At January 1, 2014</b> .....	—	111	111
Repurchase of ordinary shares from a shareholder (Note 23) .....	—	(14,646)	(14,646)
Share options awarded under 2014 Plan (Note 25) .....	8,529	—	8,529
Currency translation differences .....	—	6,978	6,978
<b>At December 31, 2014</b> .....	<u>8,529</u>	<u>(7,557)</u>	<u>972</u>
<b>At January 1, 2015</b> .....	8,529	(7,557)	972
Share options awarded under 2014 Plan (Note 25) .....	24,426	—	24,426
Currency translation differences .....	—	(168,128)	(168,128)
<b>At December 31, 2015</b> .....	<u>32,955</u>	<u>(175,685)</u>	<u>(142,730)</u>
<b>At January 1, 2015</b> .....	8,529	(7,557)	972
Share options awarded under 2014 Plan (Note 25) .....	6,399	—	6,399
Currency translation differences .....	—	3,763	3,763
<b>At June 30, 2015 (Unaudited)</b> .....	<u>14,928</u>	<u>(3,794)</u>	<u>11,134</u>
<b>At January 1, 2016</b> .....	32,955	(175,685)	(142,730)
Share options awarded under 2014 Plan (Note 25) .....	19,911	—	19,911
Currency translation differences .....	—	(100,718)	(100,718)
<b>At June 30, 2016</b> .....	<u>52,866</u>	<u>(276,403)</u>	<u>(223,537)</u>

*Notes:*

- (a) Capital contribution from owners of the Group arises from capital contribution by the Founders to the companies comprising the Group.
- (b) On June 13, 2014, Meitu HK acquired 100% share ownership of Meitu Mobile from its equity holders for a total consideration of RMB20,000,000 paid. The consideration paid is treated as a deemed distribution to the owners and is adjusted to capital reserve.
- (c) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.
- (d) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

## 25 Share-based payments

On January 24, 2014, the Board of Directors of the Company approved the establishment of the 2014 Plan with the purpose of which is to provide incentive for employees and non-employees contributing to the Group. The 2014 Plan is valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all Awards (including Incentive Share Options) under 2014 Plan shall be 11,695,907 shares.



Share options granted to employees under the 2014 Plan

The exercise price of all granted options to employees is US\$0.3 per ordinary share. Except as provided otherwise in the grant letter or offer in any other form by the Board of Directors, 25% of the shares subject to the option shall vest on the first vesting date, and the remaining 75% shares shall vest on a monthly basis over the next 36 months. The first vesting date should be determined by the Company and grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vest. Once vested, the vested portion of the options may be exercised in whole or in part, at any time.

Movements in the number of share options granted to employees and their related weighted average exercise prices are as follows:

	Exercise price	Number of share options			
		Year ended December 31,		Six months ended June 30,	
		2014	2015	2015	2016
At the beginning of the year/period .....		—	9,262,907	9,262,907	10,075,824
Granted.....	US\$ 0.3	9,262,907	1,615,000	15,000	730,000
Forfeited .....	US\$ 0.3	—	(802,083)	—	—
At the end of the year/period .....		<u>9,262,907</u>	<u>10,075,824</u>	<u>9,277,907</u>	<u>10,805,824</u>

As at December 31, 2014 and 2015 and June 30, 2015 and 2016, nil, 3,751,457, 2,457,752, and 5,303,167 outstanding options were exercisable.

In October 2016, the Group granted 893,500 options to its employees under the 2014 Plan.

Share options granted to non-employees under 2014 Plan

On February 15, 2014, the Company granted 282,600 share options under 2014 Plan to the non-employees of the Company.

The exercise price of all options granted to the non-employees is US\$0.3 per share. The vesting of the options is conditional on the achievement of their marketing targets agreed with the Company.

Fair value of share options granted under 2014 Plan

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimate.

Based on fair value of the underlying ordinary share, the directors have used Binomial option-pricing model to determine the fair value of the share option as at the grant date. Key assumptions are set as below:

	Year ended December 31,		Six months ended June 30,	
	2014	2015	2015	2016
Discount rate.....	23.00%-26.50%	20.00%-23.00%	22.00%-23.00%	17.5%
Risk-free interest rate .....	1.86%-2.29%	1.41%-1.86%	1.41%-1.86%	1.20%-1.54%
Volatility.....	47.55%-48.70%	47.10%-47.20%	47.13%-47.20%	47.14%-47.15%
Dividend yield.....	0%	0%	0%	0%

The directors estimated the risk-free interest rate based on the yield of HK Government Bonds with a maturity life close to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date. The total expense recognized in the consolidated income statement for share options granted to employees and non-employees are RMB8,529,000, RMB24,426,000, RMB6,399,000 and RMB19,911,000 for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

#### Expected Retention Rate under 2014 Plan

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the “**Expected Retention Rate**”) in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at December 31, 2014 and 2015 and June 30, 2015 and 2016, the Expected Retention Rate was assessed to be 95%, 95%, 95% and 95%, respectively.

## 26 Trade and other payables

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<b>Group</b>				
Trade payables .....	3,182	16,163	214,619	292,263
Payroll and welfare payables .....	4,025	12,245	27,642	32,257
Advance from customers .....	1,708	5,348	3,778	31,263
Government grants .....	500	935	8,465	8,620
Other tax payables .....	1,318	3,180	7,776	5,762
Accrued auditors' remuneration .....	1,179	2,075	3,150	2,680
Warranty provisions .....	—	1,989	7,956	5,333
Notes payable .....	4,045	—	—	—
Loans payable to a shareholder (Note a) .....	10,369	—	—	—
Payable to a former preferred shareholder (Note b) .....	48,775	—	—	—
Others .....	48	333	794	894
	<u>75,149</u>	<u>42,268</u>	<u>274,180</u>	<u>379,072</u>

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<b>Company</b>				
Payable to a preferred shareholder (Note b) .....	<u>48,775</u>	<u>—</u>	<u>—</u>	<u>—</u>

#### Notes:

- (a) In August 2013, one of the Company's Founders, Mr. Cai Wensheng, provided a loan of RMB10,000,000 to the Group at an interest rate of 9.6% per annum. The loan was fully settled by the Group in August 2014.
- (b) The Group fully settled the above liability in February 2014 pursuant to the original terms.

The aging analysis of trade payables based on invoice date is as follows:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
Up to 3 months .....	3,162	16,072	212,300	262,500
3 to 6 months .....	—	71	1,962	10,044
6 months to 1 year .....	4	—	225	19,565
1 to 2 years .....	—	4	128	150
Over 2 years .....	16	16	4	4
	<u>3,182</u>	<u>16,163</u>	<u>214,619</u>	<u>292,263</u>

## 27 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed five rounds of financing by issuing convertible redeemable preferred shares, namely, series A-1 preferred shares issued in 2013, series A-2A preferred shares, series A-2B preferred shares, and series B preferred shares issued in 2014, and series C preferred shares issued in 2015 and series D preferred shares issued in 2016 (the series A-1 preferred shares, series A-2A preferred shares and series A-2B preferred shares collectively refer as “**series A preferred shares**”).

On October 22, 2013, the Company entered into a share purchase agreement with the Series A-1 Investors and pursuant to which, the Company issued 11,111,111 shares of series A-1 preferred shares at a price of US\$0.45 per share with total consideration of US\$5,000,000 (equivalent to approximately RMB30,706,000). The issuance of the series A-1 preferred shares was completed on October 30, 2013, and the series A preferred shares subsequently reclassified as series A-1 preferred shares on January 2014.

On January 16, 2014, the Company entered into a share purchase agreement with the Series A-2A Investors and pursuant to which, the Company issued 41,730,994 shares of series A-2A preferred shares at a price of US\$1.06875 per share with total consideration of US\$44,600,000 (equivalent to approximately RMB272,216,000). The issuance of the series A-2A preferred shares was completed on January 24, 2014.

On January 16, 2014, the Company entered into a share purchase agreement with the Series A-2B Investors and pursuant to which, the Company issued 14,444,444 shares of series A-2B preferred shares at a price of US\$0.72 per share with total consideration of US\$10,400,000 (equivalent to approximately RMB63,476,000). The issuance of the series A-2B preferred shares was completed on January 24, 2014.

On May 28, 2014, the Company entered into a share purchase agreement with the Series B Investors and pursuant to which, the Company issued 52,603,041 shares of series B preferred shares at a price of US\$2.17668 per share with total consideration of US\$114,500,000 (equivalent to approximately RMB706,397,000). The issuance of the series B preferred shares was completed on May 28, 2014.

On January 6, 2015, the Company entered into a share purchase agreement with the Series C Investors and pursuant to which, the Company issued 34,457,408 shares of series C preferred shares at a price of US\$5.51405 per share with total consideration of US\$190,000,000 (equivalent to approximately RMB1,163,864,000). The issuance of the series C preferred shares was completed on January 6, 2015.

On April 19, 2016, the Company entered into a share purchase agreement with the Series D Investors and pursuant to which, the Company issued 14,315,790 shares of series D preferred shares at a price of US\$9.5 per share with total consideration of US\$136,000,000 (equivalent to approximately RMB879,920,000). The issuance of the series D preferred shares was completed on April 20, 2016.

The key terms of the Preferred Shares are summarized as follows:

(a) *Dividends rights*

The holders of Preferred Shares are entitled to receive dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend on the ordinary shares or any other class or series of shares of the Company at the rate of eight percent (8%) of the original issue price per share per annum on each Preferred Share, payable in U.S. dollars and annually when, as and if declared by the Board. Such distributions shall not be cumulative. No dividend, whether in cash, in property or in shares of the capital of the Company, shall be paid on or declared and set aside for any ordinary shares or any other class or series of shares of the Company unless and until all dividends have been paid in full on the Preferred Shares (on an as-converted basis).

(b) *Conversion feature*

The Preferred Shares shall be automatically converted into fully-paid, non-assessable Ordinary Shares, based on the then-effective applicable conversion price for such shares: (i) immediately prior to the closing of a Qualified Initial Public Offering (“**QIPO**”) or (ii) (A) on the date specified on a written request for such conversion from the holders of no less than eighty-five (85%) of outstanding series A shares (calculated on an as converted basis) with respect to the conversion of the series A shares, (B) on the date specified on a written request for such conversion from the majority series B preferred shareholders with respect to the conversion of the series B shares, (C) on the date specified on a written request for such conversion from the majority series C preferred shareholders with respect to the conversion of the series C shares, and/or (D) on the date specified on a written request for such conversion from the majority series D preferred shareholders with respect to the conversion of the series D shares.

QIPO means a firm underwritten public offering of the ordinary shares in the U.S., that has been registered under the Securities Act, with the market capitalization of the Company immediately prior to such offering of (i) not less than US\$5,000,000,000 if such offering is completed on or prior to the second anniversary of the series D issue date, or (ii) not less than US\$6,000,000,000, if such offering is completed after the second anniversary and on or prior to the fourth anniversary of the series D issue date (unless otherwise approved by the majority preferred shareholders), or in a similar public offering of the ordinary shares in another jurisdiction approved by the majority preferred shareholders, which results in the ordinary shares trading publicly on a recognized regional or national securities exchange.

(c) *Redemption feature*

Upon the written request of each majority series Preferred Shareholders, the Company shall redeem all or any portion of the Preferred Shares, at any time after the occurrence of any of the following events, whichever is earlier: (1) the fourth anniversary of the series D issue date, if no QIPO occurs on or prior to such date; (2) any material violation of applicable laws and regulations or any material breach of any provisions in the memorandum and articles, the series D share purchase agreement, or any ancillary agreements by any the Company and any of its subsidiaries, any ordinary shareholder, or the Founders; (3) any act of the Company and any of its subsidiaries, any ordinary shareholder, or the Founders that will or is reasonably expected to result in a material adverse effect on the Company and any of its subsidiaries and/or the business operations of the Company and any of its subsidiaries; or (4) (A) in the case of a series D preferred shareholder, any series A preferred shareholder, series B preferred shareholder or series C preferred shareholder has requested the Company to redeem its respective Preferred Shares; (B) in the case of a series C preferred shareholder, any series A preferred shareholder or series B preferred shareholder has requested the Company to redeem its respective Preferred Shares; or (C) in the case of a series B preferred shareholder, any series A preferred shareholder has requested the Company to redeem its Preferred Shares. For the avoidance of doubt, Series A Preferred Shareholders have no right to require and demand that the Company redeems all or part of its Preferred Shares under event (4).

The redemption price shall be paid by the Company to the Preferred Shareholders in an amount equal to: (i) one hundred percent (100%) of the original issue price on each Preferred Share, plus (ii) an eight percent (8%) per annum interest of the original issue price on each Preferred Share accrued during the period from the issue date of each Preferred Share until the date on which the redemption price is paid in full, and (iii) any accrued but unpaid dividends thereon.

*(d) Liquidation preferences*

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Preferred Shareholders shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares, the liquidation preference amount per share is equal to one hundred percent (100%) of the original issue price on each Preferred Shares, plus all declared but unpaid dividends thereon up to the date of liquidation. The liquidation preference amount will be paid to the Preferred Shareholders in the following order: first to holders of Series D Preferred Shares, second to holders of Series C Preferred Shares, third to holders of Series B Preferred Shares and lastly to holders of Series A Preferred Shares. After distributing or paying in full the liquidation preference amount to all of the Preferred Shareholders, the remaining assets of the Company available for distribution to members, if any, shall be distributed to the holders of ordinary shares and the Preferred Shareholders on a pro rata basis, based on the number of ordinary shares then held by each shareholder on an as converted basis. If the value of the remaining assets of the Company is less than aggregate liquidation preference amount payable to the holders of a particular series of Preferred Shares, then the remaining assets of the Company shall be distributed pro rata amongst the holders of all outstanding Preferred Shares of that series.

The Group monitors Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the income statement.

The movement of the convertible redeemable preferred shares is set out as below:

	<u>RMB'000</u>
<b>At January 1, 2013</b> .....	—
Issuance of series A-1 preferred shares .....	30,706
Changes in fair value .....	23,501
Currency translation differences .....	(322)
<b>At December 31, 2013</b> .....	<u>53,885</u>
Change in fair value of the Preferred Shares for the year included in profit or loss .....	<u>23,501</u>
<b>At January 1, 2014</b> .....	53,885
Issuance of series A-2A, series A-2B and series B preferred shares .....	1,042,089
Changes in fair value .....	1,651,464
Currency translation differences .....	(11,957)
<b>At December 31, 2014</b> .....	<u>2,735,481</u>
Change in fair value of the Preferred Shares for the year included in profit or loss .....	<u>1,651,464</u>
<b>At January 1, 2015</b> .....	2,735,481
Issuance of series C preferred shares .....	1,163,864
Changes in fair value .....	1,482,643
Currency translation differences .....	299,904
<b>At December 31, 2015</b> .....	<u>5,681,892</u>
Change in fair value of the Preferred Shares for the year included in profit or loss .....	<u>1,482,643</u>
<b>At January 1, 2015</b> .....	2,735,481
Issuance of series C preferred shares .....	1,163,864
Changes in fair value .....	972,840
Currency translation differences .....	(6,937)
<b>At June 30, 2015 (Unaudited)</b> .....	<u>4,865,248</u>
Change in fair value of the Preferred Shares for the year included in profit or loss .....	<u>972,840</u>
<b>At January 1, 2016</b> .....	5,681,892
Issuance of series D preferred shares .....	879,920
Changes in fair value .....	1,912,208
Currency translation differences .....	171,524
<b>At June 30, 2016</b> .....	<u>8,645,544</u>
Change in fair value of the Preferred Shares for the year included in profit or loss .....	<u>1,912,208</u>

The directors have used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares preferences as at the dates of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	<u>As at December 31,</u>			<u>As at June 30,</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>
Discount rate .....	26.5%~30.5%	23.0%~26.5%	20.0%~23.0%	21.0%~23.0%	17.5%
Risk-free interest rate .....	0.61%~0.81%	0.67%~0.91%	0.33%~0.71%	0.36%~0.71%	0.26%~0.28%
Volatility .....	43.1%~43.3%	42.5%~48.0%	39.7%~43.3%	39.7%~42.5%	42.4%~46.7%

Discount rate was estimated by weighted average cost of capital as at each valuation date. The directors estimated the risk-free interest rate based on the yield of HK Government Bonds with a maturity life close to the



period from the respective valuation dates to the expected redemption dates and liquidation dates. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected redemption dates and liquidation dates. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Preferred Shares on each valuation date.

Changes in fair value of Preferred Shares were recorded in "fair value loss of convertible redeemable preferred shares". Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

## 28 Non-current liabilities

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Prepayment from one Series C Investor .....	—	856,660	—	—

Non-current liabilities as at December 31, 2014 represented the prepayment of US\$140,000,000 (equivalent of RMB856,660,000) from one Series C Investor, which was reclassified to convertible redeemable preferred shares on January 6, 2015, upon the completion of the issuance of series C preferred shares.

## 29 Dividends

No dividends have been paid or declared by the Company during each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

## 30 Cash used in operations

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<b>Loss before income tax</b> .....	(25,375)	(1,767,639)	(2,216,786)	(1,269,358)	(2,189,624)
Adjustments for:					
- Depreciation of property and equipment (Note 14).....	821	3,057	11,367	3,610	12,146
- Amortization of intangible assets (Note 15) .....	391	905	1,026	737	741
- Loss on disposals of property and equipment (see below) .....	163	286	376	—	—
- Share-based compensations (Note 25) .....	—	8,529	24,426	6,399	19,911
- Share of losses of investments in associates in the form of ordinary shares (Note 11(a)) .....	—	—	319	—	351
- Fair value loss of convertible redeemable preferred shares (Note 27) .....	23,501	1,651,464	1,482,643	972,840	1,912,208
- Investment income on short-term investments (Note 6).....	—	(606)	(4,106)	(2,767)	(2,765)
- Interest income (Note 10).....	(187)	(4,398)	(11,378)	(7,518)	(4,285)
- Interest expenses (Note 10) .....	369	591	43	—	—
- Foreign exchange gains/(loss), net (Note 10) .....	3,642	(169)	(7,675)	(885)	2,072
- Issuance costs of convertible redeemable preferred shares (Note 10) .....	224	556	40	40	42
Changes in working capital:					
- Increase in inventories .....	(9,586)	(3,170)	(113,145)	(74,649)	(103,565)
- (Increase)/decrease in trade receivables ...	(7,322)	(6,793)	(27,166)	(20,128)	6,611
- (Increase)/decrease in prepayments and other receivables .....	(26,655)	9,972	(55,718)	(45,367)	(45,863)
- Increase in trade and other payables .....	13,658	28,436	243,238	165,266	115,799
- (Increase)/decrease in restricted cash.....	(1,214)	1,014	(400)	(600)	(400)
<b>Cash used in operations</b> .....	<u>(27,570)</u>	<u>(77,965)</u>	<u>(672,896)</u>	<u>(272,380)</u>	<u>(276,621)</u>

In the statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,			Period ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net book amount (Note 14).....	263	976	1,145	—	3,065
Loss on disposal of property and equipment (Note 7) .....	(163)	(286)	(376)	—	—
Proceeds from disposal of property and equipment .....	<u>100</u>	<u>690</u>	<u>769</u>	<u>—</u>	<u>3,065</u>

There were no material non-cash investing and financing transaction for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016.

### 31 Commitments

#### (a) Capital Commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Property and equipment.....	—	3,140	1,608	4,884
Intangible assets.....	—	—	1,044	—
Long-term investments.....	—	1,000	3,000	18,350
	<u>—</u>	<u>4,140</u>	<u>5,652</u>	<u>23,234</u>

#### (b) Operating Lease Commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Not later than 1 year .....	3,746	6,005	22,314	35,816
Later than 1 year and not later than 5 years .....	4,483	9,512	32,605	52,901
	<u>8,229</u>	<u>15,517</u>	<u>54,919</u>	<u>88,717</u>

### 32 Related party transactions

Save as disclosed in note 20 and note 26, the following significant transactions were carried out between the Group and its related parties during the Relevant Periods. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) *Names and relationships with related parties*

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Relevant Periods.

Company	Relationship
Xiamen Feibo Gongchuang Network Co., Ltd .....	Significantly influenced by the Founders
Silver Yield Limited .....	Significantly influenced by the Founders
Ename Technology Co., Ltd.....	Significantly influenced by the Founders
Xiao Ti Ying Shi .....	Associate of the Company
Mei Xin Lian .....	Associate of the Company
Shenzhen Vision Technology Co., Ltd .....	Associate of the Company
Coverage (Cayman) Inc.....	Associate of the Company

(b) *Significant transactions with related parties*

In the opinion of the executive directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<u>(i) Sales of goods and services</u>					
Xiamen Feibo Gongchuang Network Co., Ltd ...	—	22	—	—	30
Ename Technology Co., Ltd.....	57	30	35	—	—
Xiao Ti Ying Shi.....	—	—	23	—	139
Mei Xin Lian .....	—	—	57	—	274
	<u>57</u>	<u>52</u>	<u>115</u>	<u>—</u>	<u>443</u>
<u>(ii) Purchases of goods and services</u>					
Xiamen Feibo Gongchuang Network Co., Ltd.....	920	466	814	61	182
Silver Yield Limited .....	—	830	1,445	712	756
Ename Technology Co., Ltd.....	2	272	637	5	21
Mei Xin Lian .....	—	—	146	—	1,665
Shenzhen Vision Technology Co., Ltd .....	—	—	2,334	—	1,415
Mr. Cai Wensheng .....	—	—	390	—	—
	<u>922</u>	<u>1,568</u>	<u>5,766</u>	<u>778</u>	<u>4,039</u>
<u>(iii) Loans (to)/from the Group</u>					
Mr. Cai Wensheng .....	(10,369)	—	—	—	—
Coverage (Cayman) Inc.....	—	—	8,347	—	—
	<u>(10,369)</u>	<u>—</u>	<u>8,347</u>	<u>—</u>	<u>—</u>
<u>(iv) Proceeds received by the Group</u>					
Coverage (Cayman) Inc.....	—	—	—	—	8,347
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,347</u>
<u>(iv) Repayment of loans from a shareholder</u>					
Mr. Cai Wensheng .....	—	10,960	—	—	—
	<u>—</u>	<u>10,960</u>	<u>—</u>	<u>—</u>	<u>—</u>

## (c) Year/period end balances with related parties

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
(i) <u>Receivables from related parties</u>				
Mei Xin Lian.....	—	—	46	325
Xiao Ti Ying Shi.....	—	—	14	123
Coverage (Cayman) Inc. ....	—	—	8,347	—
	<u>—</u>	<u>—</u>	<u>8,407</u>	<u>448</u>
(ii) <u>Payables to related parties</u>				
Xiamen Feibo Gongchuang Network Co., Ltd .....	876	32	108	191
Mei Xin Lian.....	—	—	89	407
Mr. Cai Wensheng .....	10,369	—	390	—
	<u>11,245</u>	<u>32</u>	<u>587</u>	<u>598</u>
(iii) <u>Prepayments</u>				
Shenzhen Vision Technology Co., Ltd .....	—	—	4,226	3,297
Mei Xin Lian.....	—	—	—	540
	<u>—</u>	<u>—</u>	<u>4,226</u>	<u>3,837</u>

Except for the related parties transactions disclosed under note 20 and note 26, balances with other related parties were all unsecured, interest-free, and repayable on demand.

## (d) Amount due from the Founders

(i) Receivables arising from the Founders

	As at December 31,			As at
	2013	2014	2015	June 30,
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Mr. Cai Wensheng and his family .....	88	86	86	—
Mr. Wu Zeyuan .....	35	35	35	—
	<u>123</u>	<u>121</u>	<u>121</u>	<u>—</u>

The amounts due from the Founders are unsecured, non-interest bearing and repayable on demand. These receivables were fully settled in June 2016.

## (e) Key management personnel compensations

Key management includes directors (executive and non-executive). The compensations paid or payable to key management for employee services are shown below:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses.....	1,442	2,014	3,959	1,350	3,229
Pension costs — defined contribution plan.....	85	105	114	66	55
Other social security costs, housing benefits and other employee benefits .....	146	198	254	104	101
Share-based compensation expenses .....	—	3,060	16,203	1,115	14,556
	<u>1,673</u>	<u>5,377</u>	<u>20,530</u>	<u>2,635</u>	<u>17,941</u>

## 33 Benefits and interests of directors

The remuneration of every director for the year ended December 31, 2013 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>					
Cai Wensheng .....	—	—	—	—	—
Wu Zeyuan .....	—	257	21	27	305
<b>Non-executive Directors</b>					
Guo Yihong .....	—	—	—	—	—
Gan JP .....	—	—	—	—	—
Tan Hainan .....	—	—	—	—	—
	<u>—</u>	<u>257</u>	<u>21</u>	<u>27</u>	<u>305</u>

The remuneration of every director for the year ended December 31, 2014 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>					
Cai Wensheng .....	161	91	—	25	277
Wu Zeyuan.....	161	288	22	29	500
<b>Non-executive Directors</b>					
Guo Yihong.....	—	—	—	—	—
Gan JP.....	—	—	—	—	—
Tan Hainan.....	—	—	—	—	—
	<u>322</u>	<u>379</u>	<u>22</u>	<u>54</u>	<u>777</u>



The remuneration of each director for the year ended December 31, 2015 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>					
Cai Wensheng .....	411	152	—	41	604
Wu Zeyuan .....	275	302	23	30	630
<b>Non-executive Directors</b>					
Guo Yihong .....	—	—	—	—	—
Gan JP .....	—	—	—	—	—
Tan Hainan .....	—	—	—	—	—
	<u>686</u>	<u>454</u>	<u>23</u>	<u>71</u>	<u>1,234</u>

The remuneration of each director for the six months ended June 30, 2015 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>					
Cai Wensheng .....	95	91	11	10	207
Wu Zeyuan .....	107	151	11	11	280
<b>Non-executive Directors</b>					
Guo Yihong .....	—	—	—	—	—
Gan JP .....	—	—	—	—	—
Tan Hainan .....	—	—	—	—	—
	<u>202</u>	<u>242</u>	<u>22</u>	<u>21</u>	<u>487</u>

The remuneration of each director for the six months ended June 30, 2016 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive Directors</b>					
Cai Wensheng .....	254	—	—	—	254
Wu Zeyuan .....	122	151	11	10	294
<b>Non-executive Directors</b>					
Guo Yihong .....	—	—	—	—	—
Gan JP .....	—	—	—	—	—
Tan Hainan .....	—	—	—	—	—
	<u>376</u>	<u>151</u>	<u>11</u>	<u>10</u>	<u>548</u>

**34 Contingencies**

The Group did not have any material contingent liabilities as at December 31, 2013, 2014 and 2015 and June 30, 2016.

**35 Subsequent Events**

Pursuant to the approval confirmation dated November 25, 2016, the majority of the preferred shareholders agreed, confirmed and approved that the proposed listing of the Company's ordinary shares on the Stock Exchange of Hong Kong and the proposed offering of the Company's ordinary shares as set out in the prospectus of the Company dated December 5, 2016 would constitute a QIPO under the amended and restated memorandum and articles of association of the Company adopted by the Company dated April 20, 2016, and the amended and restated shareholders agreement entered into among the Company and its subsidiaries, the Company's ordinary shareholders and the Company's preferred shareholders on the same date.

**III Subsequent Financial Statements**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2016 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2016.

Your faithfully,

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong

The information set forth in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as at June 30, 2016 as if the Global Offering had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at June 30, 2016 or at any future dates following the Global Offering. It is prepared based on our audited consolidated net tangible assets as at June 30, 2016 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to June 30, 2016:

	Audited Consolidated Net Tangible Liabilities of the Group Attributable to Owners of the Company as at June 30, 2016 (Note 1)	Estimated Net Proceeds from the Global Offering (Note 2)	Estimated Impact to the Net Assets upon the Conversion of the Preferred Shares (Note 3)	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Owners of the Company	Unaudited Pro Forma Adjusted Net Tangible Assets per Share (Note 4)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
<b>Based on an Offer Price of HK\$8.50 per Share .....</b>	<u>(6,574,391)</u>	<u>4,157,505</u>	<u>8,645,544</u>	<u>6,228,658</u>	<u>1.47</u>	<u>1.66</u>
<b>Based on an Offer Price of HK\$9.60 per Share .....</b>	<u>(6,574,391)</u>	<u>4,700,705</u>	<u>8,645,544</u>	<u>6,771,858</u>	<u>1.60</u>	<u>1.81</u>

*Notes:*

- (1) The audited consolidated net tangible liabilities attributable to the owners of the Company as at June 30, 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net liabilities of the Group attributable to the owners of the Company as at June 30, 2016 of RMB6,553,032,000 with an adjustment for the intangible assets as at June 30, 2016 of RMB21,359,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$8.50 and HK\$9.60 per Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB5,538,000 which have been accounted for prior to June 30, 2016) payable by the Company.
- (3) Upon the Listing and Global Offering, the Preferred Shares will have been automatically converted and subdivided (pursuant to the Share Subdivision) to 1,686,627,880 Shares under which the carrying amounts of the Preferred Shares recorded as a liability of the Company will be transferred to the Company's equity.
- (4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 4,227,294,550 Shares were in issue immediately upon completion of the Global Offering (including completion of the conversion of the Preferred Shares into ordinary shares and the Share Subdivision to be effected prior to Listing), which is assumed to be on June 30, 2016 for the purpose of the pro forma financial information, and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1275. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF MEITU, INC. (INCORPORATED UNDER THE NAME OF "MEITU, INC. 美图公司" AND CARRYING ON BUSINESS IN HONG KONG AS "美图之家")

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Meitu, Inc. (incorporated under the name of "Meitu, Inc. 美图公司" and carrying on business in Hong Kong as "美图之家") (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at June 30, 2016, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on page II-1 of the Company's prospectus dated December 5, 2016, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on page II-1 of the Company's prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at June 30, 2016 as if the proposed initial public offering had taken place at June 30, 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended June 30, 2016, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at June 30, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, December 5, 2016



Set out below is a summary of certain provisions of the Memorandum and the Articles of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 25, 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Memorandum of Association and its Articles of Association.

## 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Memorandum and the Articles were conditionally adopted on November 25, 2016 to be effective following the Global Offering becoming unconditional on the Listing Date. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and the Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine), or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;



- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

*(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers published daily and circulating generally in Hong Kong and in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise. Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.



**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from August 30, 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

**(q) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

We were incorporated in the Cayman Islands on July 25, 2013 as an exempted limited liability company. We established a place of business in Hong Kong at Room 8106B Level 81, International Commerce Centre, 1Austin Road West, Kowloon, Hong Kong, and were registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on September 26, 2016. Our Company adopted and carries on business in Hong Kong under the name of “美圖之家”, as approved by and registered with the Registrar of Companies on October 28 and November 7, 2016, respectively. For more information, see the section headed “History, Reorganization and Corporate Structure”. Our Company’s registered office address is at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. A summary of various parts of the Memorandum and the Articles is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

Our Company was incorporated with an authorized share capital of US\$50,000 divided into 500,000,000 shares with a nominal value of US\$0.0001 each.

The following sets out the changes in the Company’s share capital since its incorporation:

- (a) On July 25, 2013 the Company issued shares with a par value of US\$0.0001 each in the following manner:
  - (i) 1 ordinary share to Osiris International Cayman Limited, which was subsequently transferred to Baolink Capital on the same day;
  - (ii) 23,999,999 ordinary shares to Baolink Capital;
  - (iii) 31,000,000 ordinary shares to Longlink Capital;
  - (iv) 30,000,000 ordinary shares to Xinhong Capital; and
  - (v) 15,000,000 ordinary shares to Ultra Colour.
- (b) On December 10, 2013 the Company issued shares in the following manner:
  - (i) 24,000,000 ordinary shares to Baolink Capital;
  - (ii) 31,000,000 ordinary shares to Longlink Capital;
  - (iii) 26,666,667 ordinary shares to Xinhong Capital;
  - (iv) 18,333,333 ordinary shares to Ultra Colour; and
  - (v) 11,111,111 ordinary shares to Sina Hong Kong Limited.
- (c) On October 30, 2013 the Company issued Original Series A Preferred Shares in the following manner:
  - (i) 5,555,556 shares to Innovation Works Development Fund, L.P.;
  - (ii) 5,272,222 shares to Innovation Works Development Fund II, L.P.; and
  - (iii) 283,333 shares to Innovation Works Parallel Fund II, L.P..
- (d) On January 24, 2014, the Company repurchased 3,333,333 ordinary shares from Ultra Colour and 11,111,111 from Sina Hong Kong Limited.
- (e) On January 24, 2014, the Original Series A Preferred Shares were reclassified and redesignated as Series A-1 Preferred Shares in the following manner:
  - (i) 5,555,556 shares to Innovation Works Development Fund, L.P.;
  - (ii) 5,272,222 shares to Innovation Works Development Fund II, L.P.; and
  - (iii) 283,333 shares to Innovation Works Parallel Fund II, L.P..



- (f) On January 24, 2014, the Company issued Series A-2A Preferred Shares in the following manner:
  - (i) 18,509,991 shares to IDG-Accel China Growth Fund III L.P.;
  - (ii) 1,312,231 shares to IDG-Accel China III Investors L.P.;
  - (iii) 605,688 shares to Qiming Managing Directors Fund III, L.P.;
  - (iv) 19,216,534 shares to Qiming Venture Partners III, L.P.;
  - (v) 1,043,275 shares to Innovation Works Development Fund, L.P.;
  - (vi) 990,068 shares to Innovation Works Development Fund II, L.P.; and
  - (vii) 53,207 shares to Innovation Works Parallel Fund II, L.P..
- (g) On January 24, 2014, the Company issued Series A-2B Preferred Shares in the following manner:
  - (i) 6,744,111 shares to IDG-Accel China Growth Fund III L.P.;
  - (ii) 478,111 shares to IDG-Accel China III Investors L.P.;
  - (iii) 220,682 shares to Qiming Managing Directors Fund III, L.P.; and
  - (iv) 7,001,540 shares to Qiming Venture Partners III, L.P..
- (h) On May 28, 2014, the Company issued Series B Preferred Shares in the following manner:
  - (i) 35,374,971 shares to Internet Fund II Pte. Ltd.;
  - (ii) 1,378,246 shares to H Capital I, L.P.;
  - (iii) 6,647,279 shares to Ceyuan Ventures III, L.P.;
  - (iv) 243,949 shares to Ceyuan Ventures Advisors Fund III, LLC;
  - (v) 4,290,019 shares to IDG-Accel China Growth Fund III L.P.;
  - (vi) 304,133 shares to IDG-Accel China III Investors L.P.; and
  - (vii) 4,364,444 shares to Bright Ease Holdings Limited.
- (i) On January 6, 2015, the Company resolved to increase the authorized share of the Company to US\$60,000 divided into 600,000,000 shares with a nominal value of US\$0.0001 each.
- (j) On January 6, 2015 the Company issued Series C Preferred Shares in the following manner:
  - (i) 25,389,670 shares to Assets Eagle Global Limited;
  - (ii) 4,624,547 shares to Internet Fund II Pte. Ltd.;
  - (iii) 1,722,870 shares to Colour Leap Limited;
  - (iv) 846,745 shares to IDG-Accel China Growth Fund III L.P.;
  - (v) 60,028 shares to IDG-Accel China III Investors L.P.;
  - (vi) 27,707 shares to Qiming Managing Directors Fund III, L.P.;
  - (vii) 879,067 shares to Qiming Venture Partners III, L.P.; and
  - (viii) 906,774 shares to H Capital I, L.P..
- (k) On April 20, 2016 the Company issued Series D Preferred Shares in the following manner:
  - (i) 3,263,158 shares to Keywise MT;
  - (ii) 736,842 shares to Bliss Moment Limited;
  - (iii) 368,421 shares to Bright Ease Holdings Limited;

- (iv) 157,895 shares to Colour Leap Limited;
- (v) 4,210,526 shares to Lucky Hand Global Limited;
- (vi) 1,052,632 shares to A Plus Global Holdings Ltd.;
- (vii) 3,157,895 shares to King Terrace Limited;
- (viii) 210,526 shares to China Merchants Securities Investment Management (HK) Co., Limited; and
- (ix) 1,157,895 shares to Harvest Instrument Management Corporation.

(l) Share Subdivision

Assuming that the Global Offering becomes unconditional and the issue of Offer Shares as mentioned in this prospectus being made (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), the authorized share capital of our Company will be US\$60,000 divided into 6,000,000,000 Shares, of which 4,227,294,550 Shares will be issued fully paid or credited as fully paid, and 1,772,705,450 Shares will remain unissued.

Save as disclosed herein and in the section headed “— Written resolutions of the shareholders passed on November 25, 2016”, there has been no alteration in the share capital of our Company since its incorporation.

### 3. Changes in share capital of our subsidiaries and PRC Operating Entities

Our Company’s subsidiaries and the PRC Operating Entities are set out in the Accountant’s Report in Appendix I to this prospectus. In addition to those disclosed in the section headed “— Changes in share capital of our Company” and the section headed “History, Reorganization and Corporate Structure”, the following alterations in the share capital of our Company’s subsidiaries and the PRC Operating Entities have taken place within the two years immediately preceding the date of this prospectus:

#### *Meitu Networks*

On December 20, 2015, Mr. Cai transferred 3% of his equity interest in Meitu Networks to Mr. Wu for a total consideration of RMB960,000 and 49% of his equity interest in Meitu Networks to Ms. Cai for a total consideration of RMB1.

#### *Meitu Home*

On June 11, 2015, the registered capital of Meitu Home was increased from US\$30 million to US\$60 million.

On September 21, 2015, the registered capital of Meitu Home was increased from US\$60 million to US\$80 million.

On November 24, 2015, the registered capital of Meitu Home was increased from US\$80 million to US\$120 million.

On July 19, 2016, the registered capital of Meitu Home was increased from US\$120 million to US\$170 million.

#### *Meitu Mobile*

On July 13, 2015, the registered capital of Meitu Mobile was increased from RMB200 million to RMB400 million.

On July 19, 2016, the registered capital of Meitu Mobile was increased from RMB400 million to RMB600 million.

#### *Meitu Huyu*

On August 13, 2015, the registered capital of Meitu Huyu was increased from RMB1 million to RMB10 million.

Save as disclosed above, there has been no alteration in the share or registered capital of any of the subsidiaries of our Company and the PRC Operating Entities within the two years immediately preceding the date of this prospectus.

#### **4. Written resolutions of the shareholders passed on November 25, 2016**

Written resolutions of the shareholders were passed on November 25, 2016, pursuant to which, among other things:

subject to the conditions of the Global Offering as set out in this prospectus being fulfilled and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Joint Global Coordinators for themselves and on behalf of the Underwriters) and such obligations not having been terminated in accordance with their respective terms:

- (i) (a) all the issued and unissued Preferred Shares be re-designated and re-classified as ordinary shares of US\$0.0001 each and all the issued and unissued ordinary shares of US\$0.0001 each be designated as ordinary shares of US\$0.0001 each, each having the rights and restrictions as set out in the Memorandum and the Articles, and; (b) upon the re-designation and re-classification of the share capital of the Company referred to in paragraph (a) above, each issued and unissued ordinary share of US\$0.0001 each of the Company be subdivided into 10 ordinary shares of US\$0.00001 each such that the authorized share capital of the Company shall be US\$60,000 divided into 6,000,000,000 ordinary shares with a par value US\$0.00001 each, in each case to be effective on the Listing Date;
- (ii) the Memorandum and the Articles was adopted with effect from the Listing Date;
- (iii) the Listing, the Global Offering and the Over-allotment Option was approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorized to do all such things as they consider necessary to give effect to the Listing, the Global Offering and the Over-allotment Option;
- (iv) a general mandate was generally and unconditionally granted to our Directors to exercise all the powers of the Company to allot, issue and deal with any Shares or securities convertible into Shares, and to make or grant offers, agreements or options (including any warrants, options, bonds, notes, securities and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted and issued or dealt with at any time subject to the requirement that the number of Shares so allotted and issued or dealt with or agreed conditionally or unconditionally to be allotted and issued or dealt with, shall not exceed the sum of (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option and options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme); and (ii) the aggregate nominal amount of the share capital of the Company repurchased by the Company (if any) pursuant to the authority granted to our Directors as referred to in paragraph (v) below.

This mandate does not cover Shares to be allotted, issued, or dealt with pursuant to or in consequence of the Global Offering, under a rights issue, scrip dividend scheme or similar arrangements, any

adjustment of rights to subscribe for Shares under options and warrants, or a special authority granted by the Shareholders. This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition;
  - (2) the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws of the Cayman Islands or the Memorandum and the Articles; and
  - (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company;
- (v) a general mandate was generally and unconditionally granted to our Directors to exercise all the powers of our Company to repurchase Shares of such number not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (excluding Shares which may be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme and any Shares that may be issued pursuant to the Share Award Scheme).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and made in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time. Such mandate will expire whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition;
  - (2) the end of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the Memorandum and the Articles; and
  - (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company;
- (vi) the general mandate as mentioned in paragraph (iv) above was extended by the addition to the aggregate nominal value of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, excluding any Shares which may be sold pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or under the Share Award Scheme). This extension will remain effective until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company following the passing of this resolution unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition;
  - (2) the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws of the Cayman Islands or the Memorandum and the Articles; and
  - (3) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company.

- (vii) the Share Option Scheme was approved and adopted with effect from the Listing Date and our Directors were authorized to make such changes to the Share Option Scheme as may be required by the Stock Exchange and/or which they deem necessary and/or desirable and to grant options to eligible participants to acquire Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such actions as they consider necessary and/or desirable to implement or give effect to the Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
- (viii) the Share Award Scheme was approved and adopted with effect from the Listing Date our Directors were authorized to make such changes to the Share Award Scheme as may be required by the Stock Exchange and/or which they deem necessary and/or desirable and to grant Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such actions as they consider necessary and/or desirable to implement or give effect to the Share Award Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same; and
- (ix) the termination of the Pre-IPO Investment Agreements with effect from the Listing Date was approved.

## 5. Corporate Restructuring

For details of the Restructuring which was effected in preparation for the Listing, please refer to the section headed “History, Reorganization and Corporate Structure” in this prospectus.

## 6. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the series C preferred share purchase agreement dated January 6, 2015 entered into between our Company, Mr. Wu, Mr. Cai, Ms. Wang, Meitu HK, MagicV, Inc., Xinhong Capital, Longlink Capital, Baolink Capital, Ultra Colour, Meitu Mobile, Meitu Networks, Meitu Huyu, Meitu Home, Assets Eagle Global Limited, Internet Fund II Pte. Ltd., Colour Leap Limited, IDG-Accel China Growth Fund III L.P., IDG-Accel China III Investors L.P., Qiming Venture Partners III, L.P., Qiming Managing Directors Fund III, L.P. and H Capital I, L.P. as further described in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;
- (b) an exclusive option agreement dated October 12, 2016, entered into between Meitu Home, Mr. Wu, Ms. Cai and Meitu Networks, as further described in the section headed “Contractual Arrangements”;
- (c) an exclusive business cooperation agreement dated October 12, 2016, entered into between Meitu Home and Meitu Networks, as further described in the section headed “Contractual Arrangements”;
- (d) a power of attorney dated October 12, 2016, entered into between Meitu Home, Mr. Wu, Ms. Cai and Meitu Networks, as further described in the section headed “Contractual Arrangements”;
- (e) a share pledge agreement dated October 12, 2016, entered into between Meitu Home, Meitu Networks, Mr. Wu and Ms. Cai, as further described in the section headed “Contractual Arrangements”;
- (f) the undertaking dated November 25, 2016 given by Mr. Wu and Mr. Cai, as further described in the section headed “Contractual Arrangements”;
- (g) the series D preferred share purchase agreement dated April 19, 2016 entered into between our Company, Mr. Wu, Mr. Cai, Longlink Capital, Baolink Capital, Xinhong Capital, Ultra Colour, Meitu HK, Meitu Technology, Meitu Technology (US), Meitu Mobile, Meitu Networks, Meipai Technology, Meitu Huyu, Meitu Home, Keywise MT, Bliss Moment Limited, China Merchants Securities Investment Management (HK) Co., Limited, Harvest Investment Management Corporation, Bright Ease Holdings Limited, Colour Leap Limited, Lucky Hand Global Limited, A Plus Global Holdings Ltd. and King Terrace Limited, as further described in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;

- (g) a cornerstone agreement dated November 21, 2016, as amended by an amendment agreement dated November 29, 2016, entered into between our Company, Kingkey Enterprise Holdings Limited, Chen Jiarong, Morgan Stanley Asia Limited, Credit Suisse (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited and CCB International Capital Limited, as further described in the section headed “Cornerstone Investors”;
- (h) a cornerstone agreement dated November 25, 2016 entered into between our Company, Ports International Enterprises Limited, Morgan Stanley Asia Limited, Credit Suisse (Hong Kong) Limited and China Merchants Securities (HK) Co., Limited, as further described in the section headed “Cornerstone Investors”; and
- (i) the Hong Kong Underwriting Agreement.

## **B PURCHASE BY THE COMPANY OF ITS OWN SECURITIES**

This section includes information required by the Stock Exchange to be included in this prospectus concerning such the purchase by us of our own securities.

### **1. Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

#### **(a) *Shareholders’ approval***

The Listing Rules provide that all purchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

#### **(b) *Source of funds***

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under Cayman Islands law, any repurchase by the Company may be made out of profits of the Company, out of the Company’s share premium account or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorized by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of either or both of the profits or the share premium account of the Company or, if authorized by the Articles of Association and subject to the Companies Law, out of capital.

#### **(c) *Status of repurchased shares***

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, unless prior to the purchase, the Directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company will be treated as cancelled and the amount of the Company’s issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares shall not be taken as reducing the amount of the Company’s authorized share capital under Cayman Islands law.



(d) *Connected parties*

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a “connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective associates (as defined in the Listing Rules) and a connected person shall not knowingly sell his securities to the company.

**2. Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

**3. General**

- (a) None of our Directors, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company.
- (b) Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong.
- (c) If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.
- (d) No connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## C INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

## 1. Trademarks

As of June 30, 2016, we had registered the following trademarks which we believe are material to our business:

No.	Trademark	Place of registration	Registered owner	Class	Registration number	Expiry date (dd/mm/yyyy)
1		Hong Kong	Meitu Networks	38, 42	302841282 9 302565865	17/12/2023 01/04/2023
2		PRC	Meitu Networks	40	16035902	27/02/2026
3		PRC	Meitu Networks	40	15394459 41 15462826 45 15915208 42 14463741	06/11/2025 20/11/2025 13/02/2026 06/06/2025
4	美图手机	PRC	Meitu Mobile	9	13335443	27/08/2025
5	Meipai	PRC	Meitu Networks	40	15234204	13/10/2025
6		PRC	Meitu HK	42	15790273	20/01/2026
7	美颜相机	PRC	Meitu Networks	35	14164392 38 10974650 40 15234205 41 10974746 45 15939431	20/04/2025 06/10/2023 13/10/2025 13/09/2023 13/02/2026
8		PRC	Meitu Networks	9	13617852 38 13617885 40 16035868 45 16138287	06/03/2025 06/03/2025 27/02/2026 13/03/2026
9	美图秀秀	PRC	Meitu Networks	40	13181074 41 8069124 9 7099841	13/08/2025 13/03/2021 13/10/2020

As of June 30, 2016, we had applied for the following trademarks which we believe are material to our business:

	Trademark	Place of registration	Registered owner	Class	Application number	Application date (dd/mm/yyyy)
1		PRC	Meitu Networks	9	14463434	25/04/2014
2	美颜相机	PRC	Meitu Networks	9 42	16375978 16376011	12/02/2015 12/02/2015
3	美图秀秀	PRC	Meitu Networks	35	16887359	06/05/2015
4		PRC	Meitu Networks	35 40	17015142 16035864	22/05/2015 29/12/2014
5		PRC	Meitu Networks	9	18431238	25/11/2015
6	美图	PRC	Meitu Networks	40 42	18433818 18433817	26/11/2015 26/11/2015
7	meitu	PRC	Meitu Networks	3 9 9 12 35 41 42	18191299 15834333 16872594 18191795 18193403 18194056 18194152	29/10/2015 01/12/2014 05/05/2015 29/10/2015 29/10/2015 29/10/2015 29/10/2015
8		PRC	Meitu Networks	9 40	16675223 16689582	09/04/2015 13/04/2015

## 2. Patents

As of June 30, 2016, we had registered the following patents which we believe are material to our business:

No.	Patent	Patentee	Place of registration	Patent number	Application date (dd/mm/yyyy)	Expiry date (dd/mm/yyyy)
1	Automatic removal of freckles on digital images (一種數字圖像自動祛除斑點的方法)	Meitu Networks	China	201310404195.1	06/09/2013	05/09/2033
2	Quick beauty fix for digital images (一種數字圖像的快速美容方法)	Meitu Networks	China	201310255825.3	25/06/2013	24/06/2033
3	Imaging and shooting method (一種根據主色調智能脫色的攝像方法)	Meitu Networks	China	201310683576.8	13/12/2013	12/12/2033
4	Image synthesis method (一種基於圖塊模板且可添加修飾素材的圖片合成方法)	Meitu Networks	China	201310026348.3	24/01/2013	23/01/2033
5	Digital camera (MEIGO-1) (數碼相機 (美圖 MEIGO-1))	Meitu Mobile	China	201530250241.7	13/07/2015	12/07/2025
6	Rapid eye image processing (一種快速實現眼睛圖像處理的方法)	Meitu Mobile	China	201310368309.1	22/08/2013	21/08/2033
7	Mobile phone (Meitu v4) (手機 (美圖手機 V4))	Meitu Mobile	China	201530022418.8	26/01/2015	25/01/2025
8	Mobile phone (Meitu phone MT 360) (手機 (美圖手機 MT 360))	Meitu Mobile	China	201430231686.6	10/07/2014	9/07/2024
9	Meitu mobile phone (手機 (meitu))	Meitu Mobile	China	201330086021.6	28/03/2013	27/03/2023
10	Digital camera (數碼相機 (美圖 BF))	Meitu Mobile	China	201530352406.1	14/09/2015	13/09/2025
11	Mobile phone (Meitukiss 2)(手機 (Meitukiss 2))	Meitu Mobile	China	201330436872.9	11/09/2013	10/09/2023
12	Communication records processing and mobile terminal (一種通信記錄處理設備、方法以及移動終端)	Meitu Mobile	China	201410478664.9	18/09/2014	17/09/2034

No.	Patent	Patentee	Place of registration	Patent number	Application date (dd/mm/yyyy)	Expiry date (dd/mm/yyyy)
13	Mobile terminal alarm clock alert (一種移動終端的鬧鐘提醒方法及裝置)	Meitu Home	China	201410002195.3	01/01/2014	31/12/2033
14	Automatic adjustment of colors in mobile terminal screen (一種自動調整移動終端屏幕顏色的方法)	Meitu Home	China	201410035025.5	24/01/2014	23/01/2034

### 3. Copyright

As of June 30, 2016, we had registered the following copyrights which are material in relation to our Group's business:

No.	Copyright	Version	Registration number	Registration date (dd/mm/yyyy)
1	Smartphone camera software (美圖手機相機軟件)	V1.0.0	2013SR131181	22/11/2013
2	Meipai video software for iPhone (視頻美拍軟件 (iPhone 版))	1.0.0	2014SR124010	20/08/2014
3	Meipai video software for Android (美拍視頻軟件 (Android 版))	1.0.0	2014SR107289	29/07/2014
4	Meios operating system (MEIOS 系統)	V1.5.0	2015SR032759	15/02/2015
5	Meios mobile operating system (MEIOS 手機操作系統)	V1.0	2014SR028495	10/03/2014
6	Meios operating system (MEIOS 系統)	V2.0.0	2015SR106813	15/06/2015
7	Beauty camera software for iOS (美顏相機軟件 (iOS 版))	3.2.0	2015SR057835	31/03/2015
8	Beauty camera software for Android (美顏相機軟件 (Android 版))	3.2.0	2015SR056323	30/03/2015
9	Beauty camera software for iPhone (美妝相機軟件 (iPhone 版))	1.0.0	2015SR073698	04/05/2015
10	Beauty camera software for Android (美妝相機軟件 (Android 版))	1.0.0	2015SR073796	05/05/2015
11	Beautyplus Android software (BeautyPlus Android 版軟件)	V1.0	2014SR202465	20/12/2014
12	Beautyplus software for iPhone (BeautyPlus iPhone 版軟件)	V1.0	2014SR202485	20/12/2014

No.	Copyright	Version	Registration number	Registration date (dd/mm/yyyy)
13	Meitu Xiu Xiu image processing software for Android (美圖秀秀 Android 版圖片處理軟件)	1.2.6	2014SR187691	04/12/2014
14	Meitu Xiu Xiu image processing software for iPhone (美圖秀秀 iPhone 版圖片處理軟件)	3.5.0	2014SR187686	04/12/2014
15	Beauty camera software for Android (美顏相機拍照軟件 (Android 版))	2.1.0	2014SR134803	09/09/2014
16	Beauty camera software for iPhone (美顏相機拍照軟件 (iPhone 版))	2.1.0	2014SR072033	05/06/2014

#### 4. Domain names

As of June 30, 2016, we had registered and maintained the following domain names which we believe are material to our business:

No.	Domain name	Registered owner	Expiry date (dd/mm/yyyy)
1	meitu.com	Meitu Networks	20/07/2021
2	meipai.com	Meipai Technology	09/08/2023
3	meitu.cn	Meitu Networks	03/07/2017

Save as aforesaid, as of June 30, 2016, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

## D FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDER AND EXPERTS

### 1. Particulars of Directors' service contracts

#### (a) Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is sooner). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of the Company's remuneration policy is described in section headed "Directors and Senior Management — Directors' Remuneration".

The executive Directors are not entitled to receive annual salaries in their capacities as executive Directors under their respective service contracts.



**(b) Non-executive Director and Independent non-executive Directors**

Each of our non-executive Directors and independent non-executive Directors, save for Mr. Gan JP and Mr. Tan Hainan, who will resign immediately upon Listing, has entered into an appointment letter with our Company. The term of office of our non-executive Director and independent non-executive Directors is three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner).

The annual salaries of the non-executive Directors and independent non-executive Directors payable by the Company are as follows:

Non-executive Directors	HK\$
Dr. Guo Yihong .....	360,000
Dr. Lee Kai-Fu .....	360,000
Independent non-executive Directors	HK\$
Mr. Ko Chun Shun Johnson.....	360,000
Mr. Zhou Hao.....	360,000
Ms. Lo Po Man .....	360,000

**2. Remuneration of Directors**

- (a) The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for our Directors for the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2016 was approximately RMB 305,000, RMB 777,000, RMB 1,234,000 and RMB 548,000, respectively.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2016, is expected to be approximately RMB1.5 million in aggregate (excluding discretionary bonus).
- (c) Save as disclosed in this prospectus, none of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

### 3. Disclosure of interests

#### Directors

(a) *Disclosure of interests — interests and short positions of our Directors in the share capital of the Company and its associated corporations following the completion of the Global Offering*

Immediately following completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, ESOP and Shares to be issued pursuant to the Share Award Scheme, the interests or short positions of our Directors and our chief executives in the shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) *Interest in the Shares*

Name of Director	Nature of interest	Number of Shares held after the Global Offering	Approximate percentage of interest in our Company immediately after the Global Offering <sup>(1)</sup>
Mr. Cai <sup>(2)</sup> .....	Interest of a party to an agreement regarding interest in the company	1,666,666,670	39.43%
Mr. Wu <sup>(2)</sup> .....	Interest of a party to an agreement regarding interest in the company	1,666,666,670	39.43%

*Notes:*

- (1) The calculation is based on the total number of 4,243,294,550 Shares in issue immediately after completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, ESOP and Shares that may be issued pursuant to the Share Award Scheme).
- (2) Pursuant to the Concert Party Agreement, the entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu. The entire interest of Baolink Capital is held by Mr. Cai and the entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.

(ii) *Interests in associated corporations*

Name of Director	Name of associated corporation	Number of securities interested	Approximate percentage shareholding
Mr. Wu .....	Xinhong Capital	1	100%
Mr. Cai .....	Baolink Capital	1	100%
Mr. Cai .....	Longlink Capital	10	100%

**Substantial Shareholders**

- (a) Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering have an interest or short position in the Shares or the underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% of more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.
- (b) Each of the members of the Concert Group will be deemed to be a Controlling Shareholder of the Company and the Concert Group, collectively, will be deemed to be interested in 45.62% of the voting rights of the Company as at the date of this prospectus.
- (c) As of the Latest Practicable Date, so far as is known to our Directors, the following persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital:

Name of shareholder	Name of member of our Group	Approximate percentage of interest in Meitu Networks immediately after the Global Offering
Mr. Wu .....	Meitu Networks	51%
Ms. Cai .....	Meitu Networks	49%

**4. Disclaimers**

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation) between the Directors and any member of the Group;
- (b) none of the Directors or the experts named in the section headed “— Consents of experts” has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, ESOP and Shares to be issued pursuant to the Share Award Scheme, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering and the IPO Reorganization, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the

meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

## **E OTHER INFORMATION**

### **1. Litigation**

Save as disclosed in this prospectus, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company's results of operations or financial condition.

### **2. Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately RMB30,000 which have been paid by the Company.

### **3. Agency fees or commissions**

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

### **4. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option. All necessary arrangements have been made enabling such Shares to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Mr. Cai is the Chairman and one of the Controlling Shareholders. Ms. Cai is the immediate family member of Mr. Cai. Ms. Cai is a registered shareholder of one of the PRC Operating Entities, Meitu Networks, holding 49% interest therein. For the purposes of establishing contractual arrangements between Meitu Home and Meitu Networks, she, together with Mr. Wu, entered into a series of agreements with Meitu Home and Meitu Networks in December 2015. Please refer to the section headed "Contractual Arrangements" of this prospectus for details.

Ms. Cai entered into an employment contract with Credit Suisse in September 2015 and, after graduation from university in February 2016, commenced her employment at Credit Suisse in July 2016. All the Joint Sponsors were formally appointed in June 2016. The Company undertook a rigorous process in the selection of the sponsors and the underwriters to the Global Offering from January 2016 to March 2016, and the Joint Sponsors and the Underwriters were selected based on factors including their track record in handling initial public offerings in Hong Kong, their industry experience, their marketing and distribution capability, and the commercial terms offered by them. The selection was not related to Ms. Cai's employment at Credit Suisse.

Taking into account various factors, including (i) other than Ms. Cai's 49% interest in Meitu Networks, she does not, directly or indirectly, hold shares in the Company, nor does she have any current intention to hold

shares in the Company; (ii) she does not hold or have any current intention to hold any management positions within the Group, nor does the Group have any current intention to appoint her to hold any management positions within the Group; and (iii) she is not and will not be part of the Credit Suisse deal team providing sponsor services to the Company, Credit Suisse considers itself to be an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Bliss Moment Limited and China Merchants Securities Investment Management (HK) Co., Limited holds 736,842 Shares and 210,526 Shares in our Company, representing approximately 0.20% and 0.06% of the issued share capital of our Company as at the date of this prospectus, respectively. China Merchants Securities Investment Management (HK) Co., Limited (which holds one Class A share in Bliss Moment Limited) is an affiliate of China Merchants Securities (HK) Co., Limited, and both Bliss Moment Limited and China Merchants Securities Investment Management (HK) Co., Limited are our Pre-IPO Investors. Accordingly, China Merchants Securities (HK) Co., Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors' fee in relation to the Listing is US\$1 million.

#### **5. No material adverse change**

Our Directors believe that there has been no material adverse change in the financial or trading position since June 30, 2016 (being the date on which the latest audited combined financial statements of the Group were made up).

#### **6. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

#### **7. Miscellaneous**

- (a) Save as disclosed in this prospectus:
  - (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
  - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Our Company has no founder shares, management shares or deferred shares in the capital of the Company.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (d) None of the equity and debt securities of our Company is listed or dealt in on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

**8. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Morgan Stanley Asia Limited .....	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
Credit Suisse (Hong Kong) Limited ...	Licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
China Merchants Securities (HK) Co., Limited .....	Licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
PricewaterhouseCoopers .....	Certified Public Accountants
iResearch.....	Industry consultant
Frost & Sullivan .....	Industry consultant
Conyers Dill & Pearman.....	Cayman Islands attorneys-at-law
Jingtian & Gongcheng .....	Qualified PRC lawyers

**9. Consents of experts**

Each of the experts listed in the section headed “— Qualifications of experts” has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the section headed “— Qualifications of experts” had any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**10. Promoter**

We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.



## 11. ESOP

### Summary

The following is a summary of the principal terms of the Pre-IPO ESOP of the Company as approved by the Board on February 15, 2014 and amended by resolution of the Board on November 18, 2015. The terms of the ESOP are not subject to the provisions of Chapter 17 of the Listing Rules as the ESOP will not involve the grant of options by us to subscribe for ordinary shares with a par value of US\$0.0001 each once we have become a listed issuer.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. See the paragraph headed “Waiver and Exemption in relation to the ESOP” in the section headed “Waivers From Strict Compliance With the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance” in this prospectus for more information.

#### (a) *Purpose*

The purpose of the ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

#### (b) *Who may join*

Those eligible to participate in the ESOP include employees, consultants, all members of the Board, and other individuals, as determined, authorized and approved by the Board or a committee authorized by the board (the “**Committee**”). The Committee may, from time to time, select from among all eligible individuals (“**Participants**”) to whom options will be granted and will determine the nature and amount of each option. No individual has any right to be granted options pursuant to the ESOP. Nil consideration is required to be paid by the grantees for the grant of options under the ESOP.

#### (c) *Maximum number of ordinary shares with a par value of US\$0.0001 each*

The overall limit on the number of underlying Shares which may be issued pursuant to the ESOP is 11,695,907 shares with a par value of US\$0.0001 each (being 116,959,070 Shares after taking into account the Share Subdivision to be effected immediately prior to Listing) subject to any adjustments for Share Subdivisions or other dilutive issuances.

#### (d) *Administration*

The ESOP is administered by the Board and/or the Committee who has the authority to grant or amend options to Participants other than any of the Committee members. Subject to any specific designation in the ESOP, the Committee has the exclusive power, authority and discretion to:

- (i) designate Participants to receive options;
- (ii) determine the number of options to be granted and the number Shares to which an option will relate;
- (iii) determine the terms and conditions of any options granted pursuant to the ESOP, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the option, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an

option, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an option, based in each case on such considerations as the Committee in its sole discretion determines;

- (iv) determine whether, to what extent, and pursuant to what circumstances an option may be settled in, or the exercise price of an option may be paid in, cash, ordinary shares with a par value of US\$0.0001 each, other options, or other property, or an option may be cancelled, forfeited, or surrendered;
- (v) prescribe the form of each Award Agreement (as defined below), which need not be identical for each Participant;
- (vi) determine whether an option should be terminated or transferred for the purposes the ESOP;
- (vii) decide all other matters that must be determined in connection with an option;
- (viii) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the ESOP;
- (ix) interpret the terms of, and any matter arising pursuant to, the ESOP or any Award Agreement; and
- (x) make all other decisions and determinations that may be required pursuant to the ESOP or as the Committee deems necessary or advisable to administer the ESOP.

(e) ***Option grants***

The Committee is authorized to grant options to purchase a specified number of Shares at a specified price during specified time periods. Options granted will be evidenced by an agreement (“**Award Agreement**”) between the Company and the Participant. The Award Agreement includes additional provisions specified by the Committee.

(f) ***Term of the ESOP***

The ESOP commenced on February 15, 2014 (the “**Effective Date**”). Any options that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the ESOP and the applicable Award Agreement.

(g) ***Exercise of option***

The option may not be exercised until vested. The Committee shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any option granted under the ESOP shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an option may be exercised.

Once vested, the vested portion of the option may be exercised in whole or in any part, at any time, subject to the terms of the Award Agreement.

Except as otherwise determined by the Company, the first vesting date is typically 12 months from the grant date upon which 25% of the Shares subject to the options will vest and the remaining 75% Shares shall vest on a monthly basis over the next 36 months.

(h) ***Exercise price***

The exercise price per Share under the ESOP will be a price determined by the Committee and set forth in the Award Agreement which may be a fixed or variable price related to the fair market value of the ordinary shares with a par value of US\$0.0001 each.

The exercise price per Share subject to an option may be amended or adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive, provided that such amendment or adjustment shall not be detrimental to the interests of the affected Participants. A downward adjustment of the exercise prices of options shall be effective without the approval of the Company's shareholders or the approval of the affected Participants.

(i) ***No transferability and exceptions to the limit***

Unless otherwise expressly provided in the ESOP, by applicable laws and by the Award Agreement, or otherwise specifically approved by the Committee:

- (i) all options are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge;
- (ii) options will be exercised only by the Participant; and
- (iii) amounts payable or shares issuable pursuant to an option will be delivered only to (or for the account of), and, in the case of ordinary shares with a par value of US\$0.0001 each, registered in the name of, the Participant.

Subject to compliance with any applicable laws, the exercise and transfer restrictions in will not apply to:

- (i) transfers to the Company or a subsidiary;
- (ii) transfers by gift to "immediate family" as that term is defined in U.S. SEC Rule 16a-1(e);
- (iii) the designation of a beneficiary to receive benefits if the Participant dies or, if the Participant has died, transfers to or exercises by the Participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; or
- (iv) if the Participant has suffered a disability, permitted transfers or exercises on behalf of the Participant by the Participant's duly authorized legal representative; or
- (v) subject to the prior approval of the Committee or an executive officer or director of the Company authorized by the Committee, transfer to one or more natural persons who are the Participant's family members or entities owned and controlled by the Participant and/or the Participant's family members, including but not limited to trusts or other entities whose beneficiaries or beneficial owners are the Participant and/or the Participant's family members, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee or may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Company's lawful issue of securities.

(j) ***Rights on dismissal for cause***

Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to a Company, any Parent or subsidiary of the Company and any related entity to which a participant provides services as an employee, consultant or Director ("**Service Recipient**") is terminated by the Service Recipient for cause, that is, the Participant, (i) has been negligent in the discharge of his or her duties to the Service Recipient, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties; (ii) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information; (iii) has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Service Recipient; or has been convicted of, or plead guilty or nolo contendere to, a felony or misdemeanor (other than minor traffic violations or similar offenses); (iv) has materially breached any of the provisions of any agreement with the Service Recipient; (v) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Service Recipient; or (vi) has improperly induced a vendor or customer to break or terminate any contract with the Service Recipient or induced a principal for whom the Service Recipient acts as agent to terminate such agency relationship, his options will terminate upon such termination, whether or not the option is then vested and/or exercisable.

(k) *Rights on death or disability*

Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient terminates as a result of the Participant's death or disability, (i) the Participant (or the legal representatives or beneficiary, in the case of disability or death, respectively), will be entitled to exercise the option in whole or in part within a period of 12 months following the date of the Participant's termination of employment to the extent that such options were vested and exercisable on that date; (ii) options that are not vested and exercisable on that date shall terminate upon the Participant's termination of employment or service on account of death or disability; and (iii) options that are exercisable for the 12-month period following the Participant's termination of employment and not exercised shall terminate at the close of business on the last day of the 12-month period.

(l) *Right of the Committee to transfer award in lieu of termination*

Notwithstanding the provisions regarding termination of employment or service, the Committee shall have the right to determine that any options that would otherwise terminate pursuant to such provisions be transferred to any other existing or additional Participants or permitted transferees that the Committee may in its sole discretion determine, and the Committee may reflect any such determination in a written notice to such person(s).

(m) *Adjustments*

In the event of any dividend, share subdivision, combination or exchange of ordinary shares with a par value of US\$0.0001 each, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its Shareholders, or any other change affecting the shares or the share price, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to:

- (i) the aggregate number and type of shares that may be issued under the ESOP; and/or
- (ii) the terms and conditions of any outstanding options; and/or
- (iii) the grant or exercise price per share for any outstanding options under the ESOP.

(n) *Amendment, modification and termination*

At any time and from time to time, the Board or the Committee may terminate, amend or modify the ESOP; provided, however, that to the extent necessary to comply with any applicable laws, the Company shall obtain shareholder approval of any ESOP amendment in such a manner and to such a degree as required, including (i) to increase the number of Shares available under the ESOP; or (ii) to permit the Committee to extend the term of the ESOP or the exercise period for an option beyond ten years from the date of grant; provided, further, that to the extent permissible under any applicable laws, the Board may decide to follow home country practice not to seek the Shareholder approval for any amendment or modification of the ESOP.

**Outstanding options granted**

The proposal to grant the options under the ESOP to the grantees as set out below has been approved by the Board on February 15, 2014 and November 18, 2015. The overall limit on the number of underlying Shares pursuant to the ESOP is 116,959,070 Shares after the Share Subdivision. The number of underlying Shares pursuant to the outstanding options granted under the ESOP amounts to 116,958,940 Shares, representing approximately 2.77% of the issued Shares immediately following the completion of the Global Offering (assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). As at the Latest Practicable Date, we have conditionally granted options to 204 participants under the ESOP. All the options under the ESOP were granted between February 15, 2014 and October 1, 2016 (both days inclusive) and the Company will not grant further options under the ESOP. The exercise price of all the options granted under the ESOP is US\$0.3 (being US\$0.03 for each Share after taking into account the Share Subdivision to be effected immediately prior to Listing).

(a) *Senior Management*

Our senior management have been granted options under the ESOP to subscribe for a total of 67,738,070 Shares after completion of the Share Subdivision as set out in the section headed “History, Reorganization and Corporate Structure — Major Shareholding Changes of our Company — Share Subdivision”, and approximately 1.60% of the issued share capital of our Company upon completion of the Global Offering (assuming completion of the Share Subdivision to be effected immediately prior to Listing and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme).

Below is a list of the senior management who are grantees under the ESOP:

Name of grantee	Role	Address	Exercise price <sup>(2)</sup>	Number of Shares under the ESOP outstanding	Date of grant	Option period	Approximate percentage of issued shares immediately after completion of the Global Offering <sup>(1)</sup>
Mr. Ngan	Chief Financial Officer and joint company secretary	10A Valverde 11 May Road Central Hong Kong	US\$0.03 per Share	16,000,000	July 1, 2015	10 years from the grant date	0.38%
			US\$0.03 per Share	2,000,000	January 1, 2016	10 years from the grant date	0.05%
			US\$0.03 per Share	5,295,000	October 1, 2016	10 years from the date of grant	0.13%
Mr. Zhang Wei	Chief Technology Officer	Room 1401, 26, Lane 2 Honglian East, Siming District Xiamen City, Fujian Province PRC	US\$0.03 per Share	13,081,030	February 15, 2014	10 years from the grant date	0.31%
Ms. Ruan Yongli	Senior Vice President of Technology	Room 603, 219, Lane 2 Qianbu, Siming District Xiamen City, Fujian Province PRC	US\$0.03 per Share	12,781,020	February 15, 2014	10 years from the grant date	0.30%
Mr. Chen Jie	Senior Vice President of Product Development	Room 1001, 11 Huizhan North Lane, Siming District Xiamen City, Fujian Province PRC	US\$0.03 per Share	12,781,020	February 15, 2014	10 years from the grant date	0.30%
Ms. Zeng Zhiping	Senior Vice President of Human Resources, Administration and Public Relations	Room 302, 281 Binlang West Lane, Siming District Xiamen City, Fujian Province PRC	US\$0.03 per Share	1,200,000	February 15, 2014	10 years from the grant date	0.03%
Mr. Fu Kan Frank	Managing Director of International Business	576 Latimer Circle, Campbell CA95008 USA	US\$0.03 per Share	3,000,000	April 11, 2016	10 years from the grant date	0.07%
			US\$0.03 per Share	1,600,000	October 1, 2016	10 years from the date of grant	0.04%
<b>Subtotal: 6 grantees 67,738,070 Shares</b>							<b>1.60%</b>

*Notes:*

- (1) The above table assumes that the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.
- (2) The exercise price takes into account the share subdivision to be conducted immediately prior to the Listing.

(b) *Other grantees*

As of the Latest Practicable Date, other than the six members of our senior management, no options were granted to any Directors, senior management of the Group or connected person of the Company under the ESOP. Among these grantees, other than the six members of our senior management, 198 grantees have been granted options under the ESOP which are outstanding to subscribe for a total of 49,220,870 Shares, representing approximately 1.16% of the issued share capital of our Company upon completion of the Global Offering (assuming completion of the Share Subdivision to be effected immediately prior to Listing and assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) with the number of Shares to be issued upon exercise of the relevant options ranging from 20,000 Shares to 5,000,000 Shares. 44 grantees are entitled to options which are outstanding ranging from 20,000 Shares to 50,000 Shares. 152 grantees are entitled to options which are outstanding ranging from 50,001 Shares to 2,000,000 Shares. Two grantees are entitled to options ranging from 2,000,001 Shares to 5,000,000 Shares. Out of these 198 grantees, 195 grantees are employees of the Group who are entitled to subscribe for a total of 46,394,870 Shares and 3 grantees are other individuals who are entitled to subscribe for a total of 2,826,000 Shares. We granted options to the other individuals as part payment for their services, being consultancy and brand ambassador(s) services rendered to the Group.

The table below shows the details of options granted to other grantees (excluding two grantees who have the right to subscribe for more than 2,000,000 Shares) under the ESOP which are outstanding:

Exercise Price <sup>(1)</sup>	Number of Shares under the ESOP outstanding	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of the Global Offering <sup>(2)</sup>
US\$0.03 per Share	35,786,000	February 15, 2014	10 years from the grant date	0.85%
US\$0.03 per Share	1,000,000	October 1, 2014	10 years from the grant date	0.02%
US\$0.03 per Share	100,000	January 1, 2015	10 years from the grant date	0.00%
US\$0.03 per Share	15,700	April 1, 2015	10 years from the grant date	0.00%
US\$0.03 per Share	1,000,000	January 1, 2016	10 years from the grant date	0.02%
US\$0.03 per Share	1,300,000	April 21, 2016	10 years from the grant date	0.03%
US\$0.03 per Share	2,040,000	October 1, 2016	10 years from the grant date	0.05%
<b>Subtotal: 196 grantees</b>	<b>41,241,700 Shares</b>			<b>0.98%</b>

*Notes:*

- (1) The exercise price takes into account the Share Subdivision to be conducted immediately prior to the Listing.
- (2) The above table assumes that the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

Below is the particulars of the other grantees who have the right to subscribe for more than 2,000,000 Shares under the ESOP which are outstanding:

Name of grantee	Role	Address	Exercise price <sup>(1)</sup>	Number of Shares under the ESOP outstanding	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of the Global Offering <sup>(2)</sup>
Loo Kin Sang .....	President of Meitu Mobile	18B, Block 2, 17 Braemar Hill Road, North Point, Hong Kong	US\$0.03 per Share	2,979,170	October 1, 2014	10 years from the grant date	0.07%
Tai Ping Lee .....	Vice President of Investment	47C, 10A Tregunter Path, Hong Kong	US\$0.03 per Share	5,000,000	April 1, 2014	10 years from the grant date	0.12%
<b>Subtotal: 2 grantees</b>				<b>7,979,170 Shares</b>			<b>0.19%</b>



*Notes:*

- (1) The exercise price takes into account the Share Subdivision to be conducted immediately prior to the Listing.
- (2) The above table assumes that the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

**12. Share Option Scheme**

The following is a summary of the principal terms of the share option scheme (the “**Share Option Scheme**”) conditionally adopted by the resolutions in writing of our Shareholders passed on November 25, 2016.

**(a) Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

**(b) Selected participants to the Share Option Scheme**

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the Share Option Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

**(c) Maximum number of Shares**

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes is 422,729,455, being no more than 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the “**Option Scheme Mandate Limit**”). Options which have lapsed in accordance with the terms of the rules of the Share Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the “**Option Scheme Limit**”). No options may be granted under any schemes of the Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the refreshed Option Scheme Mandate Limit cannot exceed 10% of the Shares in issue as at the date of such approval. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (and to which provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

The Company may also grant options in excess of the Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by Shareholders in general meeting.

(d) *Maximum entitlement of a grantee*

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12 month period shall not exceed 1% of the total number of Shares in issue (the “**Individual Limit**”). Any further grant of options to a selected participant which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of the Shareholders (with such selected participant and his associates abstaining from voting).

(e) *Performance target*

The Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) *Subscription price*

The amount payable for each Share to be subscribed for under an option (“**Subscription Price**”) in the event of the option being exercised shall be determined by the Board but shall be not less than the greater of:

- (i) the closing price of a Share as stated in the daily quotations sheet issued by the Hong Kong Stock Exchange on the date of grant;
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share on the date of grant.

(g) *Rights are personal to grantee*

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Share Option Scheme.

(h) *Options granted to directors, the Chief Executive Officer or substantial shareholders of the Company*

Each grant of options to any director of the Company, the Chief Executive Officer or substantial shareholder of the Company (or any of their respective associates) must first be approved by the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of the grant of options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of the Company (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Hong Kong Stock Exchange) of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Hong Kong Stock Exchange on the date of grant, in excess of HK\$5 million (or such other higher amount as may from time to time be specified by the Hong Kong Stock Exchange),

such further grant of options must also be first approved by the Shareholders (voting by way of poll) in a general meeting. In obtaining the approval, the Company shall send a circular to the Shareholders in accordance with and containing such information as is required under the Listing Rules. All connected persons of the Company shall

abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

(i) ***Grant offer letter and notification of grant of options***

An offer shall be made to selected participants by a letter in duplicate which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board or its delegate(s) such other terms either on a case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof, which must be received by the Company within 20 business days from the date on which the offer letter is delivered to the grantee.

Any offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares or a multiple thereof. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that selected participant, it shall be deemed to have been irrevocably declined.

(j) ***Restriction of grant of options***

No offer shall be made and no option shall be granted to any selected participant in circumstances prohibited by the Listing Rules or at a time when the selected participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. No offer shall be made and no option shall be granted to any selected participant where such person is in possession of any unpublished inside information in relation to the Company until such inside information has been published in an announcement in accordance with the Listing Rules. Furthermore, no offer shall be made and no option shall be granted:

- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Such period will also cover any period of delay in the publication of any results announcement.

(k) ***Time of exercise of an option***

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

(l) ***Cancellation of options***

Any breaches of the rules of the Share Option Scheme by a grantee may result in the options granted to such grantee being cancelled by the Company. Any options granted but not exercised may be cancelled if the

grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the Share Option Scheme (excluding the cancelled options) and in compliance with the terms of the Share Option Scheme.

(m) ***Lapse of option***

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the Board to each grantee at the time of making an offer, and shall not expire later than ten years from the date of grant (the “**Option Period**”);
- (ii) the expiry of any of the periods for exercising the option as referred to in paragraphs (p), (q) and (r) below; and
- (iii) the date on which the grantee commits a breach of the rules of the Share Option Scheme.

(n) ***Voting and dividend rights***

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

(o) ***Effects of alterations in the capital structure of the company***

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Hong Kong Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares comprised in each option so far as unexercised; and/or
- (ii) the Subscription Price; and/or
- (iii) the method of exercise of the option,

or any combination thereof, as the auditors or a financial advisor engaged by the Company for such purpose shall, at the request of the Company, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of the Company as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial advisor (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by the Company.

(p) ***Retirement, death or permanent physical or mental disability of an selected participant***

If a grantee ceases to be selected participant by reason of (i) death of the grantee, (ii) termination of the grantee’s employment or contractual engagement with the Group or its affiliate by reason of his/her permanent physical or mental disablement, (iii) retirement of the grantee, the option may be exercised within the Option Period, or such other period as the Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the option, the option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws in Hong Kong. If the option is not exercised within the time mentioned above, the option shall lapse.

If a grantee, being an employee whose employment is terminated by the Group or its affiliate (as applicable) by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the grantee having been convicted of any criminal offence involving his integrity or honesty, the option shall immediately lapse.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be selected participant due to termination of his or her employment or contractual engagement with the Group by reason of redundancy, the option may be exercised within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be selected participant other than in any of the circumstances described above, unless otherwise provided in the option agreement, a grantee may exercise his or her option within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

(q) ***Rights on takeover and schemes of compromise or arrangement***

If a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), and the offer becomes or is declared unconditional in all respects, the grantee shall be entitled to exercise the option (to the extent not already exercised) at any time within one month (or such other period as the Board or its delegate(s) may decide in their sole discretion) after the date on which the offer becomes or is declared unconditional. If the option is not exercised within the time specified, the option shall lapse.

If a compromise or arrangement between the Company and its members or creditors is proposed, the Company shall give notice to the grantee on the same date as it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may until the expiry of the period commencing with such date and ending with earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under Share Option the Scheme. The Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

(r) ***Rights on a voluntary winding up***

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it dispatches such notice to each member of the Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this sub-paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

(s) ***Ranking of shares***

The Shares to be allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of the Company and subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* with the other fully paid Shares in issue on the date the name of the grantee is registered on the register of members of the Company or if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the Shareholders on the register on a date prior to such registration.

(t) ***Duration***

The Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted under the Share Option Scheme), but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Share Option Scheme.

(u) ***Alteration of the Share Option Scheme***

The Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of selected participants, and no changes to the authority of the administrator of the Share Option Scheme in relation to any alteration of the terms of the Share Option Scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms of the Share Option Scheme which are of a material nature, or any change to the terms and conditions of Options granted, must also, to be effective, be approved by the Shareholders in general meeting and the Hong Kong Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The options and the Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules. Any change to the authority of the Directors or scheme administrators in relation to any alternation to the terms of the Share Option Scheme must be approved by Shareholders of the Company in general meeting.

Notwithstanding any provisions to the contrary in the Share Option Scheme, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the Shares, the grantee may sell the options to such transferee, subject to the approval by the Board, which shall not unreasonably withhold or delay such approval. In the event that the options are transferred to a connected person of the Company, no Shares shall be allotted and issued upon the exercise of the options by a connected person of the Company unless the Board is satisfied that the allotment and issue of Shares will not trigger any breach of the Listing Rules, the Articles of Association, the Companies Law or the Takeovers Code.

(v) ***Termination***

The Shareholders by ordinary resolution in general meeting or the Board may at any time resolve to terminate the operation of the Share Option Scheme prior to the expiry of the Share Option Scheme and in such event no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options complying with the



provisions of Chapter 17 of the Listing Rules which are granted during the life of the Share Option Scheme and remain unexercised and unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under the Share Option Scheme shall be disclosed in the circular to the Shareholders seeking approval of the new scheme established after the termination of the Share Option Scheme.

### 13. Share Award Scheme

The following is a summary of the principle terms of the Share Award Scheme conditionally adopted by the resolutions in writing of all our Shareholders on November 25, 2016. The Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules. As at the Latest Practicable Date, the Company has not established a trust in connection with the Share Award Scheme (“**Trust**”) and has not appointed an independent third party as trustee (“**Trustee**”) to administer the Trust. The Company will establish a Trust and appoint a Trustee prior to the grant of any award by the Board (an “**Award**”) which may vest in the form of Shares (“**Award Shares**”) or the actual selling price of the Award Shares in cash in accordance with the Share Award Scheme.

#### (a) *Eligible Persons to the Share Award Scheme*

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (an “**Eligible Person**” and, collectively “**Eligible Persons**”) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award. However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Share Award Scheme.

#### (b) *Purpose of the Share Award Scheme*

The purpose of the Share Award Scheme is to align the interests of Eligible Persons’ with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.

#### (c) *Awards*

An Award gives a selected participant a conditional right, when the Award Shares vest, to obtain the Award Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Award Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted (the “**Grant Date**”) to the date the Award vests (the “**Vesting Date**”). For the avoidance of doubt, the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participant even though the Award Shares have not yet vested.

#### (d) *Grant of Award*

##### (i) *Making the Grant*

The Board or the committee of the Board or person(s) to which the Board has delegated its authority may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board’s

delegate(s), to any Selected Participant other than a Director or an officer of the Company) by way of an award letter (“**Award Letter**”). The Award Letter will specify the Grant Date, the number of Award Shares underlying the Award, the vesting criteria and conditions, the Vesting Date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director or the chairman of the Company shall be subject to the prior approval of the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of the grant of an Award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Shares to connected persons of the Company.

(ii) *Restrictions on Grants and Timing of Grants*

The Board and its delegate(s) may not grant any Award Shares to any selected participant in any of the following circumstances:

- (A) where any requisite approval from any applicable regulatory authorities has not been granted;
- (B) where any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Share Award Scheme, unless the Board determines otherwise;
- (C) where such Award would result in a breach by any member of the Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;
- (D) where such grant of Award would result in a breach of the Share Award Scheme Limit or would otherwise cause the Company to issue Shares in excess of the permitted amount in the mandate approved by the Shareholders;
- (E) where any director of the Company is in possession of unpublished inside information in relation to the Company or where dealings by Directors of the Company are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations, from time to time;
- (F) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (G) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

(e) *Maximum Number of Shares to be Granted*

The aggregate number of Shares underlying all grants made pursuant to the Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Share Award Scheme) will not exceed 5% of the aggregate nominal amount of the issued capital of the Company without further Shareholders’ approval, approximately 211,364,727 Shares (the “**Share Award Scheme Limit**”), subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

(f) *Scheme Mandate*

To the extent that the Share Award Scheme Limit is subsequently increased by way of alteration of the Share Award Scheme and the Company is required to issue and allot new shares to satisfy any Awards in excess of any amount previously approved by the Shareholders, the Company shall at a general meeting propose, and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate specifying:

- (i) the maximum number of new Shares that may be issued for this purpose; and

- (ii) that the Board has the power to issue, allot, procure the transfer of and otherwise deal with the Shares in connection with the Share Award Scheme.

The mandate will remain in effect during the period from the passing of the ordinary resolution granting the mandate until the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting.

(g) ***Rights Attached to the Award***

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participants even though the Award Shares have not yet vested, the selected participant only has a contingent interest in the Award Shares underlying an Award unless and until such Award Shares are actually transferred to the selected participant, nor does he/she have any rights to any related income until the Award Shares vest.

Neither the selected participant nor the Trustee may exercise any voting rights in respect of any Award Shares that have not yet vested.

(h) ***Rights Attached to the Shares***

Any Award Shares transferred to a selected participant in respect of any Awards will be subject to all the provisions of the Memorandum and the Articles and will form a single class with the fully paid Shares in issue on the relevant date.

(i) ***Issue of Shares and/or Transfer of Funds to the Trustee***

The Company shall, as soon as reasonably practicable and no later than 30 business days from the Grant Day, (i) issue and allot Shares to the Trustee under the specific mandate sought from Shareholders during the general meeting and/or (ii) transfer to the Trustee the necessary funds and instruct the Trustee to acquire Shares through on-market transactions at the prevailing market price, so as to satisfy the Awards.

(j) ***Assignment of Awards***

Any Award Shares granted under the Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Award, or enter into any agreement to do so.

(k) ***Vesting of Awards***

The Board or its delegate(s) may from time to time while the Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

Within a reasonable time period as agreed between the Trustee and the Board from time to time prior to any Vesting Date, the Board or its delegate(s) will send a vesting notice to the relevant selected participant and instruct the Trustee the extent to which the Award Shares held in the Trust shall be transferred and released from the Trust to the selected participant. Subject to the receipt of the vesting notice and notification from the Board or its delegate(s), the Trustee will transfer and release the relevant Award in the manner as determined by the Board or its delegate(s).

If, in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, solely due to legal or regulatory restrictions with respect to the selected participant's ability to receive the Award in Shares or the Trustee's ability to give effect to any such transfer to the selected participant, the Board or its delegate(s) will direct and procure the Trustee to sell, on-market at the

prevailing market price, the number of Award Shares so vested in respect of the selected participant and pay the selected participant the proceeds arising from such sale based on the actual selling price of such Award Shares in cash as set out in the vesting notice.

If there is an event of change in control of the Company by way of a merger, a privatization of the Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the Vesting Dates of any Awards will be accelerated to an earlier date.

(l) ***Consolidation, Subdivision, Bonus issue and Other distribution***

In the event the Company undertakes a subdivision or consolidation of the Shares, corresponding changes will be made to the number of outstanding Award Shares that have been granted provided that the adjustments shall be made in such manner as the Board determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the selected participants. All fractional shares (if any) arising out of such consolidation or subdivision in respect of the Award Shares of a selected participant shall be deemed as returned shares and shall not be transferred to the relevant selected participant on the relevant Vesting Date. The Trustee shall hold returned shares to be applied towards future Awards in accordance with the provisions of the Share Award Scheme rules for the purpose of the Share Award Scheme.

In the event of an issue of Shares by the Company credited as fully paid to the holders of the Shares by way of capitalization of profits or reserves (including share premium account), the Shares attributable to any Award Shares held by the Trustee shall be deemed to be an accretion to such Award Shares and shall be held by the Trustee as if they were Award Shares purchased by the Trustee hereunder and all the provisions hereof in relation to the original Award Shares shall apply to such additional Shares.

In the event of any non-cash distribution or other events not referred to above by reason of which the Board considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Award Shares of each selected participant as the Board shall consider as fair and reasonable, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the selected participants. The Company shall provide such funds, or such directions on application of the returned shares or returned trust funds, as may be required to enable the Trustee to purchase Shares on-market at the prevailing market price to satisfy the additional Award.

In the event the Company undertakes an open offer of new securities, the Trustee shall not subscribe for any new Shares. In the event of a rights issue, the Trustee shall seek instructions from the Company on the steps or actions to be taken in relation to the nil-paid rights allotted to it.

(m) ***Retirement, Death or Permanent physical or Mental disability of an Eligible person***

If a selected participant ceases to be an Eligible Person by reason of retirement of the selected participant, any outstanding Award Shares and related income not yet vested shall continue to vest in accordance with the Vesting Dates set out in the Award Letter, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an Eligible Person by reason of (i) death of the selected participant, (ii) termination of the selected participant's employment or contractual engagement with the Group or an affiliate by reason of his/her permanent physical or mental disablement, (iii) termination of the selected participant's employment or contractual engagement with the Group by reason of redundancy, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant, being an employee whose employment is terminated by the Group or an affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or

the selected participant having been convicted of any criminal offence involving his or her integrity or honesty, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant is declared bankrupt or becomes insolvent or makes any arrangements or composition with his or her creditors generally, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an Eligible Person for reasons other than those stated this paragraph, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

(n) ***Alteration of the Share Award Scheme***

The Share Award Scheme may be altered in any respect (save for the Share Award Scheme Limit) by a resolution of the Board provided that no such alteration shall operate to affect adversely any subsisting rights of any selected participant unless otherwise provided for in the rules of the Share Award Scheme, except:

- (i) with the consent in writing of selected participants amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date; or
- (ii) with the sanction of a special resolution that is passed at a meeting of the selected participants amounting to three-fourths in nominal value of all Award Shares held by the Trustee on that date.

(o) ***Termination***

The Share Award Scheme shall terminate on the earlier of:

- (i) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Award Shares granted hereunder prior to the expiration of the Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the Share Award Scheme; and
- (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

(p) ***Administration of the Share Award Scheme***

The Board has the power to administer the Share Award Scheme in accordance with the rules of the Share Award Scheme and, where applicable, the Trust deed, including the power to construe and interpret the rules of the Share Award Scheme and the terms of the Awards granted under the Share Award Scheme. The Board may delegate the authority to administer the Share Award Scheme to a committee of the Board or other person(s) as deemed appropriate at the sole discretion of the Board. The Board or its delegate(s) may also appoint one or more independent third party contractors to assist in the administration of the Share Award Scheme as they think fit.

(q) ***Grant of Shares under the Share Award Scheme***

As of the date of this prospectus, no Shares had been granted or agreed to be granted under the Share Award Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the Share Award Scheme.

#### 14. Particulars of the Over-allotment Option Grantor

Pursuant to the International Underwriting Agreement, if the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) elect to fully exercise the Over-allotment Option to purchase 86,100,000 Shares, the Over-allotment Option Grantor will sell and transfer 86,100,000 Shares, representing 15% of our Shares initially being offered under the Global Offering at the Offer Price to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering”.

The number of Shares held by the Over-allotment Option Grantor assuming the Over-allotment Option is fully exercised are set out in the following table:

Name of the Over-allotment Option Grantor	Number of Shares held by the Over-allotment Option Grantor <sup>(1)</sup>	Number of Shares that may be sold pursuant to full exercise of the Over-allotment Option <sup>(1)</sup>	Approximate percentage of shareholding and number of Shares held after the Over-allotment Option is fully exercised <sup>(1)</sup>	
			(Shares)	(%)
Ultra Colour Limited.....	300,000,000	86,100,000	213,900,000	5.06%

Note:

- (1) Assuming the options granted under the ESOP and the options which may be granted under the Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

Particulars of the Over-allotment Option Grantor as of the Latest Practicable Date are set out as follow:

Name:	Ultra Colour Limited
Place of Incorporation:	the British Virgin Islands
Date of Incorporation:	May 15, 2013
Registered Office:	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands
Numbers of Shares that may be sold upon the full exercise of the Over-allotment Option:	86,100,000

## F GENERAL

### 1. Taxation of Holder of our Shares

#### (a) *Hong Kong*

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

#### (b) *Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.



(c) *Consultation with professional advisors*

Potential investors in the Global Offering should consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and disposing of, or dealing in Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors and the Underwriters and their respective directors or any other parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, persons resulting from the application for, or purchasing, holding and disposal of, or dealing in Shares.

**2. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — Other Information — Consents of experts” in this prospectus;
- (c) copies of the material contracts referred to in the section headed “Appendix IV — Statutory and General Information — Further Information about our Company — Summary of the material contracts” in this prospectus; and
- (d) the statement of particulars of the Over-allotment Option Grantor.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which are set out in “Appendix I — Accountant’s Report” to this prospectus;
- (c) the audited financial statements of the companies comprising the group for the three years ended December 31, 2015 and the six months ended June 30, 2016;
- (d) the report on unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in “Appendix II — Unaudited pro forma Financial Information” to this prospectus;
- (e) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of the Cayman Islands company law as referred to in “Appendix III — Summary of the Constitution of the Company and Cayman Company Law” in this prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “Appendix IV — Statutory and General Information — Further Information About Our Company — Summary of the material contracts” in this prospectus;
- (h) the service contracts with Directors, referred to in the section headed “Appendix IV — Statutory and General Information — Further Information about the Directors, Management, Staff, Substantial Shareholders and Experts — Particulars of Directors’ service contracts” in this prospectus;
- (i) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — Other Information — Consents of experts” in this prospectus;
- (j) the legal opinions dated this prospectus date prepared by Jingtian & Gongcheng, our legal advisor as to PRC law, in respect of certain aspects of our Group and our property interests in the PRC;
- (k) the terms of the ESOP and a list of grantees under the ESOP;
- (l) the terms of the Share Option Scheme;
- (m) the terms of the Share Award Scheme; and
- (n) the statement of particulars of the Over-allotment Option Grantor, details of which are set out in the section headed “Appendix IV — Statutory and General Information — Other Information — 14. Particulars of the Over-allotment Option Grantor”.

