meitu

Meitu, Inc.

美图公司

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

(Stock Code: 1357)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

The board of directors (the "**Board**") of Meitu, Inc. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd. ("**Meitu Networks**") and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2018.

In this announcement, "we", "us", and "our" refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

KEY HIGHLIGHTS

- Revenues from Internet business segment grew 131.6% year on year to RMB571.7 million. This segment's revenue accounted for 27.9% of total revenues for the six months ended June 30, 2018, compared to 11.3% for the six months ended June 30, 2017.

- Net Loss for the six months ended June 30, 2018 reduced by 3.4% year on year to RMB127.4 million.

- We have embarked on a "Beauty and Social Media" strategic pathway that enables the *Meitu* app to evolve from a utility app into a social media platform. We are testing this new social version of *Meitu* with a small group of users and the testing results were encouraging. Upon the offical launch of this social version in September 2018, *Meitu* will become one of the biggest social media platforms in China with over 100 million monthly active users.

- Over the next 18 months, our priority will be driving the growth in active users and gross profits rather than emphasizing on net profit generation.

KEY FINANCIAL DATA

	Six months ended June 30, 2018 *RMB'000*	2017 *RMB'000*	Year on year change *(%)*
Revenue	**2,052,010**	2,179,791	-5.9%
— Internet Business	**571,684**	246,790	131.6%
— Smart Hardware	**1,480,326**	1,933,001	-23.4%
Gross Profit	**626,030**	435,252	43.8%
— Internet Business	**231,375**	38,918	494.5%
— Smart Hardware	**394,655**	396,334	-0.4%
Gross Margin	**30.5%**	20.0%	+10.5p.p.
— Internet Business	**40.5%**	15.8%	+24.7p.p.
— Smart Hardware	**26.7%**	20.5%	+6.2p.p.
Net Loss	**(127,365)**	(131,781)	-3.4%

KEY OPERATIONAL DATA

	As of June 30, 2018 *'000*	As of December 31, 2017 *'000*	Change *(%)*
Total Monthly Active Users ("**MAU**")	**349,867**	415,789	-15.9%
MAU[1] breakdown by product:			
Meitu	**115,713**	117,100	-1.2%
BeautyCam	**90,751**	96,724	-6.2%
Meipai[2]	**42,767**	98,139	-56.4%
Others	**100,636**	103,826	-3.1%
MAU breakdown by geography:			
Mainland China	**242,636**	303,919	-20.2%
Overseas	**107,231**	111,870	-4.1%

1. *MAU of apps other than Meipai included in-app users only.*
2. *As of June 30, 2018, the MAU of Meipai included in-app users of 15.9 million (the year ended December 31, 2017: 29.5 million) and mobile web users of 26.9 million (the year ended December 31, 2017: 68.6 million).*

BUSINESS REVIEW AND OUTLOOK

The first half of 2018 was filled with challenges and opportunities. Our overall MAU has declined to 349.9 million in June 2018, compared to 415.8 million in December 2017. Although there were some one-off factors such as the download suspension of *Meipai* from various app stores in March and June 2018, the increasing competition in the photo apps market has also put pressure on our overall user growth. Taking into consideration of the competitive environment and the current stage of our Company's development, we have implemented a new strategy of "Beauty and Social Media". We believe this strategy will not only lead to a resumption of growth in our active user base, but will also significantly increase the monetization potential of our Internet business. We are pleased to say that this strategic initiative has progressed well so far.

One of the most important pieces of this new strategy is to transform *Meitu*, our flagship photo-editing app, into a social media platform. With this structural change, we aim to drive MAU growth of *Meitu* from two perspectives. Firstly, through more use scenarios. Previously, when *Meitu* was a utility-only app, users would use it only when they had an image to edit, most likely after they had taken a photo; but when the app is transformed into a social network, users would also be able to browse the images uploaded by their friends and/or other users. We believe such browsing behavior will bring incremental traffic to *Meitu*, therefore increasing *Meitu*'s MAU. Secondly, through increased usage from male users. The majority of *Meitu*'s MAU is currently female. We believe the photos uploaded by the current user base of *Meitu* can attract more male users to browse such photos, broadening *Meitu*'s monthly active user base. We believe this structural change will also drive monetization as we can add more targeted advertising inventory such as promoted feeds, as well as better track the usage of non-standardized advertising products such as AR filters. In early May 2018, we have added some social functionalities to the *Meitu* app to obtain feedback from our users. We are very pleased with the testing results as the daily time spent of the core social user group is multiple times higher than the average utility user. Upon the offical launch of this social media version of *Meitu* in September 2018, *Meitu* will become one of the biggest social media platforms in China with over 100 million MAU. In association with such social transformation, we expect to invest significantly over the next 18 months in order to promote the Meitu brand as a social platform, and build an active community to drive user engagement through fun and innovative content. The investment will take the form of promotion and marketing expenses, as well as revenue sharing to content providers. We intend to monitor the return on the investment and adjust the investment amount actively to maximize impact. As a result, our near-term priority is to drive (i) growth in active users, particularly social users, and (ii) growth in gross profits. We will de-emphasize net profit generation until we complete the transformation into a scalable social media platform, which we believe will generate the greatest long-term value for shareholders.

Revenue from advertising and Internet value-added services and others increased by 244.8% and 74.7% year on year respectively during the first half of 2018. In aggregate, revenues from our Internet business during the first half of 2018 accounted for 27.9% of total revenues, compared to 11.3% in the first half of 2017, further proving our ability to monetize our large, high-quality user base through various Internet monetization models.

The market condition of the smart hardware business was challenging in the first half of 2018, as total smartphone shipments in the Chinese market continued to decline year on year. We expect this challenging condition to continue into the second half of 2018. In addition, competition in the smartphone market was very intense, as many of our competitors have launched smartphone products that are focused on selfies, a positioning that is similar to the Meitu smartphones. In response to such challenging environment, we decided to increase the development cycle of our new products to ensure better user experience. Therefore, we have rescheduled the launch of the *V Series* smartphone to the first half of 2019, as opposed to launching it by the end of 2018.

On the other hand, we believe that there is a huge market opportunity in the smart hardware business outside of smart phones. In June 2018, we launched our first beauty smart hardware product, *BeautyMore,* which is a skin quality analyzer. Our users will not only be able to obtain a highly accurate report of their skin condition, but will also have the option to receive personalized recommendations for skin care products that are based on their skin condition, which they can purchase conveniently on our e-commerce platform. This is an example of how we integrate our smart hardware product into our ecosystem around beauty, and we expect to expand this hardware portfolio going forward.

To facilitate the implementation of the "Beauty and Social Media" strategy, we have reorganized our business from an array of project-centric business units into three major product-centric business groups, namely the Social Product Business Group, the Beauty Product Business Group, and the Smart Hardware Product Business Group. This restructuring will allow us to better focus on each of the strategic objectives.

Management Discussion and Analysis

Six months ended June 30, 2018 compared to six months ended June 30, 2017

	Unaudited Six months ended June 30, 2018	Unaudited Six months ended June 30, 2017
	RMB'000	*RMB'000*
Revenue	**2,052,010**	2,179,791
Cost of sales	**(1,425,980)**	(1,744,539)
Gross profit	**626,030**	435,252
Selling and marketing expenses	**(446,236)**	(240,398)
Administrative expenses	**(136,312)**	(95,175)
Research and development expenses	**(350,683)**	(199,133)
Other income	**12,998**	18,322
Other gains/(losses), net	**162,632**	(65,122)
Finance income, net	**35,777**	47,811
Share of (losses)/profits of associates accounted for using the equity method	**(1,698)**	302
Loss before income tax	**(97,492)**	(98,141)
Income tax expense	**(29,873)**	(33,640)
Loss for the period	**(127,365)**	(131,781)
Attributable to:		
— Owners of the Company	**(130,365)**	(131,781)
— Non-controlling interests	**3,000**	—
Non-IFRS measure:		
Adjusted Net Loss	**(198,763)**	(33,176)
Attributable to:		
— Owners of the Company	**(201,763)**	(33,176)
— Non-controlling interests	**3,000**	—

Revenue

The revenue from our Internet business increased significantly by 131.6% year on year, while the revenue from smart hardware declined by 23.4% year on year. As a result, total revenue decreased by 5.9% to RMB2,052.0 million for the six months ended June 30, 2018, compared to RMB2,179.8 million for the six months ended June 30, 2017. During the first half of 2018, the Internet business segment as a percentage of total revenue continued to rise to 27.9%, compared to 11.3% in the first half of 2017.

	Six months ended June 30,			
	2018		2017	
	Amount RMB'000	**% of total revenues**	*Amount RMB'000*	% of total revenues
Internet business	**571,684**	**27.9%**	246,790	11.3%
Smart hardware	**1,480,326**	**72.1%**	1,933,001	88.7%
Total	**2,052,010**	**100.0%**	2,179,791	100.0%

Internet business

The breakdown of segment revenue of Internet business is as follows:

	Six months ended June 30,		Year on year
	2018	2017	change
	RMB'000	*RMB'000*	(%)
Online advertising	**284,908**	82,630	244.8%
Internet value-added services and others	**286,776**	164,160	74.7%
Total	**571,684**	246,790	131.6%

Online advertising

Revenue from online advertising maintained high growth momentum with a 244.8% year on year increase to RMB284.9 million for the six months ended June 30, 2018, mainly driven by a greater number of quality brand advertisers. We aim to further grow our advertising revenue through: (i) bringing in more advertising inventories such as promoted feeds to address the various needs of our users; (ii) strengthening the technique of content marketing and integrated marketing to enhance the quality of our advertisements and thus raise the fill rate; and (iii) introducing precision marketing to increase the value provided for our clients. In addition, the combination of increasing user data and more sophisticated data analytics will help our advertisers improve the capability of interest generation and conversions.

Internet value-added services and others

Revenue from Internet value-added services and others increased by 74.7% year on year to RMB286.8 million for the six months ended June 30, 2018. A majority of our Internet value-added services business is from the sales of virtual items on *Meipai*'s live streaming. In response to a voluntary clean-up of inappropriate content on the *Meipai* platform, downloading of *Meipai* was suspended from all app stores in both March and June 2018. As a result, the number of average monthly paying users for the first half of 2018 declined by 34.4% on a year-over-year basis to 213,188 alongside the *Meipai*'s MAU. In spite of this, the Internet value-added services revenue from *Meipai* still managed to grow mildly, thanks to a significant increase in the average revenue per paying user.

The revenue from our e-commerce platform, *Meitu Beauty*, as a percentage of total Internet value-added services business has increased in the first half of 2018. We have differentiated our e-commerce service by providing an AI-empowered skin analytics tool, which enables users to receive more tailor-made product recommendations, thus leading to higher sales conversion.

Looking forward, we will continue to enrich our product portfolio of Internet value-added services to satisfy our users' diverse needs for beauty.

Smart hardware

Revenue from the smart hardware segment decreased by 23.4% to RMB1,480.3 million for the six months ended June 30, 2018 from RMB1,933.0 million for the six months ended June 30, 2017, due to fewer new smartphone models launched, partially offset by higher average selling price ("**ASP**"). In the first half of 2017, we launched two new models, *Meitu T8* and *Meitu M8*, in February and May, while in the first half of 2018 we introduced only one model, *Meitu T9*, at the end of June. As we mentioned earlier, timing of new product launch also has significant impact on the sales volume of our smart phones in a particular financial period. As such, the number of smartphone units sold decreased by 37.0% year on year to 533,260 for the six months ended June 30, 2018, from 847,090 for the six months ended June 30, 2017. The market condition of the smartphone business was challenging in the first half of 2018, as the total smartphone shipment in the Chinese market continued to decline year over year, a trend that we expect to continue into the second half of 2018. We continue to differentiate through our cutting-edge image technology, fashionable branding and high-end positioning. However, competition in the market has intensified as many of our competitors have launched smartphone products that are focused on selfies. In response to this market environment, we decided to increase user experience through: (i) utilize higher performance chipsets in our smartphone products; and (ii) extend our research and development cycle. These two changes will respectively lead to: (i) reduction in gross margin in the second half of 2018 due to higher component costs; and (ii) reduction of shipment volume as we will reschedule the launch of the *V Series* from second half of 2018 to first half of 2019. While these measures will undoubtedly put pressure in the near-term financial performance of this division, we see these as necessary investments in the long-term value of the Meitu smartphone brand.

ASP was RMB2,751 for the six months ended June 30, 2018, as compared to RMB2,272 for the six months ended June 30, 2017. Product mix is a key factor that drives ASP.

The ASP of a smartphone is calculated by dividing the total revenue from smartphone sales by the number of units sold during the period. Such prices include applicable value-added taxes.

Cost of Sales

Our cost of sales decreased by 18.3% to RMB1,426.0 million for the six months ended June 30, 2018, compared to RMB1,744.5 million for the six months ended June 30, 2017.

Internet business

Segment cost for Internet business increased by 63.7% to RMB340.3 million for the six months ended June 30, 2018, from RMB207.9 million for the six months ended June 30, 2017, primarily due to (i) revenue-sharing of RMB122.9 million with content creators on the sale of virtual gifts on *Meipai*, a business which we commenced in June 2016; and (ii) cost of revenue related to our e-commerce business *Meitu Beauty* of RMB93.7 million, which was not incurred in the same period of last year. Segment cost consists primarily of costs of merchandise sold, logistics costs, service fees related to online payments and etc.

Smart hardware

Segment cost for smart hardware decreased by 29.3% to RMB1,085.7 million for the six months ended June 30, 2018, from RMB1,536.7 million for the six months ended June 30, 2017, primarily due to a decrease in the number of smartphone units sold. The average cost per smartphone, calculated by dividing the total cost of smartphone components by the number of units sold during the period, increased to RMB1,943 for the six months ended June 30, 2018 from RMB1,717 for the six months ended June 30, 2017. The increase was mainly due to the introduction of the more premium *Meitu T9* model which used higher-priced key components as compared to the phones launched in 2017.

Gross Profit and Margin

Our gross profit increased significantly by 43.8% to RMB626.0 million for the six months ended June 30, 2018, from RMB435.3 million for the six months ended June 30, 2017. Our gross margin increased to 30.5% for the six months ended June 30, 2018, from 20.0% for the six months ended June 30, 2017.

	Six months ended June 30,			
	2018		2017	
	Amount RMB'000	**Gross margin %**	*Amount RMB'000*	Gross margin %
Internet business	**231,375**	**40.5%**	38,918	15.8%
Smart hardware	**394,655**	**26.7%**	396,334	20.5%
Total	**626,030**	**30.5%**	435,252	20.0%

Internet business

Our Internet business segment generated a gross profit of RMB231.4 million for the six months ended June 30, 2018, compared to a gross profit of RMB38.9 million for the six months ended June 30, 2017.

Gross profit margin was at 40.5% for the six months ended June 30, 2018, compared to gross profit margin of 15.8% for the six months ended June 30, 2017. Two of the major costs items for this segment are (i) video content monitoring fee, which primarily correlated to the size and engagement of the user base of *Meipai*; and (ii) costs of merchandise sold. The margin expansion in the first half of 2018 was primarily due to the operating leverage of online advertising and Internet value-added service, partially offset by the growing lower-margin e-commerce business.

Smart hardware

Gross margin for the smart hardware segment increased to 26.7% for the first half of 2018 from 20.5% for the same period of 2017, thanks to a higher-margin product mix. However, gross profit of our smart hardware segment slightly decreased to RMB394.7 million for the six months ended June 30, 2018, from RMB396.3 million for the six months ended June 30, 2017, primarily due to a decrease in the number of smartphone units sold.

Selling and Marketing Expenses

Selling and marketing expenses increased by 85.6% to RMB446.2 million for the six months ended June 30, 2018, from RMB240.4 million for the six months ended June 30, 2017, primarily due to an increase in advertising expense as well as personnel related expenses which included share-based compensation. As we refocus on our user growth and Internet business expansion, selling and marketing expense is very likely to further increase in the second half of 2018.

Research and Development Expenses

Research and development expenses increased by 76.1% to RMB350.7 million for the six months ended June 30, 2018, from RMB199.1 million for the six months ended June 30, 2017, primarily due to an increase in personnel related expenses which included share-based compensation.

Administrative Expenses

Administrative expenses increased by 43.2% to RMB136.3 million for the six months ended June 30, 2018, from RMB95.2 million for the six months ended June 30, 2017, primarily due to an increase in personnel related expenses which included share-based compensation.

Other Income

Other income decreased by 29.1% to RMB13.0 million for the six months ended June 30, 2018, from RMB18.3 million for the six months ended June 30, 2017.

Other Gains/(Losses), Net

Other net gains for the six months ended June 30, 2018 increased to RMB162.6 million, from a net loss of RMB65.1 million for the six months ended June 30, 2017, primarily due to (i) the recognition of fair value gains of RMB85.3 million on several early-stage investments; and (ii) the net gains on disposal of long-term investments of RMB77.2 million.

Finance Income, Net

Our net finance income mainly was comprised of bank interest income and foreign exchange losses. Our net finance income decreased by 25.2% to RMB35.8 million for the six months ended June 30, 2018, from RMB47.8 million for the six months ended June 30, 2017, primarily due to net foreign exchange losses of RMB11.7 million for the six months ended June 30, 2018, compared to net foreign exchange gains of RMB10.0 million for the same period in 2017.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2018 were RMB29.9 million, compared to RMB33.6 million for the six months ended June 30, 2017. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2018, some of our entities generated positive net profits.

Loss for the Period and Non-IFRS Measure: Adjusted Net Profit/(Loss)

Net loss for the six months ended June 30, 2018 slightly decreased by 3.4% year on year to RMB127.4 million, compared to RMB131.8 million for the six months ended June 30, 2017, primarily due to our continued investments in Meitu product lines, partially offset by an increase in the net gains from the long-term investments.

To supplement our consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("**IFRS**"), we also use a non-IFRS financial measure, "Adjusted Net Profit/(Loss)", as an additional financial measure, which is not required by, or presented in accordance with, IFRS. For the purpose of this and future announcements, "Adjusted Net Profit/(Loss)" will be used interchangeably with "Non-GAAP Net Profit/(Loss)". We believe that this additional financial measure facilitates comparisons of operating performance from period to period 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 Profit/(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.

Adjusted Net Loss increased to RMB198.8 million for the six months ended June 30, 2018, compared to RMB33.2 million for the six months ended June 30, 2017. The greater loss, despite our gross profit increase resulting from Internet business expansion, was attributable to: (i) the increase in promotion and marketing expense for both the smart hardware and Internet business segments; and (ii) an increase in personnel related expenses that helps to build a stronger research and development force and big data analytics capability.

In the second half of 2018, the continued growth of the gross profit of the Internet business is likely to be outweighed by the near-term pressure of the smart hardware business. At the same time, we intend to continue to invest in *Meitu* to transform it into a scalable social media platform. Therefore, we expect the net loss and adjusted net loss to widen in the second half of 2018.

The following table reconciles our Adjusted Net Profit/(Loss) for the six months ended June 30, 2018 and 2017 to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the period:

	Six months ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the period attributable to:		
— Owners of the Company	**(130,365)**	(131,781)
— Non-controlling interests	**3,000**	—
Excluding:		
Share-based compensation	**91,107**	33,651
Changes in fair value of long-term investments	**(85,278)**	97,631
Gains on disposal of long-term investments	**(77,227)**	(32,677)
Adjusted Net (Loss)/Profit attributable to:		
— Owners of the Company	**(201,763)**	(33,176)
— Non-controlling interests	**3,000**	—

Non-controlling Interests

Non-controlling interests represent our loss after taxation that is attributable to minority shareholders of our non-wholly owned subsidiaries.

Liquidity, Financial Resources

Our cash and other liquid financial resources as of June 30, 2018 and December 31, 2017 were as follows:

	June 30,	December 31,
	2018	*2017*
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,268,498**	1,396,632
Short-term bank deposits	**2,543,027**	3,774,807
Short-term investments placed with banks	**3,002**	—
Cash and other liquid financial resources	**3,814,527**	5,171,439

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. Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity. Short-term investments placed with banks are redeemable at anytime and held with the primary objective to generate income at a yield higher than current deposit bank interest rates.

Most of our cash and cash equivalents, short-term bank deposits and short-term investments placed with banks are denominated in the United States dollar, Renminbi and Hong Kong dollar.

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the six months ended June 30, 2018. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Expenditure

	Six months ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
Purchase of property and equipment	**76,806**	24,163
Purchase of intangible assets	**15,041**	650
Total	**91,847**	24,813

Our capital expenditures primarily included expenditures for purchases of property and equipment such as servers and computers and intangible assets such as domain names and computer software.

The increase in capital expenditure is mainly to enhance our big data analytics capability.

Long-term Investment Activities

We have made minority investments that we believe have technologies or businesses that complement and benefit our business. Save as disclosed in this announcement, none of these individual investments is regarded as material. Some of the investments we made were early-stage companies that do not generate meaningful revenues and profits. It is therefore difficult to determine the success of these investments at such early stage, and while successful investments could generate substantial financial returns, unsuccessful ones may need to be impaired or written-off.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in China ("**PRC**") and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency for the six months ended June 30, 2018 and 2017.

Pledge of Assets

As of June 30, 2018, we pledged a restricted deposit of RMB1,000,000 (as of December 31, 2017: RMB1,000,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As of June 30, 2018, we did not have any material contingent liabilities (as of December 31, 2017: nil).

Dividends

The directors of our Company (the "**Directors**") do not recommend the payment of an interim dividend for the six months ended June 30, 2018.

Borrowings and Gearing Ratio

As of June 30, 2018, we pledged a bank borrowing of RMB10.0 million (as of December 31, 2017: nil). As of June 30, 2018,the gearing ratio of the Group was approximately 0.2% (as of December 31, 2017: nil). The gearing ratio is calculated as the total borrowings divided by the total equity on the respective reporting date. For this purpose, total debt is defined as bank loan as shown in the consolidated balance sheet. The Group's gearing ratio remained at a relatively low level as the Group did not place material reliance on borrowings to finance the Group's operation.

Significant Investments Held

As of June 30, 2018, we did not hold any significant investments in the equity interests of any other companies.

Future Plans for Material Investments and Capital Assets

The Group will continue to explore potential strategic investment opportunities with the aim of creating synergies for the Group in relation to aspects such as technological development, product research and development, product portfolio, channel expansion and/or cost control. Appropriate disclosures will be made by the Company when it becomes necessary under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Save as disclosed in this announcement, the Company's 2017 annual report published on April 26, 2018 and the prospectus of the Company dated December 5, 2016 (the "**Prospectus**"), the Group did not have any other plans for material investments and capital assets as of June 30, 2018.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended June 30, 2018, we did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Important Events after the Reporting Date

On July 8, 2018, Meitu Investment Ltd, a wholly-owned subsidiary of the Company, acquired certain shares in Wanmei Interactive Inc. ("**Gengmei**") at a consideration of approximately US$30 million (the "**Acquisition**"). The Acquisition will be recognized by the Group as financial assets at fair value through profit or loss, and the Group is in the process of finalizing the related valuation of the Acquisition for accounting purposes.

Gengmei is a medical beauty social and service platform for beauty seekers to ask questions from plastic surgeons and acquire quality cosmetic surgery advice. Its app now offers a wide range of services from community management, e-commerce and financing support for users with an interest in plastic surgery, cosmetic dental procedure, eyelid surgery, and more.

Save as disclosed above, there were no important events affecting the Group which occurred after June 30, 2018 and up to the date of this announcement.

FINANCIAL INFORMATION
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Note	**Unaudited Six months ended June 30, 2018** *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Revenue	*4*	**2,052,010**	2,179,791
Cost of sales	*5*	**(1,425,980)**	(1,744,539)
Gross profit		**626,030**	435,252
Selling and marketing expenses	*5*	**(446,236)**	(240,398)
Administrative expenses	*5*	**(136,312)**	(95,175)
Research and development expenses	*5*	**(350,683)**	(199,133)
Other income		**12,998**	18,322
Other gains/(losses), net	*6*	**162,632**	(65,122)
Finance income, net		**35,777**	47,811
Share of (losses)/profits of associates accounted for using the equity method		**(1,698)**	302
Loss before income tax		**(97,492)**	(98,141)
Income tax expense	*7*	**(29,873)**	(33,640)
Loss for the period		**(127,365)**	(131,781)
(Loss)/profit attributable to:			
— Owners of the Company		**(130,365)**	(131,781)
— Non-controlling interests		**3,000**	—
		(127,365)	(131,781)
Loss per share attributable to owners of the Company for the period ***(expressed in RMB per share)***	*8*		
— Basic		**(0.03)**	(0.03)
— Diluted		**(0.03)**	(0.03)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited Six months ended June 30, 2018** *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Loss for the period		**(127,365)**	(131,781)
Other comprehensive income/(loss), net of tax			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets		**—**	(820)
Currency translation differences		**11,773**	(121,352)
Other comprehensive income/(loss) for the period, net of tax		**11,773**	(122,172)
Total comprehensive loss for the period, net of tax		**(115,592)**	(253,953)
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(118,592)**	(253,953)
— Non-controlling interests		**3,000**	—
		(115,592)	(253,953)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited June 30, 2018** *RMB'000*	Audited December 31, 2017 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**138,661**	91,898
Intangible assets		**102,764**	21,298
Long-term investments			
— Investments in associates in the form of ordinary shares		**27,018**	28,415
— Financial assets at fair value through profit or loss		**433,820**	280,863
— Financial assets at fair value through other comprehensive income		**6,617**	6,534
Prepayments and other receivables		**20,052**	64,305
Deferred tax assets		**5,780**	9,784
		734,712	503,097
Current assets			
Inventories		**646,440**	658,416
Trade receivables	*10*	**683,018**	307,388
Prepayments and other receivables		**512,014**	160,182
Short-term investments placed with banks		**3,002**	—
Short-term bank deposits		**2,543,027**	3,774,807
Restricted cash		**1,000**	1,000
Cash and cash equivalents		**1,268,498**	1,396,632
		5,656,999	6,298,425
Total assets		**6,391,711**	6,801,522
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**277**	280
Share premium		**7,220,252**	7,679,137
Reserves		**(343,889)**	(263,065)
Accumulated losses		**(1,904,677)**	(1,774,312)
		4,971,963	5,642,040
Non-controlling interests		**65,057**	—
Total equity		**5,037,020**	5,642,040
Liabilities			
Non-current liabilities			
Trade and other payables		**134,800**	—
Deferred tax liabilities		**2,705**	—
		137,505	—
Current liabilities			
Borrowings		**10,000**	—
Contract liabilities		**125,846**	196,254
Trade and other payables	*11*	**1,062,876**	923,306
Income tax liabilities		**18,464**	39,922
		1,217,186	1,159,482
Total liabilities		**1,354,691**	1,159,482
Total equity and liabilities		**6,391,711**	6,801,522

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited Six months ended June 30, 2018** *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Net cash outflow from operating activities		**(828,086)**	(58,372)
Net cash inflow/(outflow) from investing activities		**1,194,831**	(3,124,947)
Net cash outflow from financing activities		**(458,975)**	(5,256)
Net decrease in cash and cash equivalents		**(92,230)**	(3,188,575)
Cash and cash equivalents at the beginning of the period		**1,396,632**	4,508,522
Effects of exchange rate changes on cash and cash equivalents		**(35,904)**	(35,387)
Cash and cash equivalents at the end of the period		**1,268,498**	1,284,560
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand		**1,122,332**	1,230,191
Short-term bank deposits with initial terms within three months		**146,166**	54,369
		1,268,498	1,284,560

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

Meitu, Inc. (the "**Company**"), was incorporated in the Cayman Islands under the name of "Meitu, Inc. 美图公司 " 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, and carries on a business in Hong Kong as " 美圖之家 " as approved by and registered with the Registrar of Companies in Hong Kong on October 28, 2016 and November 7, 2016, respectively. The address of the Company's registered office is the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together with Meitu Networks and its subsidiaries, the "**Group**") are principally engaged in provision of online advertising and other internet value added service, development, manufacture and sales of smart hardware and related accessories in the People's Republic of China (the "**PRC**"), Hong Kong and other countries and regions.

Mr. Cai Wensheng and Mr. Wu Zeyuan are the ultimate controlling shareholders of the Company as of the date of this announcement.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since December 15, 2016 by way of its initial public offering ("**IPO**").

The interim condensed consolidated balance sheet as of June 30, 2018, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "**Interim Financial Information**") of the Group have been approved for issue by the Board of Directors ("**Board**") on August 21, 2018.

The Interim Financial Information is presented in Renminbi ("**RMB**"), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2017, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and

- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As of June 30, 2018, the Group has non-cancellable operating lease commitments of RMB92,376,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Group does not intend to adopt the standard before its effective date.

3 Changes in accounting policy

3(a)IFRS 9 Financial Instruments — Impact of adoption

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and there had been no material impact on classification and measurement and impairment of financial assets.

3(b)IFRS 9 Financial Instruments — Accounting Policies applied from January 1, 2018

(i) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at financial assets at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- Financial assets at fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at financial assets at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Financial assets at fair value through profit or loss: Assets that do not meet the criteria for amortized cost or financial assets at fair value through other comprehensive income are measured at financial assets at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured a financial assets at fair value through profit or loss t is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

(iii) Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

3(c) IFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 and have assessed that there had been no material impact on revenue recognition and presentation. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules and has reclassified comparatives of advance from customers previously included in trade and other payables to contract liabilities, amounting to RMB196,254,000.

3(d) IFRS 15 Revenue from Contracts with Customers — Accounting Policies applied from January 1, 2018

Internet Business

(i) Online advertising

— Online advertising placement income

The Group provides advertising placements to advertisers through the Group's platforms and apps. 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 the users.

Revenue from these sales is recognized based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognized for expected discounts payable to customers in relation to sales made until the end of the reporting period.

— Online advertising agency income

The Group provides online advertising agency services and revenue is recognized when the related services are delivered based on the specific terms of the contract, which are commonly based on cost-plus or agree rebates to be earned from certain website publishers. In the normal course of business, the Group acts an agent in executing advertising transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Group is acting as the principal or an agent in the transactions. Such determination involves judgement and is based on an evaluation of the terms of each arrangement. As the Group is facilitating the advertisers and the website publishers to purchase and to sell advertising services, the Group is not principal in these arrangements and therefore reports revenue earned and costs incurred related to transaction on a net basis. Accordingly, receivables from advertising customers are recognized as other receivable and payables to advertising platforms are recognized as other payable.

Revenue in relation to rebates to be earned from certain website publishers are based on factors determined by these website publishers, such as quarterly or yearly spending at these website publishers' various platforms and other factors selected at the discretion of these website publishers. Such rebates earned from website publishers are recorded as revenues when impressions or clicks are successfully delivered.

When the services rendered exceed the payment, a contract asset is recognized. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

(ii) Internet value-added services and others

Internet value-added services and other revenues mainly comprise revenue earned from operating the Group's video and live streaming community and e-commerce. Revenues from operating the video and live streaming community are earned through sales of virtual currency on its platforms and revenue is recognized upon its utilization for the exchange of virtual gifts to be consumed on the platforms. The Group shares a portion of the revenue ("**Revenue sharing fee**") with content providers and recognized it as cost of revenue. Cash collected from sales of virtual currency before utilization is recognized as contract liabilities.

Revenue from e-commerce is earned and recognized when control of the products have transferred, which is upon acceptance of the delivery of the products by the customers. It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other receivables) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). The estimated amount of returns are reassessed at each reporting date.

Sales of Smart Hardware Products

(i) Sales of smart hardware 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 control of the products have transferred, being when the products are 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. The Group does not allow distributors and retailers to return products to the Group except when the products have certain specified defects.

Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Cash received before the Group transfers products is recognized as contract liabilities.

(ii) Sales of smart hardware products — End customers

Revenue from the sales of goods directly to end customers is recognized when control of the products have transferred, 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 contract liabilities.

It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other receivables) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

4 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by 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 of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

— Internet Business

— Smart Hardware

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 gains/(losses), net, finance income, net, share of (losses)/profits of associates 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 sales primarily comprises cost of inventories consumed, employee benefit expenses, promotion and advertising expenses, revenue sharing fee, bandwidth and storage related costs, warranty and maintenance 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 the six months ended June 30, 2018 and 2017 are as follows:

	Unaudited Six months ended June 30, 2018	Unaudited Six months ended June 30, 2017
	RMB'000	*RMB'000*
Internet Business		
— Online advertising	**284,908**	82,630
— Internet value-added services and others	**286,776**	164,160
	571,684	246,790
Smart Hardware	**1,480,326**	1,933,001
Total revenue	**2,052,010**	2,179,791

The segment results for the six months ended June 30, 2018 are as follows:

	Unaudited Six months ended June 30, 2018		
	Internet Business	**Smart Hardware**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue			
Timing of revenue recognition			
At a point in time	**286,776**	**1,480,326**	**1,767,102**
Over time	**284,908**	**—**	**284,908**
	571,684	**1,480,326**	**2,052,010**
Segment cost of sales	**(340,309)**	**(1,085,671)**	**(1,425,980)**
Gross profit	**231,375**	**394,655**	**626,030**

The segment results for the six months ended June 30, 2017 are as follows:

	Unaudited Six months ended June 30, 2017		
	Internet Business *RMB'000*	Smart Hardware *RMB'000*	Total *RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	164,160	1,933,001	2,097,161
Over time	82,630	—	82,630
	246,790	1,933,001	2,179,791
Segment cost of sales	(207,872)	(1,536,667)	(1,744,539)
Gross profit	38,918	396,334	435,252

The major customers which contributed more than 10% of the total revenue of the Company for the six months ended June 30, 2018 and 2017 are listed as below.

	Unaudited Six months ended June 30, 2018 %	Unaudited Six months ended June 30, 2017 %
Smart Hardware		
Customer A	**46.0%**	35.0%

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 of June 30, 2018 and December 31, 2017, substantially all of the non-current assets of the Group other than long term investments classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income were located in the PRC.

The reconciliation of segment gross profit to loss before income tax for the six months ended June 30, 2018, is presented in the interim condensed consolidated statement of income of the Group.

5 Expenses by nature

	Unaudited Six months ended June 30, 2018 *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Inventories consumed and recognized as:		
— Cost of sales	**1,116,956**	1,467,586
— Selling and marketing and other expenses	**21,381**	12,911
Employee benefit expenses	**470,216**	279,823
Promotion and advertising expenses	**307,698**	158,805
Revenue sharing fee	**141,179**	115,709
Bandwidth and storage related costs	**49,471**	58,467
Operating lease expenses	**30,731**	22,767
Depreciation of property and equipment	**30,396**	18,641
Warranty and maintenance expenses	**25,584**	27,113
Outsourced technical services	**23,149**	4,514
Travelling and entertainment expenses	**20,979**	11,667
Tax and levies	**16,797**	7,766
Video content monitoring fee	**15,812**	12,647
License fees	**14,081**	5,504
Amortization of intangible assets	**3,475**	1,181
Others	**71,306**	74,144
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**2,359,211**	2,279,245

6 Other gains/(losses), net

	Unaudited Six months ended June 30, 2018 *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Gains on disposal of property and equipment	**36**	—
Changes in fair value on long-term investments	**85,278**	(97,631)
Gains on disposal of long-term investments	**77,227**	32,677
Others	**91**	(168)
	162,632	(65,122)

7 Income tax expense

The income tax expense of the Group for the six months ended June 30, 2018 and 2017 are analyzed as follows:

	Unaudited Six months ended June 30, 2018 *RMB'000*	Unaudited Six months ended June 30, 2017 *RMB'000*
Current income tax:		
— PRC and overseas enterprise income tax	**26,188**	45,928
Deferred income tax	**3,685**	(12,288)
	29,873	33,640

(a) Cayman Islands and BVI Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of the British Virgin Islands (the "**BVI**") are exempted from BVI income taxes.

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%.

(c) Corporate income tax in other countries

Income tax rate for subsidiaries in other jurisdictions, including the United States, Japan and Singapore were ranging from 17% to 36%. No provision for profits tax has been made as the Group did not have any assessable profits subject to these jurisdictions for the year.

*(d) 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, based on the existing legislation, interpretations and practices in respect thereof.

Meitu Networks has been qualified as a "High and New Technology Enterprise" ("**HNTE**") under the EIT Law in 2016. Accordingly, it is entitled to a preferential income tax rate of 15% for three years starting from 2016 provided that it continues to be qualified as a HNTE during such period. Based on management's assessment, Meitu Networks did not meet the qualification of HNTE so it did not apply the preferential tax rate in calculating its EIT in 2018.

Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司) ("**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 from the first year of profitable operation after offsetting tax losses generating from prior years (the "**tax holiday**"). The tax holiday period has not yet commenced as Meitu Home was in an accumulated tax loss position as of June 30, 2018.

According to relevant laws and regulations promulgated by the State Administration of Taxation 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 for the six months ended June 30, 2018.

*(e) PRC Withholding Tax ("**WHT**")*

According to the New Corporate Income Tax 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.

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 of June 30, 2018 (December 31, 2017: nil).

8 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss of the Group attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during each respective period.

	Unaudited Six months ended June 30, 2018	Unaudited Six months ended June 30, 2017
Loss attributable to owners of the Company (RMB'000)	**(130,365)**	(131,781)
Weighted average number of ordinary shares in issue (thousand)	**4,259,315**	4,233,390
Basic loss per share (expressed in RMB per share)	**(0.03)**	(0.03)

(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 six months ended June 30, 2018 and 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and restricted stock unit under the Post-IPO Share Award Scheme. As the Group incurred losses for the six months ended June 30, 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2018 is the same as basic loss per share.

9 Dividends

No dividends had been paid or declared by the Company during the six months ended June 30, 2018 (six months ended June 30, 2017: nil).

10 Trade receivables

The Group grants a credit period of 30 to 120 days to its customers. As of June 30, 2018 and December 31, 2017, the aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date were as follows:

	Unaudited As of June 30, 2018 *RMB'000*	Audited As of December 31, 2017 *RMB'000*
Trade receivables		
Up to 3 months	**529,270**	287,434
3 to 6 months	**102,415**	16,056
6 months to 1 year	**50,247**	3,358
1 to 2 years	**1,086**	540
	683,018	307,388

As of June 30, 2018 and December 31, 2017, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates.

11 Trade and other payables

The aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on transaction date were as follows:

	Unaudited As of June 30, 2018 *RMB'000*	Audited As of December 31, 2017 *RMB'000*
Up to 3 months	**549,671**	680,871
3 to 6 months	**9,342**	26,367
6 months to 1 year	**6,219**	9,716
Over 1 years	**5,305**	2,584
	570,537	719,538

12 Subsequent event

On July 8, 2018, the Group acquired certain equity interests of a private-held entity, providing a wide range of services via a medical beauty social and service platform, with a cash consideration of approximately US$30,122,000. The investment will be recognized as financial assets at fair value through profit or loss.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

A general mandate to repurchase the ordinary shares in the share capital of the Company (the "**Shares**") up to 10% of the total number of Shares then in issue was granted to the Board at the annual general meeting of the Company held on June 2, 2017, and renewed at the annual general meeting of the Company held on June 5, 2018. Pursuant to such mandate, during the six months ended June 30, 2018, the Company bought back an aggregate of 70,865,000 Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at an aggregate consideration of HK$554,758,000 (equivalent to RMB460,038,000). The buy-back of Shares was effected by the Directors for the benefit of the Company and to create value to its shareholders. All Shares that were bought back were subsequently cancelled.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders.

During the six months ended June 30, 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended June 30, 2018.

The Board has also established written guidelines to regulate dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code.

Audit Committee and Review of Financial Statements

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As of the date of this announcement, the Audit Committee comprises three members, namely Mr. Zhou Hao, Mr. Ko Chun Shun Johnson and Dr. Guo Yihong. Mr. Zhou Hao is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended June 30, 2018. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended June 30, 2018.

Use of Net Proceeds from Listing

Our Shares were listed on the Main Board of the Stock Exchange on December 15, 2016. The net proceeds raised from our initial public offering amounted to approximately RMB4,211.5 million. As of June 30, 2018, the Group had used:

- approximately RMB1,221.3 million for component and raw material sourcing to produce smart phones;
- approximately RMB198.5 million to invest in or acquire businesses that are complementary to our business;
- approximately RMB800.1 million to implement sales and marketing initiatives in both China and overseas market;
- approximately RMB205.2 million to expand Internet services business;
- approximately RMB278.0 million to expand research and development capabilities;
- approximately RMB367.4 million as general working capital.

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at corp.meitu.com. The interim report of the Group for the six months ended June 30, 2018 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

APPRECIATION

Finally, on behalf of everyone at Meitu, I would like to express our sincere gratitude to all of our users. I would also like to thank all our employees and management team for demonstrating Meitu's core values in every day's work, and executing the Group's strategy with professionalism, integrity and dedication. I am also thankful for the continued support and trust from our shareholders and stakeholders. We will strive to make the world a more beautiful place.

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

Hong Kong, August 21, 2018

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

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.