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

2016 Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Wensheng *(Chairman of the Board)*
Mr. Wu Zeyuan

Non-Executive Director

Dr. Guo Yihong
Dr. Lee Kai-Fu

Independent Non-Executive Directors

Mr. Ko Chun Shun Johnson
Mr. Zhou Hao
Ms. Lo Po Man

AUDIT COMMITTEE

Mr. Zhou Hao *(Chairman)*
Mr. Ko Chun Shun Johnson
Dr. Guo Yihong

REMUNERATION COMMITTEE

Mr. Ko Chun Shun Johnson *(Chairman)*
Dr. Lee Kai-Fu
Ms. Lo Po Man

NOMINATION COMMITTEE

Mr. Cai Wensheng *(Chairman)*
Mr. Zhou Hao
Ms. Lo Po Man

JOINT COMPANY SECRETARIES

Mr. Ngan King Leung Gary
Ms. Lee Ka Man

AUTHORIZED REPRESENTATIVES

Mr. Cai Wensheng
Mr. Ngan King Leung Gary

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

The offices of Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS

1–3/F, Block 2
No. 6 Wanghai Road
Siming District
Xiamen, Fujian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 8106B, Level 81
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

LEGAL ADVISORS

As to Hong Kong law and United States law
Skadden, Arps, Slate, Meagher & Flom

As to PRC law
Jingtian & Gongcheng

As to Cayman Islands law
Conyers Dill & Pearman

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
China Merchants Bank (Offshore Banking)

STOCK CODE

1357

COMPANY WEBSITE

corp.meitu.com

Key Financial and Operational Data

2016 Highlights

RMB 1.6 billion
Total revenues of 2016 increased by **113%** year on year

40%
year on year revenue growth of the Internet services and others segment

121%
year on year revenue growth of the Smart hardware segment

24%
Adjusted Net Loss of 2016 **reduced significantly by 24%** year on year to RMB 540 million

68 billion
Photos processed by our apps in the year of 2016

450 million
Total MAUs in 2016 grew **21%** year on year and reached a historical high of **520** million in Jan 2017

Key Financial and Operational Data

KEY FINANCIAL DATA

	Year ended December 31, 2016 RMB '000	2015 RMB '000	Year on year change (%)
Revenue	**1,578,580**	741,813	112.8%
— Internet Services and Others	**104,677**	74,691	40.1%
— Smart Hardware	**1,473,903**	667,122	120.9%
Gross Profit	**239,160**	100,490	138.0%
Gross Margin	**15.2%**	13.5%	12.6%
Adjusted Net Loss	**(540,454)**	(710,488)	-23.9%

KEY OPERATIONAL DATA

	As at December 31, 2016 '000	2015 '000	Year on year change (%)
Total MAUs	**450,051**	372,454	20.8%
MAU breakdown by product:			
Meitu	**101,984**	91,406	11.6%
BeautyCam	**125,628**	89,723	40.0%
Meipai[(1)]	**113,819**	126,305	-9.9%
Others	**108,620**	65,020	67.1%
MAU breakdown by geography:			
Mainland China	**363,648**	324,250	12.2%
Overseas	**86,403**	48,204	79.2%

Our total MAUs reached a historical high of approximately 520 million in January 2017, representing approximately 32% year on year growth.

(1) As at December 31, 2016, the MAU of *Meipai* includes in-app users of 23.6 million (2015: 23.4 million) and mobile web users of 90.2 million (2015: 102.9 million).

Chairman's Statement

Dear Shareholders,

2016 was the year in which Meitu became a public company. We really appreciate the support from our users, Shareholders, partners and employees.

"What is Meitu's business model?" is one of the most frequently asked questions we received from the investment community since our listing. Indeed, our business portfolio is multi-faceted: we have launched a number of photo and video apps, operate a short-form video and live streaming community, develop and sell smartphones, and have started personalized imprinting services, among others. While seemingly independent, these products and services are all related — everything we do here at Meitu is focused on our mission to make the world a more beautiful place, while creating shareholder value at the same time. With over one billion unique users on our platform, we are realizing our vision step-by-step: creating an ecosystem around beauty so that everyone can be a user of Meitu products.

To this end, we have set out three strategic directions, namely, platformization, globalization and monetization. We have made significant progress in all these three directions in 2016.

PLATFORMIZATION

We are very pleased to see our user base continue to grow in 2016, reaching 450 million total MAUs in December 2016, representing a growth of 21% year on year. Most importantly, we have built a very strong foundation to capture further user growth opportunities: our total MAUs reached a historical high of approximately 520 million in January 2017, representing approximately 32% year on year growth.

Meipai, our short-form video and live streaming community, has seen increasing engagement statistics across the board. By the end of 2016, more than 510 million videos had been uploaded by our users, which encompass individuals, key opinion leaders, production teams, organizations, corporations and so on. Average time spent per user on *Meipai* was approximately 28–36 minutes per day in 2016, compared to 15–27 minutes in 2015. During the fourth quarter of 2016, we revamped the front-page of *Meipai* and upgraded the recommendation algorithm, resulting in more efficient traffic distribution and higher user engagement. Apart from technological upgrades, we have also introduced a lot of fun features on the *Meipai* platform, such as real-time augmented-reality stickers and "10-seconds Dynamic Posters". With the strong foundation we built in 2016, *Meipai*'s MAUs have continued to grow, reaching approximately 160 million[(1)] in January 2017. We believe *Meipai* is well positioned to ride the short-form video mega-trend and become an even more successful social media platform in China.

We believe that data is the essence of the development of artificial intelligence and our photo apps processed more than 68 billion photos in 2016, positioning us well to capture the massive opportunities in the field of computer vision and artificial intelligence. We will continue to leverage such enormous amount of data to further strengthen our beatification algorithms, build new functionalities, and develop and try new business models using Meitu's artificial intelligence, while remaining in strict compliance with applicable data privacy laws.

We have also made progress in the platformization of our other photo apps, such as introducing beauty and makeup related feeds on *MakeupPlus*, following its version 3.0 upgrade in the fourth quarter of 2016. Ultimately, our strategy is to integrate the *Meitu Account* system with all our apps, and add social elements, media content and/or cloud services according to the user preferences of different apps, in order to raise user engagement and further explore monetization opportunities.

GLOBALIZATION

Both our overseas user base and global influence have been growing.

We repeatedly ranked among the top eight iOS non-game developers by downloads throughout 2016, together with global Internet giants such as Alibaba, Apple, Baidu, Facebook, Google, Microsoft and Tencent. As of December 31, 2016, our apps have attracted over 500 million accumulated users outside of Mainland China, with at least 10 million accumulated users in each of Brazil, India, Indonesia, Japan, Malaysia, Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam. Approximately 27% of our daily new users originated from overseas countries and regions in 2016, compared to 22% in 2015.

Our global influence has also been growing. For example, the "Dimensional Camera" feature on the Meitu app, which turns a normal selfie into a hand-drawn art piece through an artificial intelligence based algorithm, went viral on social media in the United States shortly after its launch in January 2017. Such phenomenon was subsequently featured by some of the most influential print and online media in the United States, Europe as well as Asia. Beyond the technology sector, Meitu brand's influence has also been growing among the global fashion community. For example, the "Ultimate Beauty Destination" event we organized during the London Fashion Week 2017 was a smashing success, attracting over 700 global supermodels, reality TV stars, movie stars, celebrity singers and influencers under one roof to meet and greet, as well as experience Meitu's latest apps and smartphone products. The event was featured by more than 25 international publications, generating tens of millions of impressions worldwide.

With the success we had in 2016, we will continue to grow our global user base, in order to realize our vision of making everyone in the world a user of Meitu products.

(1) The MAU of *Meipai* in January 2017 includes in-app users of 35 million and mobile web users of 125 million.

Chairman's Statement

MONETIZATION

For the year ended December 31, 2016, total revenues increased to RMB1,578.6 million from RMB741.8 million in the year ended December 31, 2015, representing growth of 112.8% year on year. The average monthly revenue per MAU was RMB0.292 in 2016, growing 75.9% year on year from RMB0.166 in 2015.

Internet services and others segment

Within the Internet services and others segment, revenue grew to RMB104.7 million in 2016, compared to RMB74.7 million in 2015, representing a year on year growth of 40.1%. Importantly, revenues in the second half of 2016 was more than double that of the second half of 2015, representing a significant acceleration in revenue growth; this was mainly due to (i) a strong ramp up in advertising revenue following the completion of the restructuring our advertising business; and (ii) significant growth in the revenues generated from virtual item sales on *Meipai*.

We have also started generating e-commerce revenues from *Meitu Personalized*, a service that enables users to have their photos imprinted on various merchandise, in order to display their personality. In 2016, we tested the service with T-shirts and the result was very encouraging. We aim to roll out a broader selection of merchandise in 2017. In addition, we are on track to launch *Pushion*, our fashion-focused social e-commerce platform in the first half of 2017, adding another avenue to e-commerce monetization.

Smart hardware segment

We are also very pleased with the results of the smart hardware segment, revenues from which reached RMB1,473.9 million in 2016, growing 120.9% compared to 2015. The strong revenue growth was driven by both average selling prices and volume growth. Building upon the strengthening Meitu brand, we launched the new "T Series" of Meitu smartphones in February 2017. The Meitu T8 is not only a more premium-priced series compared to the "M Series", but is also our first smartphone product that employs both artificial intelligence and dual-pixel technology to generate DSLR-quality (digital single lens reflex camera) selfies. We believe our strong brand recognition, technological innovation and uncompromising pursuit of user experience will continue to underpin the future success of our smart hardware business.

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.

Mr. Cai Wensheng
Chairman

Hong Kong
March 24, 2017

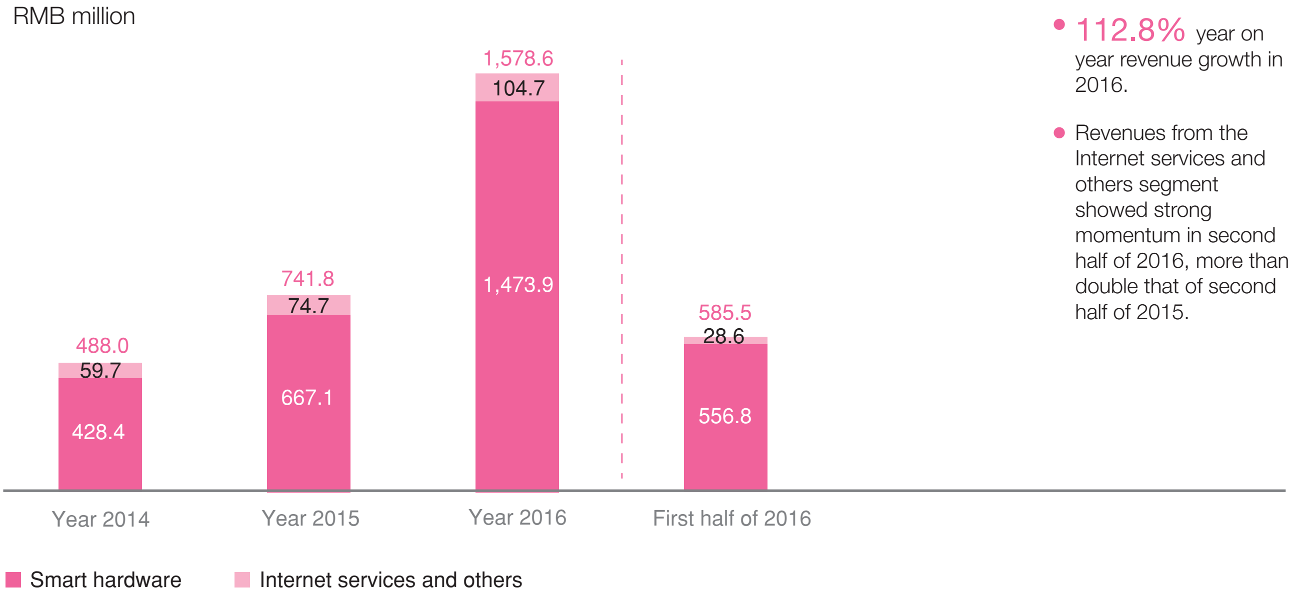
	Year ended December 31, 2016 RMB'000	2015 RMB'000
Revenue	**1,578,580**	741,813
Cost of sales	**(1,339,420)**	(641,323)
Gross profit	**239,160**	100,490
Selling and marketing expenses	**(424,845)**	(649,092)
Administrative expenses	**(198,586)**	(94,742)
Research and development expenses	**(243,261)**	(119,605)
Other income	**12,980**	11,085
Other losses, net	**(37,658)**	(858)
Operating loss	**(652,210)**	(752,722)
Finance income/(costs), net	**(981)**	18,898
Fair value loss of convertible redeemable preferred shares	**(5,606,109)**	(1,482,643)
Share of losses of investments accounted for using the equity method	**(512)**	(319)
Loss before income tax	**(6,259,812)**	(2,216,786)
Income tax expense	**(1,068)**	(771)
Loss for the year	**(6,260,880)**	(2,217,557)
Loss attributable to:		
— Owners of the Company	**(6,260,880)**	(2,217,557)
Non-IFRS measure:		
Adjusted Net Loss	**(540,454)**	(710,488)

Revenue

Our total revenue increased by 112.8% to RMB1,578.6 million for the year ended December 31, 2016, compared to RMB741.8 million for the year ended December 31, 2015.

	Year ended December 31,			
	2016		2015	
	Amount RMB'000	% of total revenues	Amount RMB'000	% of total revenues
Internet services and others	**104,677**	**6.6%**	74,691	10.1%
Smart hardware	**1,473,903**	**93.4%**	667,122	89.9%
Total	**1,578,580**	**100.0%**	741,813	100.0%

Revenue



- 112.8% year on year revenue growth in 2016.
- Revenues from the Internet services and others segment showed strong momentum in second half of 2016, more than double that of second half of 2015.

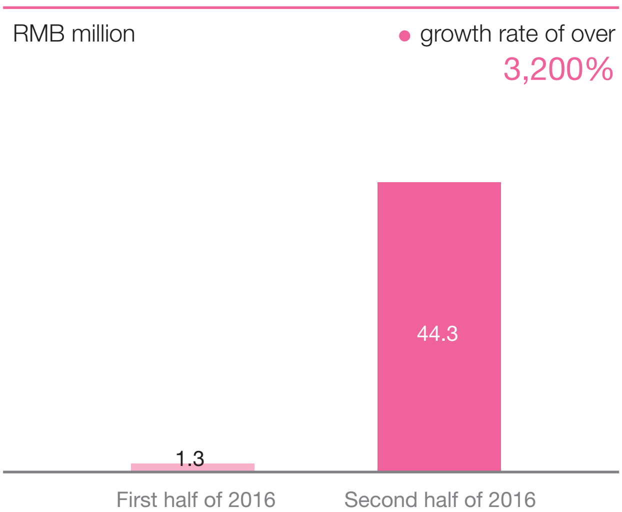
Internet services and others

Revenue from the Internet services and others segment increased by 40.1% to RMB104.7 million for the year ended December 31, 2016, compared to RMB74.7 million for the year ended December 31, 2015.

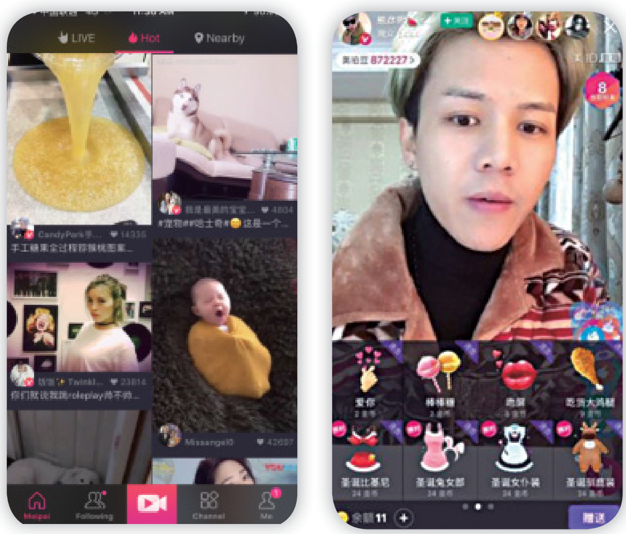
Sale of virtual items on *Meipai* was the key contributor of revenue growth in this segment for 2016. We started this business in June 2016, and the gross billings generated from *Meipai* grew significantly to RMB44.3 million in the second half of 2016, from RMB1.3 million for the first half of 2016, representing a growth rate of over 3,200% between those periods. Such significant growth was the combined effect of better traffic distribution algorithms, effective community management as well as the introduction of fun and engaging activities that promote interaction and engagement among the hosts and their audience. The number of average monthly paying users also increased significantly to 224,536 for the second half of 2016, from approximately 58,000 for the first half of 2016.

For our advertising business, we commenced a restructuring in April 2016 in order to drive long-term growth. In particular, we relocated our sales headquarters from Xiamen to Beijing, started a new sales office in Shanghai, and upgraded our advertising platform to connect with programmatic advertising networks in both China and overseas. The restructuring had unavoidably caused some volatility in our advertising revenues during the first half of 2016, resulting in a year on year decline in revenues as compared to the first half of 2015. However, following the completion of the restructuring in September 2016, we have seen our advertising revenue ramp up quickly. In the second half of 2016, our advertising revenues grew significantly compared to the first half of 2016.

***Meipai* Gross Billings**

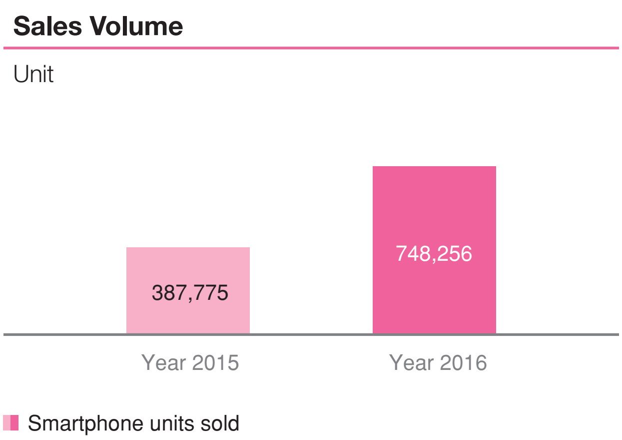


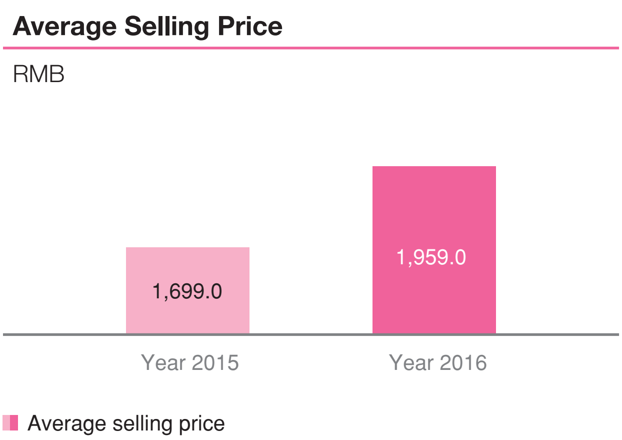
Meipai Gross Billings

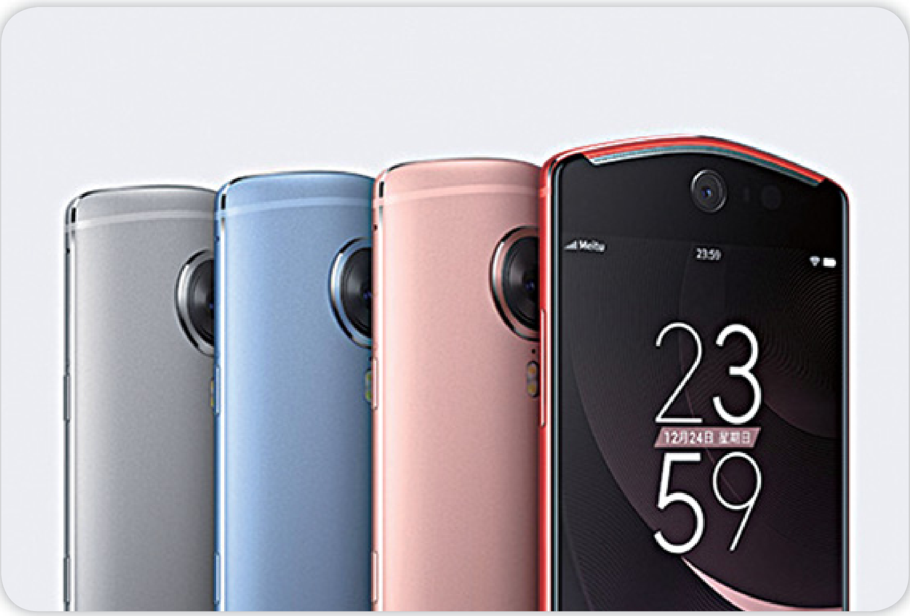


Smart hardware

Revenue from the smart hardware segment increased by 120.9% to RMB1,473.9 million for 2016, from RMB667.1 million for 2015 due to an increase in both sales volume and average selling prices (the "**ASPs**"). The number of smartphone units sold was 748,256 in 2016, as compared to 387,775 in 2015. The ASP was RMB1,959 in 2016, as compared to RMB1,699 in 2015. ASP per smartphone is calculated by dividing the total revenue from smartphone sales by the number of units sold during the year.







Cost of Sales

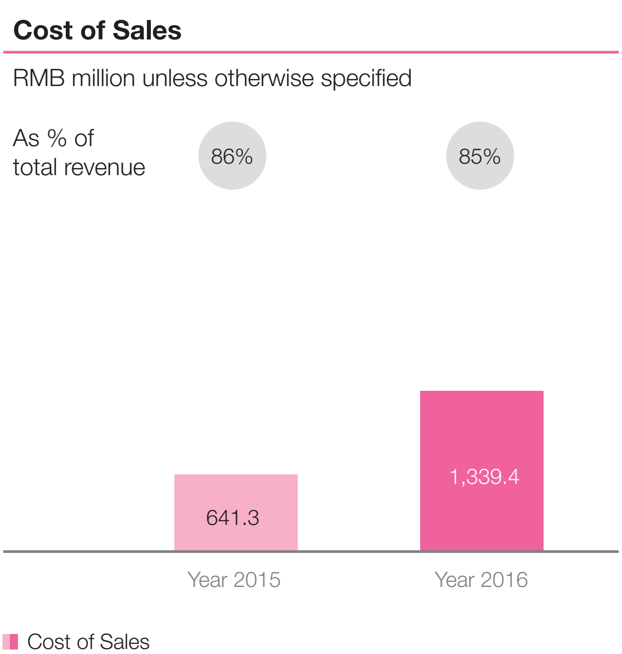
Our cost of sales increased by 108.9% to RMB1,339.4 million for year ended December 31, 2016, compared to RMB641.3 million for the year ended December 31, 2015.

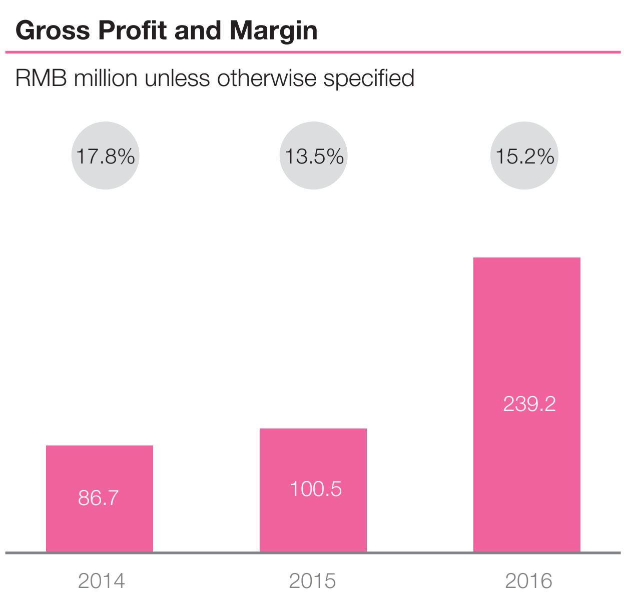
Internet services and others

Segment cost for Internet services and others increased by 63.4% to RMB162.4 million in 2016, from RMB99.4 million in 2015. The majority of the increase was due to (i) revenue-sharing with content creators on the sale of virtual gifts on *Meipai*, a business which we commenced in June 2016; and (ii) an increase in bandwidth and storage related costs to support the increased user base and user engagement.

Smart hardware

Segment cost for smart hardware increased by 117.2% to RMB1,177.0 million in 2016, from RMB542.0 million in 2015, primarily due to the increase 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 year, increased to RMB1,518 in 2016 from RMB1,331 in 2015. The increase was mainly due to (i) introduction of a more premium priced model "Meitu V4" into the business mix; and (ii) usage of higher-priced key components for the "Meitu M6" model launched during 2016, as compared to the "Meitu M4" model launched in 2015.





Gross Profit and Gross Profit Margin

Our gross profit increased by 138.0% to RMB239.2 million in 2016, from RMB100.5 million in 2015. Our gross margin increased to 15.2% in 2016, from 13.5% in 2015.

	Year ended December 31,			
	2016		2015	
	Amount RMB'000	% of total revenues	Amount RMB'000	% of total revenues
Internet services and others	(57,720)	-55.1%	(24,678)	-33.0%
Smart hardware	296,880	20.1%	125,168	18.8%
Total	239,160	15.2%	100,490	13.5%

Internet services and others

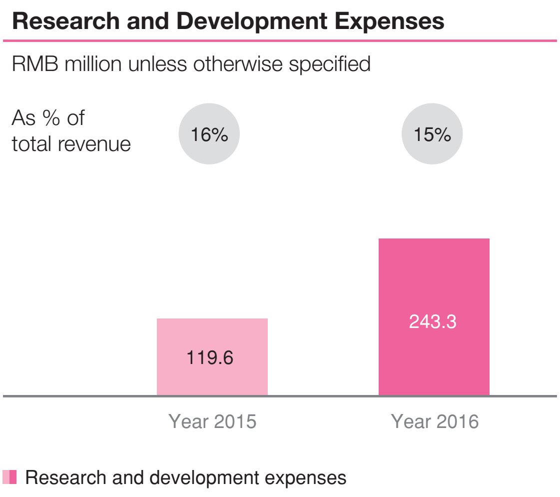
Our Internet services and others segment generated a gross loss of RMB57.7 million in 2016, compared to a gross loss of RMB24.7 million in 2015. Gross loss margin was higher at 55.1% in 2016, compared to 33.0% in 2015, because we incurred more bandwidth and storage related costs to support our larger user base, before the ramping up of our monetization initiatives. In addition, the temporary reduction in revenues during the restructuring period of our advertising initiatives business also put further pressure on the gross loss margin for the first half of 2016. However, as revenue started to ramp up in the second half of 2016, gross loss margin narrowed significantly compared to the first half of 2016, indicating strong operating leverage in this segment.

Smart hardware

Gross profit and margin of our smart hardware segment increased to RMB296.9 million and 20.1% in 2016 from RMB125.2 million and 18.8% in 2015, primarily due to the increase in the number of smartphone units sold and there was no significant fluctuation in the gross margin of our smart hardware business.

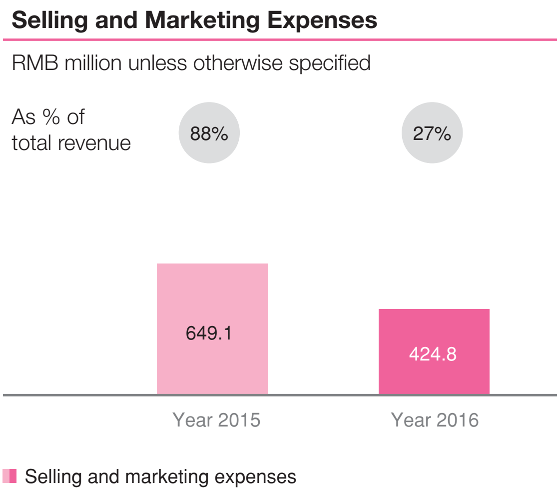
Research and Development Expenses

Our research and development expenses increased by 103.4% to RMB243.3 million in 2016, from RMB119.6 million in 2015, primarily due to an increase in headcount of research and development personnel.



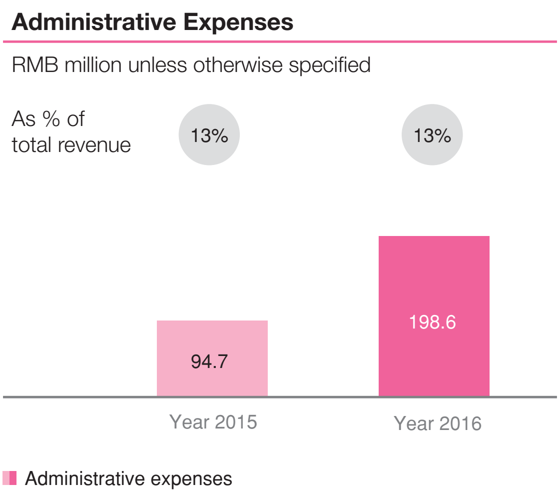
Selling and Marketing Expenses

Selling and marketing expenses decreased by 34.5% to RMB424.8 million in 2016, from RMB649.1 million in 2015, primarily due to a decrease in promotion and advertising expenses as we were able to raise efficiency in our promotion efforts, which is partially offset by an increase in staff and other costs related to building our advertising sales team in China as well as marketing teams in various overseas countries.



Administrative Expenses

Our administrative expenses increased by 109.6% to RMB198.6 million in 2016 from RMB94.7 million in 2015, primarily due to (i) an increase in headcount, and (ii) one-off listing expenses of RMB39.5 million incurred in connection with the initial public offering and listing of our Shares on the Stock Exchange in December 2016.



Other Income

Other income primarily comprised government grants and investment income on short-term investments placed with banks that we made to improve yields on surplus cash. The short-term investments placed with banks are redeemable at any time and are principal-guaranteed.

Other Losses, Net

Other losses in 2016 mainly comprised (i) a fair value gain of RMB11.2 million for our long-term investments due to an increase in the fair value of our investment portfolio companies operating in the technology sector; and offset by (ii) an impairment loss of RMB45.1 million for our long-term investment in Migme Limited, a company listed on the Australian Stock Exchange (ASX Code: MIG), as its share price was significantly below the investment cost for a prolonged period of time.

Finance Income/(Costs), Net

Our finance income/(costs) comprises bank interest income and foreign exchange gains/(losses). We had a net finance cost of RMB1.0 million in 2016, compared to a net finance income of RMB18.9 million in 2015, mainly due to the appreciation of the United States dollar against Renminbi during the year of 2016.

Fair Value Loss of Convertible Redeemable Preferred Shares

The fair value loss of convertible redeemable preferred shares is a non-cash and extraordinary item that will not recur in financial years after the listing of our Shares on the Stock Exchange, as the convertible redeemable preferred shares issued by us have been automatically converted into ordinary shares upon listing.

Loss for the Year and Non-IFRS Measure: Adjusted Net Loss

Our loss for the year was RMB6,260.9 million in 2016, compared to RMB2,217.6 million in 2015, mainly due to the increase in fair value loss of convertible redeemable preferred shares as the result of an increase in the equity value of our Company. Such fair value loss will not recur in financial years after the listing of our Shares on the Stock Exchange.

Our Adjusted Net Loss was RMB540.5 million in 2016, which represented a significant decrease of 23.9% compared to RMB710.5 million in 2015, demonstrating improved underlying business fundamentals. The reduction in Adjusted Net Loss was primarily due to (i) an increase in gross profit driven by revenue ramp up; and (ii) the reduction of promotion and advertising expenses as the result of improved promotion efficiency.

To supplement our consolidated financial statements which are presented in accordance with the IFRSs, we also use Adjusted Net Loss as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. 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 IFRSs.

The following table reconciles our Adjusted Net Loss for the years ended December 31, 2016 and 2015 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Loss for the year	**(6,260,880)**	(2,217,557)
Excluding:		
Fair value loss of convertible redeemable preferred shares	**5,606,109**	1,482,643
Share-based compensation	**40,926**	24,426
Fair value gain of long-term investments	**(11,212)**	—
Impairment loss of long-term investments	**45,091**	—
One-off listing expenses	**39,512**	—
Adjusted Net Loss	**(540,454)**	(710,488)

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources (comprising cash and cash equivalents, short-term bank deposits and short-term investments placed with banks) as at December 31, 2016 and 2015 were as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	**4,508,522**	989,874
Short-term bank deposits	**725,229**	60,000
Short-term investments placed with banks	**280,820**	170,389
Cash and other liquid financial resources	**5,514,571**	1,220,263

As at December 31, 2016, we had cash and other liquid financial resources of RMB5,514.6 million. The increase in cash and other liquid financial resources was mainly due to the net proceeds of approximately RMB4,211.5 million raised during our initial public offering that was completed in December 2016.

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 principal-guaranteed, redeemable at any time and held with the primary objective to generate income at a yield higher than current bank deposit 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.

As at December 31, 2016, we did not have any outstanding borrowings. Accordingly, no gearing ratio is presented.

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the year ended December 31, 2016. 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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Purchase of property and equipment	**60,238**	49,787
Purchase of intangible assets	**2,305**	2,340
	62,543	52,127

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.

Long-term Investment Activities

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Investment in associates in the form of ordinary shares	**3,259**	3,700
Investment in financial assets at fair value through profit or loss	**141,634**	147,922
Investment in available-for-sale financial assets	**45,091**	—
	189,984	151,622

We make investments 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 Internet value-added services, that synergize with our plans to continue monetizing our user base; (iii) companies that operate apps or social communities with meaningful user bases; and (iv) companies that own quality entertainment intellectual property or produce quality video content, such as production houses, which can enrich our content and entertainment offers.

Our investments are mostly early-stage investments and do not generate meaningful revenue and profits. It is difficult to determine the success of these investments in such early stage, and while successful investments could generate substantial returns, unsuccessful ones may need to be impaired or written-off.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to 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 during the years ended December 31, 2016 and 2015.

Pledge of Assets

As at December 31, 2016, we pledged a restricted deposit of RMB400,000 (2015: RMB600,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As at December 31, 2016, we did not have any material contingent liabilities (2015: nil).

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,328 employees as of December 31, 2016, 1,275 of whom were based in China, primarily at our headquarters in Xiamen, with the rest based in Brazil, Hong Kong, Indonesia, Japan, Singapore and the United States. Remuneration is determined with reference to market conditions and individual employees' performance, qualification and experience.

In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions). Employees of the Group are the eligible participants of the Pre-IPO ESOP, Post-IPO Share Option Scheme, and Post-IPO Share Award Scheme (as defined below). During the year under review, the relationship between the Group and our employees have been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities.

SIGNIFICANT INVESTMENTS HELD

We did not hold any significant investments in the equity interests of any other companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

We did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended December 31, 2016, we did not have any materials acquisitions and disposals of subsidiaries and affiliated companies.

Directors and Senior Management

OUR DIRECTORS

The following table presents certain information in respect of the members of our Board.

Members of our Board

Name	Age	Position/Title	Date of Appointment
Mr. Cai Wensheng	47	Executive Director and Chairman	July 2013
Mr. Wu Zeyuan	36	Executive Director and Chief Executive Officer	July 2013
Dr. Guo Yihong	53	Non-executive Director	January 2014
Dr. Lee Kai-Fu	55	Non-executive Director	August 2016
Mr. Ko Chun Shun Johnson	65	Independent non-executive Director	November 2016[1]
Mr. Zhou Hao	40	Independent non-executive Director	November 2016[1]
Ms. Lo Po Man	37	Independent non-executive Director	November 2016[1]

Notes:

(1) Effective from the Listing Date.

The biography of each Director is set out below:

Executive Directors

Mr. Cai Wensheng (蔡文胜), aged 47, is a founder, executive Director and the Chairman of our Group, and is the chairman of the Nomination Committee of our Company with effect from the Listing Date. 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 in Shishi city (石獅市石光中學), 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 36, 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 53, 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 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 Sinovation Ventures (Beijing) Enterprise Management Limited (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.

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 the Listing Date.

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 until April 2016;

- KuangChi Science Limited (Hong Kong Stock Exchange Stock Code: 0439) as an executive director since August 2014;

- Yunfeng Financial Group Limited (formerly known as ReOrient Group Limited, Hong Kong Stock Exchange Stock Code: 0376), as the chairman and 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 the deputy chairman and has been 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 until 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 the Listing Date. 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 the Listing Date. 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: 0078) 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 entertainment and education company in China.

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: 0078)
- Regal Real Estate Investment Trust (Hong Kong Stock Exchange Stock Code: 1881)

OUR SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of the Group.

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)	31	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)	39	Senior Vice President of Human Resources, Administration and Public Relations	Human resources and administration	August 2011
Mr. Fu 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

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 Holdings Limited (Hong Kong Stock Exchange Stock Code: 0484), 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 been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 0484) 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 31, 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 Internet 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 39, 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.

JOINT COMPANY SECRETARIES

Mr. Ngan King Leung Gary (顏勁良) and Ms. Lee Ka Man (李嘉文) from Fair Wind Secretarial Services Limited, an external secretarial service provider, were both appointed as the joint company secretaries of our Company on August 2, 2016. See disclosure in "Directors and Senior Management — Our 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. She has more than 15 years of experience in the field of company secretarial services.

Report of the Directors

The Board of the Company is pleased to present this report of the Directors' with the consolidated financial statements of the Group for the year ended December 31, 2016.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on July 25, 2013 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The 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, 2016 and November 7, 2016, respectively.

The Company's Shares were listed (the "**Listing**") on the Main Board of the Stock Exchange on December 15, 2016 (the "**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of the Company's subsidiaries and Meitu Networks and its subsidiaries are (i) provision of Internet services, including but not limited to, online advertising, Internet-value added services and e-commerce; and (ii) design, development and sales of smart hardware.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on December 15, 2016. The net proceeds from the Listing amounted to approximately RMB4,211.5 million. The intended use of net proceeds is as follows:

- Approximately 29.0% of the net proceeds will be used to expand component and raw material sourcing capacity, with a view to producing more smartphones and other smart hardware;
- Approximately 22.6% of the net proceeds will be used to invest in or acquire businesses that are complementary to our business;
- Approximately 19.7% of the net proceeds will be used to implement sales and marketing initiatives in both China and overseas market;
- Approximately 13.1% of the net proceeds will be used to expand Interest services business;
- Approximately 6.6% of the net proceeds will be used to expand research and development capabilities; and
- Approximately 9.0% of the net proceeds will be used as general working capital.

None of the net proceeds had been utilized as of December 31, 2016.

RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of comprehensive income on page 80 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended December 31, 2016 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 8 and pages 9 to 19 of this annual report. Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed "Report of Directors — Risks relating to the Contractual Arrangements" on page 41 of this annual report.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2016.

RESERVES

The Company may pay dividends out of the share premium account, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at December 31, 2016, the Company had distributable reserves of US$1,109,832,000 (equivalent to RMB8,262,191,000) (2015: nil).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2016 are set out in the consolidated statement of changes in equity on pages 83 to 84 and in Note 34(b) to the consolidated financial statements, respectively.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2016 are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2016 are set out in Note 22 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 35 to the consolidated financial statements.

BORROWINGS

The Group did not have any outstanding bank loans and other borrowings as at December 31, 2016.

DONATION

During the year ended December 31, 2016, the Group made charitable donations of approximately RMB295,808 (2015: nil).

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 169 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from the Listing Date to December 31, 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DEBENTURE ISSUED

The Group has not issued any debentures during the year ended December 31, 2016.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the remuneration committee of the Company (the "**Remuneration Committee**") to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Post-IPO Share Option Scheme (as defined below) and the senior management personnel are eligible participants of the Pre-IPO ESOP (as defined below). Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 31, Note 9(a) and Note 9(b), respectively to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

SHARE OPTION SCHEMES

1. Employee Share Option Plan

An employee share option plan (the "**Pre-IPO ESOP**") was approved and adopted by the Company on February 15, 2014 and amended by resolution of the Board on November 18, 2015.

Purpose

The purpose of the Pre-IPO 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 act and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

Eligible Participants

Any 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.

Maximum Number of Shares

The overall limit on the number of options to be granted pursuant to the Pre-IPO ESOP represents 116,959,070 underlying Shares, subject to any adjustments for share subdivision or other dilutive issuances.

As at December 31, 2016, outstanding options representing 116,958,940 underlying Shares (after taking into account the share subdivision) were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 24 to the consolidated financial statements.

Limit for Each Participant

Under the Pre-IPO ESOP, there is no specific limit on the maximum number of shares which may be granted to a single eligible participant.

Remaining Life of the Pre-IPO ESOP

The Pre-IPO ESOP shall be valid and effective, under the administration of the Board and/or a committee authorized by the Board, for a period of 10 years commencing on the adoption date, that is, up to February 15, 2024.

Consideration

Nil consideration is required to be paid by the grantees for the grant of options under the Pre-IPO ESOP.

Option Period

The term of any options granted under the Pre-IPO ESOP shall not exceed 10 years, subject to a shareholder approval of extension of the exercise period for an option beyond 10 years from the date of grant. The Board shall also determine any conditions, if any, that must be satisfied before all or part of an option may be exercised.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Pre-IPO ESOP does not specify any minimum holding period.

Exercise Price

The exercise price per Share under the Pre-IPO ESOP is US$0.03 (after taking into account the share subdivision) as determined, authorized and approved by the Board.

Further details of the Pre-IPO ESOP are set out in the Prospectus.

2. Post-IPO Share Option Scheme

A share option scheme (the "**Post-IPO Share Option Scheme**") was adopted pursuant to the written resolutions of the Shareholders passed on November 25, 2016.

Purpose

The purpose of the Post-IPO Share Option Scheme is to enable the Company to grant options to the eligible participants as an incentive or a reward for their contribution to the Group.

Eligible Participants

Any 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 as the Directors determine.

Maximum Number of Shares

The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes adopted by the Group must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Post-IPO Share Option Scheme or any other share option schemes adopted by the Group if the grant of such option exceeds the limit.

As at December 31, 2016, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 422,729,455 Shares, representing 10% of the issued share capital of the Company as of the date of this annual report.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes adopted by the Group as from the adoption date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Post-IPO Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all issued share capital of the Company upon the Listing Date (i.e. 422,729,455 Shares, representing 10% of the issued share capital of the Company as at the date of this annual report). The limit of 10% may be refreshed at any time by approval of the Shareholders in a general meeting provided that the total number of the Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Post-IPO Share Option Scheme and any other share option schemes of our Group) previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Group will not be counted.

No options have been granted since the adoption of the Post-IPO Share Scheme.

Remaining Life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years commencing from the Listing Date, that is, up to December 15, 2026.

Limit of Each Participant

Unless approved by Shareholders in a general meeting, the maximum number of Shares underlying the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue for the time being.

Consideration

A consideration of HK$1.00 is payable on acceptance of the grant of an option.

Option Period

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period as the Board may determine, which may not expire later than 10 years from the offer date of the option subject to the provisions of early termination thereof.

The Board has the authority to determine the minimum period for which an option must be held before it can vest. The Post-IPO Share Option Scheme does not specify any minimum holding period.

Exercise Price

Pursuant to the Post-IPO Share Option Scheme, the participants may subscribe for the Shares on the exercise of an option at the price determined by the Board provided that it shall be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is offered to a participant, which must be a business date; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of a Share.

SHARE AWARD SCHEME

A share award scheme (the "**Post-IPO Share Award Scheme**") was adopted pursuant to the written resolutions of the Shareholders passed on November 25, 2016.

Purpose

The purpose of the Post-IPO 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 regain eligible persons to make contributions to the long-term growth and profits of the Group.

Eligible Participants

Any 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 as the Directors determine.

Awards

An award granted by the Board to eligible participants which may vest in the form of Shares or the actual selling price of the Shares in cash.

Granting of Awards

The Board may, from time to time, grant awards to any eligible participant who the Board considers to have contributed or will contribute to the Group.

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.

Maximum Number of Shares to be awarded

The aggregate number of Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Shares granted which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 5% of the aggregate nominal amount of the issued share capital of the Company without further Shareholders' approval, approximately 211,364,727 Shares, subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

Any Shares granted under the Post-IPO 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 granted by the Board, or enter into any agreement to do so.

As at December 31, 2016, no Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Award Scheme was 211,364,727, Shares, representing 5% of the issued share capital of the Company as of the date of this annual report. Assuming (i) the annual limit of 3% of the total number of issued Shares is fully utilized and (ii) options granted under the Pre-IPO ESOP or Post-IPO Share Option Scheme are not exercised, our issued share capital will increase from 4,227,294,550 Shares (being the number of Shares in issue as at December 31, 2016) to 4,354,113,386 Shares.

Limit for Each Participant

Under the Post-IPO Share Award Scheme, there is no specific limit on the maximum number of shares which may be granted to a single eligible participant but unvested under the Post-IPO Share Award Scheme.

Termination

The Post-IPO Share Award Scheme shall terminate on the earlier of:

(a) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Shares granted hereunder prior to the expiration of the Post-IPO Share Award Scheme, for the purpose of giving effect to the vesting of such Shares or otherwise as may be required in accordance with the provisions of the Post-IPO Share Award Scheme; and

(b) 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 Post-IPO 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 Shares already granted to a selected participant.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Share Option Schemes" and "Share Award Scheme", no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2016.

DIRECTORS

The Directors and members of senior management of the Company who held office during the year ended December 31, 2016 and up to the date of this annual report are:

Executive Directors:

Mr. Cai Wensheng *(Chairman)*
Mr. Wu Zeyuan *(Chief Executive Officer)*

Non-Executive Directors:

Dr. Guo Yihong
Dr. Lee Kai-Fu

Independent Non-executive Directors:

Mr. Zhou Hao (appointed conditionally on November 20, 2016)
Mr. Ko Chun Shun Johnson (appointed conditionally on November 20, 2016)
Ms. Lo Po Man (appointed conditionally on November 20, 2016)

Pursuant to Article 84 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and will be eligible for re-election at that meeting. The Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment and as between persons who became or were last re-elected Directors on the same day shall (unless they otherwise agree among themselves) be determined by lot.

Accordingly, Mr. Cai Wensheng, Mr. Wu Zeyuan and Dr. Guo Yihong shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. Details of the Directors standing for re-election at the AGM are set out in the circular to the Shareholders together with this annual report.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers each of the independent non-executive Directors to be independent.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 20 to 26 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner).

None of the Directors proposed for re-election at the AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" below, neither the Director nor any entity connected with the Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2016.

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended December 31, 2016. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2016.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended December 31, 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at December 31, 2016, the interests and short positions of the Directors in the Shares, underlying Shares and debentures of the Company or its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of ordinary shares	Approximate percentage of holding[2]
Mr. Cai Wensheng[1]	Interest of a party to an agreement regarding interest in the Company	1,666,666,670	39.43%
Mr. Wu Zeyuan[1]	Interest of a party to an agreement regarding interest in the Company	1,666,666,670	39.43%

Notes:

(1) Pursuant to the concert party agreement entered into among Mr. Wu Zeyuan, Mr. Cai Wensheng and Ms. Wang Baoshan (including, where applicable, any entities directly or indirectly controlled by them that directly holds the Shares) (the "**Concert Group**") on August 17, 2016 (the "**Concert Party Agreement**"), the entire interest of Xinhong Capital Limited ("**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 Ltd ("**Baolink Capital**") is held by Mr. Cai and the entire interest of Longlink Capital Limited ("**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.

(2) The calculation is based on the total number of Shares in issue as at the date of this annual report.

Save as disclosed above, as at December 31, 2016, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2016, the persons other than the Directors, whose interests have been disclosed in this annual report, had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Name of Director	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Easy Prestige Limited(2)(4)	Interest of a party to an agreement regarding interest in the Company(1)	1,666,666,670	39.43%
Xinhong Capital Limited(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,666,666,670	39.43%
Baolink Capital Ltd(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,666,666,670	39.43%
Longlink Limited(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,666,666,670	39.43%
Longlink Capital Ltd(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,666,666,670	39.43%
Ultra Colour Limited(3)(4)	Interest in a controlled corporation	300,000,000	7.10%
Ultra Colour(3)	Beneficial Interest	300,000,000	7.10%
Lion Trust (Singapore) Limited(2)(3)(4)	Trustee of a discretionary trust	1,486,666,670	35.17%
IDG-Accel China Growth Fund III L.P.(5)	Beneficial Interest	303,908,660	7.19%
IDG-Accel China III Investors L.P.(5)	Beneficial Interest	21,545,030	0.51%
Qiming Venture Partners III, L.P.(6)	Beneficial Interest	270,971,410	6.41%
Qiming Managing Directors Fund III, L.P.(6)	Beneficial Interest	8,540,770	0.20%
Internet Fund II Pte. Ltd.(7)	Beneficial Interest	399,995,180	9.46%
Assets Eagle Global Limited(8)	Beneficial Interest	253,896,700	6.01%

Notes:

(1) Pursuant to the Concert Party Agreement.

(2) The entire interest of Xinhong Capital Limited 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 Limited, a company incorporated under the laws of the BVI on May 15, 2013 ("**Ultra Colour**") is held by Ultra Colour Limited, a company incorporated under the laws of Samoa, 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 annual report.

(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 annual report.

(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.

Save as disclosed herein, as at December 31, 2016, no person, other than the Directors whose interests are set out in this annual report, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, its subsidiaries and Meitu Networks and its subsidiaries and branches (the "**PRC Operating Entities**"), during the year ended December 31, 2016, neither our Controlling Shareholders nor any of our had 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.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance or contract of significance for the provision of services has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2016.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted non-exempt continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended December 31, 2016.

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.

Contractual Arrangements

The Company has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Meitu Home, Meitu Networks, Mr. Cai and Mr. Wu, under which the Company gained effective control over, and received all the economic benefits generated by the business currently operated by the PRC Operating Entities. The Contractual Arrangements allow the financial results of the PRC Operating Entities to be consolidated and accounted for as if they were subsidiaries of our Company.

Reasons for the Contractual Arrangements

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 Holdings Limited for the operation of our mobile game, *Beauty Box* 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.

Since certain of our businesses are subject to foreign investment restrictions, 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.

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 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.

Risks relating to the Contractual Arrangements

We believe the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 46 to 51 of the Prospectus.

- 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.

- 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.

- 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.

- 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.

- 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.

- 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 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.

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

The Contractual Arrangements which were in place during the year ended December 31, 2016 and a brief description of the major terms of the structured contracts under the Contractual Arrangements are as follows:

(a) **Exclusive Option Agreement**

Meitu Networks, along with Mr. Wu and Ms. Cai (the "**Relevant Shareholders**"), 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.

(b) **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 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 December 31, 2016, the accumulated losses of Meitu Networks and its subsidiaries amounted to RMB52.7 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.

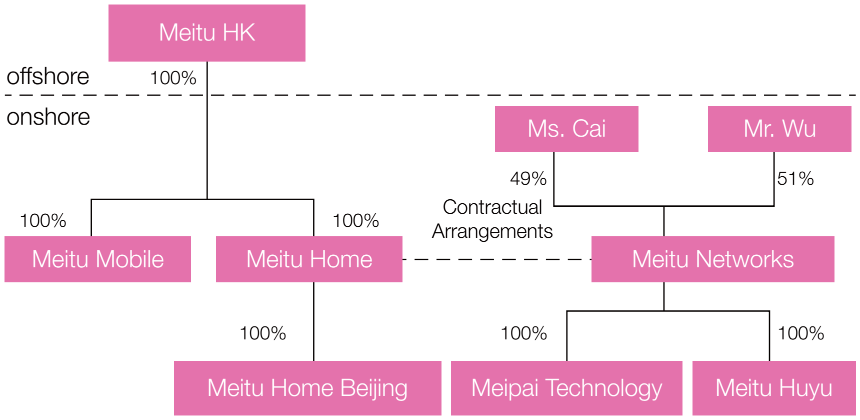
(c) **Share Pledge Agreement**

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 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).

(d) 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.

The following simplified diagram illustrates the flow of economic benefits from Meitu Networks and its subsidiaries to our Group stipulated under the Contractual Arrangements:



Apart from the above, there are no other new contractual arrangements entered into, renewed or reproduced between the Group and the PRC Operating Entities during the financial year ended December 31, 2016. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2016.

For the year ended December 31, 2016, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements has been removed.

We have been advised by our PRC legal advisor that the Contractual Arrangements do not violate the relevant PRC regulations.

The revenue of Meitu Networks and its subsidiaries for the years ended December 31, 2016 and 2015 were RMB140.1 million and RMB84.5 million, respectively.

For the year ended December 31, 2016, the revenue of Meitu Networks and its subsidiaries amounted to approximately 8.9% (2015: 11.4%) of the revenue for the year of the Group, respectively.

Mitigation actions taken by the Company

Our management works closely with Mr. Wu and Ms. Cai and our external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction

All of the Contractual Arrangements are subject to the restrictions as set out on pages 163 to 167 of the Prospectus.

Listing Rule 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.

Waiver from the Stock Exchange and Annual Review

The Stock Exchange has granted the Company 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 subject to the following conditions:

(a) no change without independent non-executive Directors' approval;

(b) no change without independent Shareholders' approval;

(c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities;

(d) the Contractual Arrangements may be renewed and/or cloned upon expiry or when justified by business expediency, without obtaining Shareholders' approval, on substantially the same terms and conditions as the Contractual Arrangements; and

(e) our Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during year ended December 31, 2016 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2016, (iii) no new contracts were entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2016, and (iv) the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2016:

(a) nothing has come to their attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions.

During the year ended December 31, 2016, no related party transactions disclosed in Note 30 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

QUALIFICATION REQUIREMENTS

Updates in Relation to the Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (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 provision of Internet content 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 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, (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.

Efforts and Actions Undertaken to Comply with 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:

(a) 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;

(b) Meitu HK has operated an office in Hong Kong for the promotion of our apps in Hong Kong since June 2014; and

(c) Meitu Technology and Meitu Technology (US), our United States subsidiaries, have operated two offices in the United States for the localization and marketing of our apps 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.

On July 13, 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business (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 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 IFRSs as if they were wholly-owned subsidiaries of our Group.

MAJOR CUSTOMERS AND SUPPLIERS

The relationship between our Group and our customers has been stable. For the year ended December 31, 2016, the revenue amounts from the Group's five largest customers accounted for 66.1% (2015: 78.0%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 36.5% (2015: 45.1%) of the Group's total revenue.

As at December 31, 2016, the Chairman of our Board, Mr. Cai Wensheng, 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 period from the Listing Date to December 31, 2016, 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.

The relationship between the Group and our suppliers has been stable. For the year ended December 31, 2016, the purchase amounts placed with the Group's five largest suppliers accounted for 38.1% (2015: 36.1%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 17.9% (2015: 14.1%) of the Group's total purchases.

None of the Directors or any of their close associates or any Shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued Shares had any interest in the Group's five largest suppliers.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

IMPORTANT EVENTS AFTER REPORTING DATE

On March 24, 2017, the Directors passed a resolution pursuant to which the Company will apply the credit standing to the share premium account of the Company in the sum of approximately US$1,348,561,000 (equivalent to approximately RMB9,284,167,000) to set off the accumulated losses of the Company.

Save as disclosed above, no important events affecting the Company occurred after December 31, 2016 up to the date of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Details of such are set out in the Environmental, Social and Governance Report in this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

Save as disclosed in the Prospectus, the Group has complied with the relevant laws and regulations that have a significant impact on the Group.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the annual general meeting of the Company to be held on Friday, June 2, 2017 ("**AGM**"), the register of members of the Company will be closed from Thursday, May 25, 2017 to Friday, June 2, 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the forthcoming AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, May 24, 2017 for the purpose of effecting the share transfers.

MEITU AND THE COMMUNITY

As a global company, Meitu, Inc. is committed to making the world a more beautiful place. Our vision is to build an ecosystem around beauty and make everyone a user of Meitu products.

By the order of the Board
Mr. Cai Wensheng
Chairman

Hong Kong
March 24, 2017

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report of the Company.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules.

The Company's Shares have been listed on the Main Board of the Stock Exchange since December 15, 2016 (the "**Listing Date**"). The Company has complied with all the applicable principles and code provisions as set out in the CG Code during the year ended December 31, 2016. Details of compliance of Code provisions (including certain provisions not fully applicable) due to the short period of time since the Listing Date to the end of year 2016 are explained in this corporate governance report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code since the Listing Date to December 31, 2016 and to the date of this annual report.

The Board has also adopted the Model Code to regulate all 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. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted since the Listing Date to December 31, 2016 and to the date of this annual report after making reasonable enquiry.

BOARD OF DIRECTORS

Board Composition

As at the date of this annual report, the Board comprises seven members consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors. The details of the Board composition are as follows:

Name of Director	Membership of Board Committee(s)
Executive Directors	
Mr. Cai Wensheng *(Chairman)*	Chairman of the Nomination Committee
Mr. Wu Zeyuan *(Chief Executive Officer)*	
Non-executive Directors:	
Dr. Guo Yihong	Member of the Audit Committee
Dr. Lee Kai-Fu	Member of the Remuneration Committee
Independent non-executive Directors:	
Mr. Zhou Hao	Chairman of the Audit Committee Member of the Nomination Committee
Mr. Ko Chun Shun Johnson	Chairman of the Remuneration Committee Member of the Audit Committee
Ms. Lo Po Man	Member of the Remuneration Committee Member of the Nomination Committee

The biographical information of the directors and the relationships between the members of the Board are disclosed under the section headed "Directors and Senior Management" on pages 20 to 26 of this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Cai Wensheng and Mr. Wu Zeyuan, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and the daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the year ended December 31, 2016 and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Terms of Appointment of Non-executive Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, all the directors are subject to retirement by rotation at least once every three years. Any new director appointed by the Board (i) to fill a casual vacancy in the Board shall hold office only until the first general meeting of the Company following his appointment and shall be subject to re-election at such meeting; and (ii) as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner) and is subject to retirement by rotation at an annual general meeting at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

The Board is also responsible for determining the Company's corporate governance policies which include:

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) reviewing the Company's disclosure in the Corporate Governance Report.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Board reserves its decisions for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. The Board has delegated the responsibility of implementing the strategies and the daily operations to the management of the Group under the leadership of executive Directors. The Chief Financial Officer and/or the joint company secretaries attend all regular Board meetings and Board committee meetings to advise on accounting and financial, corporate governance and statutory compliance matters. Senior management has formal or informal contact with the Board members as and when necessary.

Board Meetings and General Meetings

According to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication.

As the Company's Shares were only listed on the Stock Exchange on December 15, 2016, no board meeting was held from that date to December 31, 2016. A Board meeting was held on March 24, 2017 to consider and approve the final results announcement and annual report for the year ended December 31, 2016 of the Group and to convene the AGM of the Company. The Company expects to convene at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

Continuous Professional Development of Directors

Directors keep abreast of the responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Company acknowledges the importance of directors participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors have been arranged and reading material on relevant topics would be issued to directors where appropriate. They are encouraged to attend relevant training courses at the Company's expenses.

All the directors received an introduction regarding their responsibilities and obligations under the Listing Rules and relevant statutory requirements.

BOARD COMMITTEES

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Company set up the Audit Committee on November 20, 2016 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and of the CG Code. The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plans and relationship with external auditor, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee is mainly responsible for, inter alia, the following matters:

- reviewing the interim and annual financial statements and making recommendation to the Board;
- reviewing the terms of engagement and making recommendation to the Board regarding the appointment of auditors of the Company;
- monitoring and assessing the independence of external auditors and effectiveness of the internal control systems; and
- reviewing the financial information and oversight of the Company's financial reporting, controlling, accounting policies, practices with external auditors and the management of the Company, risk management and internal control issues.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee is chaired by an independent non-executive Director and all Committee members are independent non-executive Directors. The Audit Committee includes members with appropriate accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee did not hold any meetings during the year ended December 31, 2016. A meeting of the Audit Committee was held on March 24, 2017 to review the final results announcement and annual report for the year ended December 31, 2016 of the Group, internal control and risk management systems etc.

Remuneration Committee

The Company set up the Remuneration Committee on November 20, 2016 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and of the CG Code. The primary duties of the Remuneration Committee are as follows:

- to assist the Board in reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to assist the Board in reviewing and making recommendations to the Board on the remuneration policy and structure for all directors and senior management; and
- establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee is chaired by an independent non-executive Director and committee members include a non-executive Director and an independent non-executive Director.

The Remuneration Committee did not hold any meetings during the year ended December 31, 2016. A meeting of the Remuneration Committee was held on March 24, 2017 to review the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

Details of the fees and other emoluments paid or payable to the Directors and the details of the remuneration of the members of the senior management (excluding Directors) for the year ended December 31, 2016 are set out in details in Notes 31 and 9(a) to the audited consolidated financial statements contained in this annual report.

Nomination Committee

The Company set up the Nomination Committee on November 20, 2016 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee include the following matters:

- reviewing the Board composition;
- developing and formulating relevant procedures for the nomination and appointment of directors;
- making recommendations to the Board on the appointment of Directors and succession planning of the Company; and
- assessing the independence of independent non-executive Directors.

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance. Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including, but not limited to, gender, regional and industry experience, skills, knowledge and educational background.

In identifying and selecting suitable candidates to serve as a director of the Company, the Nomination Committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Board will consider setting measurable objectives to implement the Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The Nomination Committee will review the Diversity Policy, as appropriate, to ensure its effectiveness.

The Nomination Committee is chaired by the Chairman of the Company and all other committee members are independent non-executive Directors.

The Nomination Committee did not hold any meetings during the year ended December 31, 2016. A meeting of the Nomination Committee was held on March 24, 2017 to review composition of the Board, assess the independence of independent non-executive Directors and recommend the Board on the re-election of directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the directors and the senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 73 to 78 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management process

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness.

The Group's risk management and internal control systems provide a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures.

The Group has a designated risk management and internal control team which is responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Each department of the Group is also required to adhere strictly to the Group's internal control procedures and report to the risk management and internal control team of any risks or internal control issues.

The Audit Committee of the Board also reviews the Company's financial controls, risk management and internal control systems on a regular basis. During the year ended December 31, 2016, the Audit Committee conducted a review of the effectiveness of the risk management and internal control system of the Group. The review has covered various aspects of the Group's risk management and internal control system. The review results were reported to the Board. The Board is satisfied that such systems are effective and adequate.

The Group has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy.

The Group has established an internal control department which is responsible for identifying and monitoring the Group's risks and internal control issues. In 2016, the Group engaged an independent third party external advisor to review the risk management and internal control systems of the Group. The Board has decided to further strengthen the risk management and internal control systems of the Group by recruiting suitable manpower and qualified personnel to cope with the present structure and scale of operations of the Group.

Review on risk management and internal control system

The Company has conducted annual review on the effectiveness of the Group's risk management and internal control systems for the year ended December 31, 2016 and confirmed that the Group's risk management and internal control system in respect of financial, operational, compliance, risk management and adequacy of resources, are effective and adequate.

AUDITOR'S REMUNERATION

A breakdown of the remuneration payable to the external Auditor of the Company, PricewaterhouseCoopers, in respect of the audit services and the non-audit services for the year ended December 31, 2016 is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services (including services in connection with the Listing)	11,341
Non-audit Services	200
	11,541

JOINT COMPANY SECRETARIES

Mr. Ngan King Leung Gary ("**Mr. Ngan**") and Ms. Lee Ka Man ("**Ms. Lee**") from Fair Wind Secretarial Services Limited, an external secretarial service provider, are the joint company secretaries of the Company, report directly to the Board and are responsible for, inter alia, providing updated information to all Directors from time to time.

Mr. Ngan, our Chief Financial Officer, 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. Prior to joining our Group, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame Holdings Limited, a mobile games and webgames company listed on the Stock Exchange (Hong Kong Stock Exchange Stock Code: 0484) and 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 Holdings Limited (Hong Kong Stock Exchange Stock Code: 0484) from February 2013 to November 2014.

Ms. Lee 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. She has more than 15 years of experience in the field of company secretarial services. As Ms. Lee is not an employee of our Group, Mr. Ngan, our Chief Financial Officer, is the person whom Ms. Lee can contact for the purpose of code provision F1.1 of the CG Code.

During the year ended December 31, 2016, Mr. Ngan and Ms. Lee have complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended December 31, 2016.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Under Article 58 of the Articles of Association, any one or more Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may at all times have the right, by a written requisition to the Board or the company secretary of the Company, to require the convening of an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

The Board is not aware of any provisions allowing the shareholders of the Company to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law of the Cayman Islands Law. Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Detailed procedures for Shareholders to propose a person for election as a director of the Company are published on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 8106B, Level 81
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Email: ir@meitu.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. The information of the Shareholder(s) may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At annual general meetings, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

The Company's existing Articles of Association were adopted on November 25, 2016 and were effective on the Listing Date. They are available for viewing on the websites of the Company and the Stock Exchange. There have been no changes to the Articles of Association since the Listing Date.

Environmental, Social and Governance Report

COMPANY PROFILE

As at December 31, 2016, Meitu had over 1.1 billion unique users with total MAUs of 450 million, and total MAUs reaching a historical high of approximately 520 million in January 2017. Meitu has successfully expanded its presence abroad, with over 500 million overseas users and local operations established and localized apps launched in New Delhi, India, Sao Paulo, Brazil, Palo Alto, the United States, Singapore and Tokyo, Japan, etc. Meitu has repeatedly ranked among the top eight iOS non-game app developers globally throughout 2016 alongside global Internet giants. On December 15, 2016, Meitu became a listed company on the Main Board of the Hong Kong Stock Exchange.

We believe that the environmental, social and governance ("**ESG**") policies are essential to the sustainable development of Meitu. In addition to transforming the way our users create and share beauty through our products, Meitu strives to protect the privacy of the users and enhances the security of the products while maintaining good relationship with employees and making great efforts on community engagement and enhancing corporate governance measures.

CONCEPTS AND PRINCIPLES

This report is the first Environmental, Social and Governance Report prepared and issued by Meitu. in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), which mainly covers the environmental, social and governance performance of the Company's operations for the year ended December 31, 2016 and the review thereon for the purpose of constant improvement in future.

We fully understand the significant influence of ESG policies on our future development. Our business strategies and models also have significant impact to the society, the environment, as well as stakeholders. Therefore, this report will set forth our environmental, social and governance concepts and initiatives for the year ended December 31, 2016 and prospects in the future.

The data and information in this report were derived from our internal filings, records and statistics. Our input and contribution to this report have demonstrated our emphasis on our environmental, social and governance performance. In addition, we are committed to integrating sustainable development in our daily business operations. Should you have any feedback regarding this report, please do not hesitate to send an email to ir@meitu.com to help us improve ourselves continuously and keep abreast of the latest development.

PERFORMANCE THROUGHOUT 2016

(I) Striving to build an outstanding team

Talented employees are the core drivers for the development of an enterprise. We strictly comply with national laws and regulations in terms of recruitment process, employee rights protection and work environment, and we are committed to providing fair and equal employment and development opportunities to our employees. Meitu encourages the personal development of its employees, and provides the employees with diversified trainings and career development programs to help them maximize their personal value, explore their own potential and grow together with the Company.

Analysis on staff composition

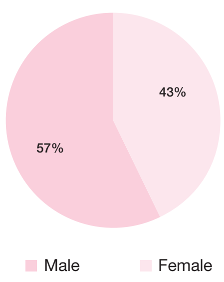
As at December 31, 2016, Meitu had 1,328 employees in total (including the offices in Xiamen, Beijing, Shenzhen, Shanghai, Hangzhou, Hong Kong, the United States and Singapore), including 756 male employees and 572 female employees, representing 57% and 43% of the total employees, respectively. Of all our employees, 1,065 employees are permanent employees, 191 employees are probationary employees and 72 employees are interns, representing 80%, 14% and 6% of the total employees, respectively. In 2016, 375 employees left the Company, representing a staff turnover rate of 16.8% (interns not included), among which, the staff turnover of employees aged 25 to 40 and in research and development departments were the highest.

In order to further lower the staff turnover rate, especially in response to higher turnover of young employees, we strive to improve the work environment of our offices. The steps we have taken to offer a caring work environment to our employees include offering complimentary snacks, beverages and medication. We organize various trainings and activities, such as trainings on industry technologies, informative lectures and activities that enable internal communications, to allow employees to participate in activities they are interested in according to their own interests and stages of capability development, and to provide them the opportunities to broaden their horizon and learn new knowledge.

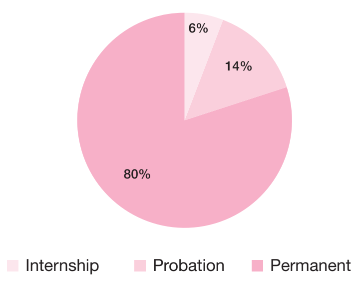
Employees in 2016: breakdown by gender and age group (Unit: %)	Male	Female
Under 18	0%	0%
18–24	11%	12%
25–40	45%	30%
41–59	1%	1%
60 and above	0%	0%

Distribution of employee turnover in 2016: breakdown by age group and types of employment (Unit: %)	Permanent employees	Probationary employees	Interns
Under 18	0%	0%	0%
18–24	13%	1%	23%
25–40	49%	5%	9%
41–59	0%	0%	0%
60 and above	0%	0%	0%

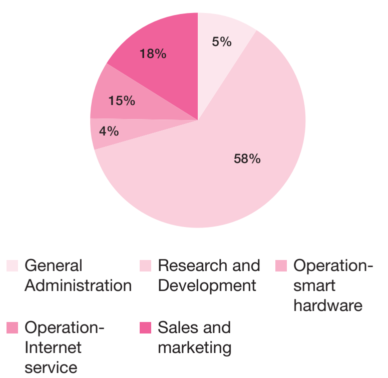
Proportion of male and female employees in 2016



Proportion of employment types in 2016



Staff turnover by department



Fair and compliant recruitment

The Company complies with all national and local laws and regulations on labor affairs, and implements legal recruitment and enrollment procedures in compliance with such regulations. The Company adheres to the principle of fair recruitment, commits to eliminate discrimination within the Company and offers equal employment opportunities to all job applicants and employees without any illegal or discriminatory recruitment rules. We do not discriminate any job applicants or employees on the grounds of ethnicity, race, nationality, religion, gender and age, etc..

We strictly comply with applicable national and local laws and regulations in China including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》) as well as applicable laws and regulations in countries and regions where we have set up offices. We implement our labor system in accordance with the application laws and regulations to prevent illegal acts such as the use of child labor and forced labor. As confirmed by the internal control department, the human resources department of the Company did not have any violations in the recruitment process during the year ended December 31, 2016.

Health and benefits of the employees

Meitu emphasizes the importance of occupational safety and health, and encourages its employees to maintain a good work-life balance. To this end, we adopt flexible working hours with a view to eliminate potential health and safety risks, which allows our employees to adjust their working time as needed as long as they work for 7.5 hours every day. As stated in the Administrative Measures on Attendance (《考勤管理規定》), an internal document of the Company, employees who leave the office after 8:00 p.m. will be entitled to an allowance of RMB25. In addition, we arrange shuttle buses to pick up our employees for work and provide off work transportation allowances with a view to lower their burden on transportation. We also provide professional gym rooms in order to encourage our employees to do more exercises outside working hours. We provide complimentary annual body checks to our employees to ensure that our employees always stay healthy. In 2016, no employees of Meitu were injured or died due to work.

With respect to the protection of female employees' rights, we also comply with the applicable laws and regulations in every country and region to provide our female employees a maternity leave of at least 98 to 128 days and maternity allowances. In the meantime, we also provide pregnant or breastfeeding female employees with suitable work positions, breaks and pregnancy-friendly facilities. This initiative is to allow them to continue to develop their career and professional skills at any time regardless of their physical conditions or family affairs.

Development and training

In 2016, the Company planned and organized a total of 150 training courses totaling 553.5 hours, among which 102 courses were organized in Xiamen totaling of 391 hours with over 3,500 attendees. 48 courses were organized in other locations including Beijing, Shenzhen and Hangzhou totaling 162.5 hours and over 1,200 attendees.

Meitu cherishes every employee, and believes that the employees will grow with the Company as the business expands. According to characteristics and job requirements of employees of different stages of development, we divide our training programs into three categories to provide our employees with pertinent, systematic and forward-looking trainings in order to explore their potential to support the continuous development of the Company.

New employee trainings

Meitu provides new employees with a training camp called "Set Sail with Meitu" (《美圖啟航計劃》), which includes over 700 new employees in Xiamen, Beijing, Shenzhen and Hangzhou.

Location	Training days	Number of sessions held
Xiamen	Advanced trainings of 2 to 2.5 days	10
Beijing	Refined trainings of 1 day	9
Shenzhen	Refined trainings of 1 day	6
Hangzhou	Basic trainings	3

Through continuous improvement of the "Set Sail with Meitu" (《美圖啟航計劃》) program, new employees are able to gain a more comprehensive understanding of the Company's business and structure and fit into the Company more quickly. We will strive to apply the revised version of the "Set Sail with Meitu" (《美圖啟航計劃》) program to all of our offices as soon as practicable.

Occupational trainings

We organized 35 "MTC Lectures" (《MTC大講堂》), 38 "MT Talk" (《MT Talk》) and 1 "Meitu Labshow" (《美圖Labshow》) with topics covering products and markets, technical research and development and general working skills for our employees. These lectures had over 1,700 attendees in total. Meanwhile, we established a mechanism to allow employees to communicate with our Chief Executive Officer, Mr. Wu Zeyuan. We held nine sessions of "Meet with Xinhong" (《欣鴻有約》) to enable our employees to directly communicate with members of the senior management, and to facilitate smooth internal communications. In addition, Meitu also organized activities together with other companies with an aim to facilitate local high-quality communication exchange relating to technological aspects. For example, we held three sessions of "Meitu Internet Technology Salon" (《美圖互聯網技術沙龍》) with about 500 cumulative attendees. The "Meitu Internet Technology Salon" (《美圖互聯網技術沙龍》) has already earned a certain degree of awareness and reputation in the local and neighboring regions, with the quality of the content improving and the attendance increasing every session.

Management trainings

We organized 30 training courses on various working skills for our management team, including recruiting and interviewing skills for non-human resources personnel and English trainings for core senior management members with the hope that our management team will improve corporate governance and lead the Company through absorbing new information and knowledge.

(II) Implementation of total responsibility management

Vendor management

In 2016, Meitu had a total of 934 domestic vendors and 224 overseas vendors. We strictly follow our internal vendor management procedures for vendor selection and management:

As for internal assessment, we adopt a tri-party scoring system to determine whether on-site inspection is required. On-site inspections are generally necessary for all vendors. However, we may exempt such on-site inspection process if the vendors enjoy a good industry reputation, or are the sole vendor of certain resources and are located overseas.

In line with the internal assessment process, we also adopt a tri-party scoring system for on-site inspection to determine whether the vendor is qualified to be included in the approved vendor list (the "**AVL**"). If qualified, the vendor will be admitted to the AVL system by the procurement department, and in the meantime the vendor will be required to submit detailed information to the research and development department and quality control department for approval. If, ultimately, the vendor is determined to be unqualified, such vendor will be required to make rectifications or be eliminated directly.

We will also sign a product quality agreement with the vendor. According to the agreement, Meitu has the right to propose a requirement regarding quality improvement which the vendor is obligated to adopt. The agreement not only ensures that the design and manufacture of products provided by the vendor meet quality standards of both Meitu and the vendor and requirements of related laws and regulations, but also clarifies the quality standards, quality responsibilities and any dispute resolution. Meitu will make a solid cooperation with the supplier under the principle that is "quality first, mutual benefits, and develop together".

Product quality

Meitu focuses on product quality, and imposes stringent conditions for the launch of app and hardware products. Meitu only allows its products to be launched if they have met the following conditions:

1. Logic functions satisfy the product requirements, the features, user interface ("UI") and effect designs of the products have been accepted by product managers, UI designers and effect designers.
2. No fatal or serious problem exists for the bugs recorded on the defect management system. No discrepancy with the requirement document, and minor problems relating to designs or to be solved later or recommended to keep unchanged have been confirmed by product managers. Problems that cannot be rectified at the time have been confirmed by development managers and product managers.
3. Functions have been inspected and accepted in both testing environment and real environment.
4. Where applicable, the testing needs to cover all the mainstream device systems, resolution rates and manufacturers with larger market shares.
5. Performances meet with performance indicators and no serious issues existed.

Product recall and complaints follow-up

In 2016, the Company did not recall any product due to safety and health issues. In principle, Meitu only recalls products with low user engagement that are not in line with the market trend, or products that do not meet the strategic developmental needs of the Company.

Customers' opinions and experiences are the key drivers for the sustainable development of the Company. We have dedicated ourselves to building good user feedback channels and providing comprehensive solutions for protection of user rights in order to safeguard the rights of our users and ensure that their opinions are received by relevant departments. We believe that long-lasting user loyalty can only be built upon the Company prioritizing users' experiences, which enables us to improve as a Company going forward.

During the year ended December 31, 2016, we received a total of 1,178 complaints relating to *Meipai*, which were mainly complaints on copyrights on videos uploaded by our users. Such complaints were all resolved within three working days in accordance with the responsive procedures for the infringement of intellectual properties. As for Meitu smartphones, the Company received a total of 11 complaints as recorded by Tmall.com, which were mainly repair-related complaints from consumers.

We will improve the communication skills of our after-sales service employees so as to enhance the consumers' understanding on our warranty policies. In addition, the Company required the after-sales department to summarize complaints and simultaneously share them with the public relations department and the legal department to better address and resolve the complaints.

Advertising, product descriptions and related matters

The Company's marketing business also follows the principle of honesty and trustworthiness. We require our employees to comply with guidelines set out in the Compliance Manual (《合規手冊》) to ensure that all information published by way of advertising, publicity, marketing, media presentations and brochures etc. is accurate. In addition, we publicize product information such as price to enable customers to understand their rights as consumers and the obligations of the Company. We will also actively monitor the quality of our agents or distributors to ensure that their customer services are reliable.

There are also clear specifications within the Company to specify the requirements and standards of media descriptions to ensure that all employees have the same understandings as the Company and have guidance to follow, so as to avoid misrepresentation and exaggerated descriptions. In particular, we set out in our guidance that product descriptions and highlights must be clearly and visible, and avoid vague information such that customers can clearly understand the product features and specifications etc. In addition, we have established strict internal standards for offline activities and spokespersons to ensure the accuracy and effectiveness of various promotional activities while maintaining the image of the company.

Protecting rights and intellectual properties

Meitu has always complied with policies, laws and regulations in relation to the protection of intellectual properties. For app products, the means to safeguard such rights mainly including telephone, email and social networks. If the event in dispute is related to personal interest, the owner is only required to download and complete the Notice of Complaint (《投訴通知函件》) and Letter of Authorization (《授權委託書》) and provide the scanned copies of the users' or the entities' identification or documents. If the event relates to any intellectual property, it will be resolved mainly by means of active notification and counter-notification: the owner of the intellectual property is required to send a written notice to Meitu, after which Meitu will convey such written notice to the interested party. Such interested party can send a written notice to Meitu if he/she believes that there is no infringement on its part.

Rights protection events for Meitu smartphones mainly relate to infringement of design patents. Pursuant to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) and the Interpretation of the Supreme People's Court Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Infringement on Patent Rights (《最高人民法院關於審理侵犯專利權糾紛案件應用法律若干問題的解釋》), we protect our rights by way of litigation, and we take court actions against the counterparty for compensation for the infringement.

Emphasis on customers' privacy

Meitu emphasizes and protects user privacy across all products and services. In this regard, we have formulated Meitu Privacy Policy (《美圖隱私權政策》), which is in line with the principle requirements of relevant laws and regulations. We use the user information and data collected through our apps and hardware products in strict compliance with this policy.

Regarding apps, we strictly adhere to relevant policies and laws and emphasize user privacy based on the user's situation, which includes complying strictly with the security terms of various platforms and never collecting any information other than those permitted by the operating systems of various smartphones. We have established a strict user access control mechanism to restrict our employees from accessing user information and to avoid the leakage of such information to any third parties.

Regarding user information, we use the transmission protocol, hypertext transfer protocol secure or https, to encrypt user information and ensure the security of user information during transmission. Meanwhile, we apply multiple encryption to store user data in order to prevent data leakage. Moreover, we impose stringent authority-based access control over our servers, and have also equipped advanced firewalls, intrusion detection and intrusion protection devices in our server rooms to protect against outside attacks. In order to ensure the security of our servers, we have also established a professional security team to monitor and standby around the clock.

Regarding smartphones, the user privacy protection policy of the Company is embodied in the following two aspects: (i) the user agreement (which will be shown when a Meitu smartphone is turned on for the first time); and (ii) the Meitu account service agreement. For the purpose of improving the product performance and user experience, our smartphones may need to collect the personal information of the users throughout its usage, provided that such collection has been approved by the users. Meitu mainly applies the user information for the following purposes: to improve product performance, verify user identification, satisfy personalized user needs, prevent and identify illegal behaviors as well as invite users to participate in surveys.

Meitu will make use of various security technologies and programs to establish a robust system, in order to protect users' personal information and eliminate unauthorized access, use or disclosure. Meitu will not publish or disclose to any third party any personal information without the consent of the users, except as required by relevant laws and regulations.

Preventing corruption and fraud

We have a clear corporate governance policy, with particular emphasis on anti-corruption and anti-fraud. During the year ended December 31, 2016, we established and optimized the anti-corruption and anti-fraud policies by, among others, formulating the Administrative Measures for the Internal Audit of Meitu, Inc. (《美圖公司內部審計管理制度》), the Administrative Measures for the Collection of Internal Information Feedback and Opinions (《內部信息反饋及意見收集管理制度》), and the Anti-fraud and Reporting System of Meitu, Inc. (《美圖公司反舞弊與舉報制度》).

In the relevant policies, we formulated detailed denouncing policies and established a reward system enabling our employees to report the matter directly to the board of directors or chairman of the Company via telephone or email. If the matter reported turns out to be true, a reward determined based on the recovered amount will be given to the reporter within one month after such matter is investigated and concluded. In addition to the detailed internal review procedures and reporting measures in place, we stress the importance of anti-corruption and anti-fraud through advocating a corporate culture that embraces honesty and integrity, setting our management members as role models and promoting our anti-corruption and anti-fraud policies to new employees. The Company promotes such polices to relevant departments on a regular basis, and, when needed, visits vendors to promote relevant policies of the Company.

During the year ended December 31, 2016, we did not experience any material breach of our anti-corruption and anti-fraud policies. We will further optimize our anti-corruption system, regularly review the implementation of the system in steps and place more efforts on regulating such matters in order to build a solid foundation for our future development.

We carry out the work relating to anti-money laundering strictly in accordance with the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and other relevant regional and national regulations. These works include:

(a) carefully identifying money laundering transactions by the responsible departments and personnel through performing customer identification checks and retaining customer information and transaction records to discharge the obligations;

(b) reporting significant suspicious transactions for approval on a timely basis, and performing official address and website information checks by employees responsible for the transactions; and

(c) If necessary, increasing the frequency and intensity of monitoring transactions, cash receipts and payments, and performing due diligence on counterparties and financial institutions responsible for the transactions.

(III) Promoting environment-friendly operations

We understand that an enterprise is part of the environment. As such, in response to the to the call of the environmental protection organizations worldwide, we encourage energy conservation, minimize the impact of our operations on the environment emphasizes on environmental protection and energy conservation. The Measures of Meitu for Office Management (《美圖辦公室管理辦法》) promulgated in the beginning of 2016 set forth policies and requirements for employees to promote energy conservation and environmental protection, with a view to creating green office environment with joint efforts.

Building a green office

Meitu continuously supports building a green office and enhancing energy conservation in the workplaces, and has adopted various measures in this regard. On water consumption, we put "Save Water" signs in our offices, advocate the use of non-disposable cups and reduce bottled water consumption. On paper consumption, we advocate two-sided printing and wastepaper and used paper recycling. On waste management, we encourage the categorization of solid waste and recycling the unused paper boxes. On electricity consumption, the Company turns off the lights for one hour from 12:30 to 13:30 every day to reduce electricity consumption while allowing our employees to take better rest. In addition, all lights other than office lights will be turned off after 18:00 to save electricity. At the same time, the Company will try its best to procure rechargeable batteries to avoid using disposable batteries.

Creating eco-friendly production

We also require suppliers to sign environmental commitment agreements to ensure compliance with the guidelines such as the European Commission, including the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, the Registration, Evaluation, Authorization and Restriction of Chemicals, Electrical Equipment Directive. Packaging materials must comply with 94/62/EC requirements relating to packaging materials, while batteries and rechargeable batteries and other similar products must comply with 2006/66/EC requirements relating to batteries and rechargeable batteries. Suppliers are also required to provide valid evidence, such as third-party test reports and other environmental documentations to ensure that their production quality complies with our environmental requirements.

(IV) Benefiting communities

Meitu is proud of its efforts in making contributions to the society. As a member of the society, Meitu bears the responsibility to contribute to the well-being and prosperity of local communities. Throughout 2016, the Company encouraged and supported its employees to participate in community and charitable activities to give back to the society.

In November 2016, the Company sponsored an event called "November 11 Charitable Shopping — Realizing Dreams of Left Behind Children" (《築夢留守兒童 —「11.11」公益樂淘匯》) together with another four companies. In this event, the companies collected goods from employees for charity sale and all the proceeds received were donated to the left behind children to help them realize the dream of obtaining an education by setting up book corners for them.

With a view to enhance the cultural and athletic exchange among employees of the Company and other enterprises in the software park in Xiamen and improve the physical conditions of our employees and promoting the Company's values, our Company's basketball team participated in the Sixth Men's Basketball Invitational of "Torch Software — 35.com Cup" (《火炬軟件 — 三五互聯杯》) in 2016.

FUTURE PROSPECTS

Over the last year, Meitu fulfilled its responsibilities as a corporate citizen in respect of product responsibility, staff development and giving back to the society. In addition, we are committed to sustainable development. We also feel gratitude towards our society and fulfill our responsibility as a corporate citizen while developing our businesses.

Regarding the environment, we will, as we always do, advocate green offices and encourage employees to save resources in offices to relieve the burden that is brought to the environment during daily operations. Regarding the society and governance, we will further optimize our staff benefits, make efforts to improve the working environment, and strive to build Meitu park to put together our workplaces to enhance the efficiency of internal communications. Furthermore, Meitu will continue to pay attention to any updates of the policies and rules made by the governmental authorities to ensure that all related products, internal processes, systems and guidelines and other standards are legally complied with. Meitu will also put more resources in staff development and community building in the interests of all stakeholders.

Independent Auditor's Report

To the Shareholders of Meitu, Inc.

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Meitu, Inc. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 79 to 168, which comprise:

- the consolidated balance sheet as at December 31, 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to the initial recognition and determination of fair value of convertible redeemable preferred shares.

Key Audit Matter	How our audit addressed the Key Audit Matter
Initial recognition and determination of fair value of convertible redeemable preferred shares Refer to Note 4 Critical accounting estimates and judgements and Note 26 Convertible redeemable preferred shares of the consolidated financial statements. Since the date of incorporation, the Company has completed five rounds of financing by issuing convertible redeemable preferred shares, inclusive of the series D preferred shares, which were issued on April 19, 2016. Upon the completion of the initial public offering ("**IPO**") on December 15, 2016, all outstanding convertible redeemable preferred shares were automatically converted into ordinary shares on a one-to-one basis. A fair value loss of convertible redeemable preferred shares of RMB5.6 billion was recorded in the year ended December 31, 2016. The initial recognition of convertible redeemable preferred shares involved assessment of complicated contract terms. The Company assessed the key terms in the relevant legal documents to identify various rights of holders and determine the substance of the contractual arrangements and related accounting implications.	Regarding the initial recognition of convertible redeemable preferred shares: • We interviewed management to understand the business substance of the arrangements and obtained and reviewed relevant legal documents, including subscription agreements, memorandum and articles of association and board meeting minutes. • We evaluated the appropriateness of management's assessment of the contract terms and determination of the related accounting implications, this mainly focused on the identification and classification of the host contracts and whether the embedded derivatives were closely related to the host contracts.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
The convertible redeemable preferred shares were not traded in an active market and the respective fair value was determined by using valuation techniques, including the discounted cash flow method to determine the underlying equity value of the Company and the equity allocation method to determine the fair value of the convertible redeemable preferred shares, and were highly dependent on estimates which contain assumptions, such as discount rate, volatility and probability weight under each of the IPO, liquidation and redemption scenarios. The Company engaged a third party appraisal firm to support its determination of fair value of convertible redeemable preferred shares.	To address the determination of the fair value of convertible redeemable preferred shares, with the involvement of our internal valuation experts: • We assessed the composition of management's future cash flow forecasts based on our past audit experience with the Company and the Company's approved budgets. • We also challenged management's assumptions used in the valuation as follows: o Discount rate, by assessing the cost of capital for the Company and comparing the rates used to comparable companies. o Volatility, by comparing them to historical volatilities of comparable companies. o Probability weight under each of the IPO, liquidation and redemption scenarios, by discussing with management and analyzing the weights based on our understanding of the Company's business and market condition. • We evaluated the Company's sensitivity analysis over the above key assumptions, to assess the estimation uncertainty in the accounting estimates related to convertible redeemable preferred shares. • We assessed the objectivity, independence and competence of the external appraiser engaged by the Company. Based on the procedures performed, we found the judgements and estimates made by the Company in initial recognition and determination of fair value of convertible redeemable preferred shares to be supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheuk Chi Shing.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2017

Consolidated Income Statement

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Revenue	5	**1,578,580**	741,813
Cost of sales	5, 8	**(1,339,420)**	(641,323)
Gross profit		**239,160**	100,490
Selling and marketing expenses	8	**(424,845)**	(649,092)
Administrative expenses	8	**(198,586)**	(94,742)
Research and development expenses	8	**(243,261)**	(119,605)
Other income	6	**12,980**	11,085
Other losses, net	7	**(37,658)**	(858)
Operating loss		**(652,210)**	(752,722)
Finance income	10	**11,181**	19,053
Finance costs	10	**(12,162)**	(155)
Finance income/(costs), net	10	**(981)**	18,898
Fair value loss of convertible redeemable preferred shares	26	**(5,606,109)**	(1,482,643)
Share of losses of investments accounted for using the equity method	11(a)	**(512)**	(319)
Loss before income tax		**(6,259,812)**	(2,216,786)
Income tax expense	12	**(1,068)**	(771)
Loss for the year		**(6,260,880)**	(2,217,557)
Loss attributable to:			
— Owners of the Company		**(6,260,880)**	(2,217,557)
Loss per share (expressed in RMB per share)	13		
— Basic		**(3.03)**	(1.13)
— Diluted		**(3.03)**	(1.13)

The notes on pages 87 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Loss for the year		**(6,260,880)**	(2,217,557)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets			
— short-term investments placed with banks	17	**431**	71
Currency translation differences		**(531,438)**	(229,790)
Total comprehensive loss for the year, net of tax		**(6,791,887)**	(2,447,276)
Total comprehensive loss attributable to:			
— Owners of the Company		**(6,791,887)**	(2,447,276)

The notes on pages 87 to 168 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**79,647**	53,374
Intangible assets	15	**21,705**	21,136
Long-term investments			
Investments in associates in the form of ordinary shares	11(a)	**6,128**	3,381
Financial assets at fair value through profit or loss	11(b)	**300,279**	147,922
Prepayments and other receivables	19	**50,319**	36,162
		458,078	261,975
Current assets			
Inventories	20	**374,342**	125,901
Trade receivables	18	**86,138**	46,567
Prepayments and other receivables	19	**116,736**	53,512
Short-term investments placed with banks	17	**280,820**	170,389
Short-term bank deposits	21(c)	**725,229**	60,000
Restricted cash	21(b)	**400**	600
Cash and cash equivalents	21(a)	**4,508,522**	989,874
		6,092,187	1,446,843
Total assets		**6,550,265**	1,708,818

Consolidated Balance Sheet

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
EQUITY AND LIABILITIES			
Equity			
Share capital	22	**277**	121
Share premium	22	**17,015,854**	—
Reserves	23	**(666,751)**	(176,787)
Accumulated losses		**(10,332,138)**	(4,071,141)
Total equity		**6,017,242**	(4,247,807)
Liabilities			
Non-current liabilities			
Convertible redeemable preferred shares	26	**—**	5,681,892
		—	5,681,892
Current liabilities			
Trade and other payables	25	**532,166**	274,180
Income tax liabilities		**857**	553
		533,023	274,733
Total liabilities		**533,023**	5,956,625
Total equity and liabilities		**6,550,265**	1,708,818

The notes on pages 87 to 168 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 79 to 168 were approved by the Board of Directors on March 24, 2017 and were signed on its behalf.

Cai Wensheng
Director

Wu Zeyuan
Director

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company				
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at January 1, 2016		**121**	**—**	**(176,787)**	**(4,071,141)**	**(4,247,807)**
Comprehensive loss						
Loss for the year		—	—	—	(6,260,880)	(6,260,880)
Change in fair value of available-for-sale financial assets — short-term investments placed with banks	17	—	—	431	—	431
Currency translation differences	23(a)	—	—	(531,438)	—	(531,438)
Total comprehensive loss		**—**	**—**	**(531,007)**	**(6,260,880)**	**(6,791,887)**
Transactions with owners as their capacity as owners						
Share options awarded under Pre-IPO ESOP	24	—	—	40,926	—	40,926
Appropriation to statutory reserves	23(b)	—	—	117	(117)	—
Conversion of preferred shares to ordinary shares	22	117	12,804,419	—	—	12,804,536
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	22	39	4,211,435	—	—	4,211,474
Total transactions with owners as their capacity as owners		**156**	**17,015,854**	**41,043**	**(117)**	**17,056,936**
Balance at December 31, 2016		**277**	**17,015,854**	**(666,751)**	**(10,332,138)**	**6,017,242**

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company			
	Note	Share capital RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at January 1, 2015		121	28,022	(1,853,100)	(1,824,957)
Comprehensive loss					
Loss for the year		—	—	(2,217,557)	(2,217,557)
Change in fair value of available-for-sale financial assets — short-term investments placed with banks	17	—	71	—	71
Currency translation differences	23(a)	—	(229,790)	—	(229,790)
Total comprehensive loss		—	(229,719)	(2,217,557)	(2,447,276)
Transactions with owners as their capacity as owners					
Share options awarded under Pre-IPO ESOP	24	—	24,426	—	24,426
Appropriation to statutory reserves	23(b)	—	484	(484)	—
Total transactions with owners as their capacity as owners		—	24,910	(484)	24,426
Balance at December 31, 2015		121	(176,787)	(4,071,141)	(4,247,807)

The notes on pages 87 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash used in operations	28	**(691,529)**	(672,896)
Income tax paid		**(764)**	(2,449)
Net cash used in operating activities		**(692,293)**	(675,345)
Cash flows from investing activities			
Purchase of property and equipment	14	**(60,238)**	(49,787)
Purchase of intangible assets	15	**(2,305)**	(2,340)
Proceeds from disposal of property and equipment	28	**3,837**	769
Investments in associates in the form of ordinary shares	11(a)	**(3,259)**	(3,700)
Investments in financial assets at fair value through profit or loss	11(b)	**(141,634)**	(146,922)
Proceeds from disposal of financial assets at fair value through profit or loss	11(b)	**2,000**	—
Investments in available-for-sale financial assets	11(c)	**(45,091)**	—
Prepayment for long-term investments	19	**—**	(1,000)
Purchase of short-term investments placed with banks	17	**(465,000)**	(609,500)
Proceeds from disposal of short-term investments placed with banks	17	**355,000**	609,500
Investment income received from short-term investments placed with banks	17	**6,654**	4,106
Placement of short-term bank deposits		**(1,521,078)**	(1,008,066)
Receipt from maturity of short-term bank deposits		**855,849**	1,214,242
Loans to investee companies	19(a)	**(10,406)**	(8,347)
Repayment from an investee company	19(a)	**8,347**	—
Loans to shareholders of investee companies	19(b)	**(2,000)**	(7,000)
Repayments received from shareholders of investee companies	19(b)	**9,000**	—
Interest received		**5,995**	11,336
Net cash (used in)/generated from investing activities		**(1,004,329)**	3,291

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2016 RMB'000	2015 RMB'000
Cash flows from financing activities			
Proceeds from issuance of convertible redeemable preferred shares	26	**879,920**	307,204
Payments of issuance costs of convertible redeemable preferred shares	10	**(42)**	(40)
Proceeds from bank borrowings		**—**	40,000
Repayments of bank borrowings		**—**	(40,000)
Interest expenses paid		**—**	(43)
Proceeds from issuance of ordinary shares relating to the initial public offering	22	**4,357,679**	—
Payments of issuance costs of ordinary shares relating to the initial public offering	22	**(146,205)**	—
Net cash generated from financing activities		**5,091,352**	307,121
Net increase/(decrease) in cash and cash equivalents		**3,394,730**	(364,933)
Cash and cash equivalents at the beginning of the year	21	**989,874**	1,288,345
Exchange gains on cash and cash equivalents		**123,918**	66,462
Cash and cash equivalents at the end of the year	21	**4,508,522**	989,874

The notes on pages 87 to 168 are an integral part of these consolidated financial statements.

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 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 Codan 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, the "**Group**") are principally engaged in provision of internet services, and developing, manufacturing and sales of smart hardware and others 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 at the date of this report.

The Group's business was carried out through two domestic companies and their subsidiaries, incorporated in the PRC, namely Xiamen Meitu Mobile Technology Co., Ltd. (廈門美圖移動科技有限公司, "**Meitu Mobile**") and Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司, "**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 been 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.

Pursuant to a series of contractual agreements dated and signed on December 25, 2015 (the "**Contractual Agreements**") among the PRC Operating Entities and their respective equity holders and Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司, "**Meitu Home**"), which is a wholly owned subsidiary of the Company, Meitu Home is able to effectively control, recognize and receive substantially all the economic benefits 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.(a)(i) below.

On June 13, 2014, Meitu (China) Limited (美圖(中國)有限公司, "**Meitu HK**"), which is a wholly owned subsidiary of the Company, 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 consolidated financial statements of Group as a whole.

1 GENERAL INFORMATION (CONTINUED)

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.

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**"). Upon the completion of the IPO on December 15, 2016, all of the Company's 1,686,627,880 outstanding convertible preferred shares were converted into ordinary shares on a one-to-one basis immediately as of the same date. The net proceeds to the Company from the IPO, after deducting underwriting commissions and other issuance costs paid and payable, were approximately RMB4,211,474,000 (Note 22).

The Group's major subsidiaries are based in the PRC and 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 of December 31, 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 (2015: nil).

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, and have been approved by the Company's Board of Directors on March 24, 2017.

All companies comprising the Group have adopted December 31 as their financial year-end date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied throughout the year, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have 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 consolidated financial statements 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 consolidated financial statements are disclosed in Note 4 below.

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11;
- Clarification of acceptable methods of depreciation and amortization – Amendments to IAS 16 and IAS 38;
- Annual improvements to IFRSs 2012–2014 cycle; and
- Disclosure initiative – amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

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.

		Effective for annual periods beginning on after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	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 Group as a lessee.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted (Continued)

- 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, 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 which will not be recycling to profit or loss. 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 major financial assets held by the Group include:

  — equity instruments currently classified as available-for-sale financial assets which might be reclassified as financial assets at fair value through profit or loss; and
  — equity investments currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under IFRS 9.

  Accordingly, while the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

  The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted (Continued)

- IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related interpretations 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 customers; (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 customers 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 29(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 of 2019. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2016 are approximately RMB110,017,000, with the minimum lease payments due less than one year amounting to approximately RMB43,660,000, and those due more than one year and less than five years amounting to approximately RMB66,357,000.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

(a) 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.

(i) Subsidiaries controlled through Contractual Agreements

As described in Note 1, the wholly-owned subsidiary of the Company, Meitu Home, has entered into the Contractual Agreements, including 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 and its subsidiaries, receives variable returns from its involvement with Meitu Networks and its subsidiaries, has the ability to affect those returns through its power over Meitu Networks and its subsidiaries and is considered to control Meitu Networks and its subsidiaries. Consequently, the Company regards Meitu Networks and its subsidiaries as the controlled entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) Subsidiaries controlled through Contractual Agreements (Continued)

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.

(ii) 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 IFRSs.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(ii) Business combinations (Continued)

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.

(iii) 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.

(iv) 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.

(b) 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 dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiary in the period the dividends are 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 associates 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 losses of investments accounted for using the equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated financial statements 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 are within the PRC, the Group determined to present its consolidated financial statements 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 cases 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

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 accumulated 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 derecognized. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 (2015: nil).

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to sell and value in use 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

(a) Classification

The Group classifies its financial assets in the following categories: financial assets 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's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) 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, 2016 and 2015 the Group's investments in this category are all classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(a) Classification (Continued)

(ii) 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 which are classified as non-current assets. The Group's loans and receivables comprise "trade receivables" (Note 18), "prepayments and other receivables" (Note 19), "short-term bank deposits" (Note 21), "restricted cash" (Note 21) and "cash and cash equivalents" (Note 21) in the consolidated balance sheet.

(iii) 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 category. 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.

(b) 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 derecognized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(b) Recognition and measurement (Continued)

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 "other losses, net".

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a 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 impairment 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

(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 method. The cost of finished goods and 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 include 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Share capital

Ordinary shares are classified as equity. Convertible redeemable 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 the IPO or agreed by majority of the holders as detailed in Note 26.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Convertible redeemable preferred shares (Continued)

The convertible redeemable preferred shares are classified as non-current liabilities as at December 31, 2015 because the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All convertible redeemable preferred shares of the Company had been converted into ordinary shares of the Company upon its IPO on December 15, 2016 (Note 26).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(b) Deferred income tax

(i) 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 or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. 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.

(ii) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(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. The Group's contributions to the scheme are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local government authorities. The Group's contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates the Pre-IPO ESOP, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (Continued)

(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 employees and non-employees 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

(a) Internet Services and Others

(i) 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.

(ii) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

(b) Sales of Smart Hardware Products

(iii) 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 has 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, 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.

(iv) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Group'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, or paying or to pay foreign currencies to overseas business partners. The Group did not hedge against any fluctuation in foreign currency.

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 year ended December 31, 2016 would have been approximately RMB7,002,000 (2015: RMB10,715,000) lower/higher, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US$.

(ii) Interest rate risk

Other than interest-bearing cash and cash equivalents and loans to investee companies and a shareholder of an investee company, the Group has no other significant interest-bearing assets or liabilities. Loans were granted at fixed rate and expose the Group to fair value interest risk. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances and loans are not expected to change significantly.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 sheet as financial assets at fair value through profit or loss 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 value of the investments held by the Group had increased/decreased by 5% with all other variables held constant, loss before income tax for the year ended December 31, 2016 would have been approximately RMB15,014,000 (2015: RMB7,396,000) lower/higher.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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 placed with banks 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 placed with banks, 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 assessments 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 analyzes 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At December 31, 2016			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)	**441,551**	**884**	**442,435**
At December 31, 2015			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)	226,387	132	226,519

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 and capital reserves) 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 analyzes the Group's financial instruments carried at fair value as at December 31, 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); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(Expressed in thousands of Renminbi, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2016:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 11(b))	—	—	300,279	300,279
Short-term investments placed with banks (Note 17)	—	—	280,820	280,820
	—	—	581,099	581,099
Liabilities:				
Convertible redeemable preferred shares (Note 26)	—	—	—	—

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2015:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 11(b))	—	—	147,922	147,922
Short-term investments placed with banks (Note 17)	—	—	170,389	170,389
	—	—	318,311	318,311
Liabilities:				
Convertible redeemable preferred shares (Note 26)	—	—	5,681,892	5,681,892

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(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; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(Expressed in thousands of Renminbi, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets and liabilities include short-term investments placed with banks, 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 year ended December 31, 2016 are presented in the Note 26.

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, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**147,922**	—
Additions	**142,634**	147,922
Disposals	**(2,000)**	—
Changes in fair value	**11,212**	—
Currency translation differences	**511**	—
At the end of the year	**300,279**	147,922
Total unrealized gains 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	**11,212**	—

(Expressed in thousands of Renminbi, unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments of short-term investments placed with banks for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**170,389**	170,318
Additions	**465,000**	609,500
Disposals	**(355,000)**	(609,500)
Change in fair value	**7,085**	4,177
Investment income recognized in profit or loss	**(6,654)**	(4,106)
At the end of the year	**280,820**	170,389
Total investment income for the year included in "other income" for short-term investments placed with banks at the end of the year	**6,654**	4,106
Unrealized gains for the year included in "other comprehensive income" for short-term investments placed with banks at the end of the year	**431**	71

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 and wealth management products (Note 17). As the investments in private companies are not traded in an active market, their fair value have been determined using various applicable valuation techniques, including discounted cash flows, 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 flows.

(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 26.

All convertible redeemable preferred shares of the Company had been converted into ordinary shares of the Company upon its IPO on December 15, 2016 (Note 26).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Recognition of share-based compensation expenses

As mentioned in Note 24, 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 estimates on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, are 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 receivables

Management assesses the impairment of trade and other receivables according to the trade and other receivables' 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

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 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 Services and Others

— 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 losses, net, finance income/(costs), net, fair value loss of convertible redeemable preferred shares, share of losses 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 sales primarily comprises cost of inventories consumed, cost of revenue sharing with content creators, 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 the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Internet Services and Others:		
— Online advertising	**60,446**	72,644
— Internet value-added services and others	**44,231**	2,047
	104,677	74,691
Smart Hardware	**1,473,903**	667,122
Total revenue	**1,578,580**	741,813

(Expressed in thousands of Renminbi, unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended December 31, 2016 are as follows:

	Year ended December 31, 2016		
	Internet Services and Others RMB'000	Smart Hardware RMB'000	Total RMB'000
Segment revenue	**104,677**	**1,473,903**	**1,578,580**
Segment cost of sales	**(162,397)**	**(1,177,023)**	**(1,339,420)**
Gross (loss)/profit	**(57,720)**	**296,880**	**239,160**

The segment results for the year ended December 31, 2015 are as follows:

	Year ended December 31, 2015		
	Internet Services and Others RMB'000	Smart Hardware RMB'000	Total RMB'000
Segment revenue	74,691	667,122	741,813
Segment cost of sales	(99,369)	(541,954)	(641,323)
Gross (loss)/profit	(24,678)	125,168	100,490

The major customers which contributed more than 10% of the total revenue of the Company for the years ended December 31, 2016 and 2015 are listed as below.

	Year ended December 31,	
	2016 %	2015 %
Customer A	**36.5%**	45.1%
Customer B	**12.7%**	*
Customer C	*	25.0%

Note: * represents that the amount of revenue from such customer is less than 10% of the total revenue for the year.

(Expressed in thousands of Renminbi, unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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, 2016 and 2015, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

The reconciliation of segment profit/loss to loss before income tax for the years ended December 31, 2016 and 2015 are presented in the consolidated income statement of the Group.

6 OTHER INCOME

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Government grants	**5,398**	6,945
Investment income on short-term investments placed with banks (Note 17)	**6,654**	4,106
Others	**928**	34
	12,980	11,085

7 OTHER LOSSES, NET

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Loss on disposal of property and equipment	**(3,325)**	(376)
Impairment loss on long-term investments (Note 11(c))	**(45,091)**	—
Fair value gains on long-term investments (Note 11(b))	**11,212**	—
Others	**(454)**	(482)
	(37,658)	(858)

(Expressed in thousands of Renminbi, unless otherwise stated)

8 EXPENSES BY NATURE

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Inventories consumed and recognized as: (Note 20)		
— cost of sales	**1,149,753**	534,344
— selling and marketing expenses	**25,824**	9,428
Cost of revenue-sharing with content creators	**28,495**	—
Bandwidth and storage related costs	**97,731**	72,729
Video content monitoring fee	**19,339**	13,703
Smartphone related royalty fees	**9,079**	2,074
Warranty expenses	**19,791**	7,640
Promotion and advertising expenses	**324,582**	609,675
Employee benefit expenses (Note 9)	**274,623**	135,550
Depreciation of property and equipment (Note 14)	**26,803**	11,367
Amortization of intangible assets (Note 15)	**1,736**	1,026
Operating lease payments	**34,118**	17,768
Auditors' remuneration		
— annual audit services	**1,800**	1,588
— non-audit services	**200**	201
Listing expenses	**39,512**	—
Outsourced technical services	**6,936**	18,856
Tax and levies	**4,359**	5,027
Travelling and entertainment expenses	**19,755**	12,099
Utilities and office expenses	**16,615**	10,516
Others	**105,061**	41,171
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**2,206,112**	1,504,762

(Expressed in thousands of Renminbi, unless otherwise stated)

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**203,978**	101,177
Pension costs — defined contribution plans	**11,304**	5,383
Other social security costs, housing benefits and other employee benefits	**22,249**	9,926
Share-based compensation expenses (Note 24)	**37,092**	19,064
	274,623	135,550

(a) Senior management's emoluments

Senior management includes directors, the chief executive and other senior management personnel. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the chief executive, whose details have been reflected in Note 31, is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**6,505**	2,819
Pension costs — defined contribution plans	**99**	91
Other social security costs, housing benefits and other employee benefits	**234**	183
Share-based compensation expenses	**30,820**	16,203
	37,658	19,296

(Expressed in thousands of Renminbi, unless otherwise stated)

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Senior management's emoluments (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31, 2016	2015
Nil to HK$500,000	—	—
HK$500,001 to HK$1,000,000	5	1
HK$1,000,001 to HK$1,500,000	—	3
HK$9,500,001 to HK$10,000,000	1	—
HK$19,000,001 to HK$19,500,000	—	1
HK$26,000,001 to HK$26,500,000	1	—
	7	5

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the year ended December 31, 2016 include nil directors (2015: nil) whose emoluments are reflected in the analysis shown in Note 31. The emoluments payable to the remaining 5 non-director individuals for the year ended December 31, 2016 (2015: 5) are as follows:

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Wages, salaries and bonuses	7,393	4,349
Pension costs — defined contribution plans	—	29
Other social security costs, housing benefits and other employee benefits	29	120
Share-based compensation expenses	28,845	17,615
	36,267	22,113

(Expressed in thousands of Renminbi, unless otherwise stated)

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31, 2016	2015
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	2	3
HK$3,500,001 to HK$4,000,000	1	—
HK$4,500,001 to HK$5,000,000	—	1
HK$9,500,001 to HK$10,000,000	1	—
HK$19,000,001 to HK$19,500,000	—	1
HK$26,000,001 to HK$26,500,000	1	—
	5	5

(Expressed in thousands of Renminbi, unless otherwise stated)

10 FINANCE INCOME/(COSTS), NET

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Finance income:		
— Interest income	**11,181**	11,378
— Foreign exchange gains	**—**	7,675
	11,181	19,053
Finance costs:		
— Foreign exchange losses	**(11,796)**	—
— Interest expenses on bank borrowings (Note (a))	**—**	(43)
— Issuance costs of convertible redeemable preferred shares	**(42)**	(40)
— Others	**(324)**	(72)
	(12,162)	(155)
	(981)	18,898

Notes:

(a) On September 9, 2015, the Group borrowed RMB40,000,000 from Xiamen International Bank Jiahe Branch at the interest rate of 2.42% per annum. The Bank borrowing was settled by the Group on September 29, 2015.

(Expressed in thousands of Renminbi, unless otherwise stated)

11(a) INVESTMENTS IN ASSOCIATES IN THE FORM OF ORDINARY SHARES

	Year Ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**3,381**	—
Additions	**3,259**	3,700
Share of losses of the associates	**(512)**	(319)
At the end of the year	**6,128**	3,381

The Group's share of the results of its associates are shown in aggregate as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Aggregate information		
Loss for the year	**(512)**	(319)
Total comprehensive loss	**(512)**	(319)

For the year ended December 31, 2016, none of the Group's investments in associates is not individually material to the Group (2015: nil). Accordingly, the financial information of the Group's associates are presented on an aggregate basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

11(b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**147,922**	—
Additions	**142,634**	147,922
Disposals	**(2,000)**	—
Changes in fair value	**11,212**	—
Currency translation differences	**511**	—
At the end of the year	**300,279**	147,922

The Group made investments in some redeemable convertible preferred shares and ordinary shares with preference rights of certain private companies, and 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 consolidated income statement.

11(c) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**—**	—
Additions	**45,091**	—
Provision for impairment	**(45,091)**	—
At the end of the year	**—**	—

In March 2016 and June 2016, the Group entered into two subscription agreements with a third-party company listed on the Australian Stock Exchange providing social entertainment services in the 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 RMB45,091,000). 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.

As at December 31, 2016, the Group made an impairment provision of RMB45,091,000 against the carrying amount of its investment in the investee company, with reference to its fair value.

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended December 31, 2016 and 2015 is analyzed as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income tax	**1,068**	771

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,	
	2016	2015
	RMB'000	RMB'000
Loss before income tax:	**(6,259,812)**	(2,216,786)
Tax calculated at PRC statutory income tax rate of 25%	**(1,564,953)**	(554,197)
Tax effects of:		
— Differential income tax rates applicable to subsidiaries (Note (i))	**1,459,790**	382,627
— Preferential income tax rates applicable to subsidiaries	**(722)**	(561)
— Tax losses and temporary differences for which no deferred income tax asset was recognized (Note (ii))	**103,156**	173,901
— Utilization of previously unrecognized tax losses	**(6,093)**	—
— Expenses not deductible for income tax purposes:		
— Share-based compensation	**7,373**	4,693
— Others	**2,517**	1,592
— Super Deduction for research and development expenses (Note (c))	**—**	(7,284)
Income tax expense	**1,068**	771

Notes:

(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 convertible redeemable preferred shares, is not subject to any income tax.

(ii) Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2016, the Group did not recognize deferred income tax assets of RMB149,086,000 (2015: RMB75,819,000) in respect of losses amounting to RMB907,166,000 (2015: RMB448,991,000) that can be carried forward against future taxable income. These tax losses will expire from 2017 to 2021. Losses amounting to RMB2,784,000 (2015: RMB2,784,000) and RMB2,350,000 (2015: RMB2,883,000) expire in 2017 and 2018 respectively.

12 INCOME TAX EXPENSE (CONTINUED)

(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) 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 was qualified as "High and New Technology Enterprises" under the EIT Law in 2013 and renewed in 2016. Therefore, Meitu Networks is entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2016 and 2015.

Meitu Home was accredited as a "software enterprise" under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempted 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. Since Meitu Home was in accumulated tax loss position for the years ended December 31, 2016 and 2015, the preferential tax rate for Meitu Home was unused till December 31, 2016.

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 years ended December 31, 2016 and 2015.

(d) 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

(d) PRC Withholding Tax ("WHT") (Continued)

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 December 31, 2016 (2015: nil).

13 LOSS PER SHARE

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the year ended December 31, 2016 has been retroactively adjusted for the share subdivision (Note 22).

(a) Basic

Basic loss per share for the years ended December 31, 2016 and 2015 are calculated by dividing the loss of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Loss attributable to owners of the Company	**(6,260,880)**	(2,217,557)
Weighted average number of ordinary shares in issue (thousand)	**2,065,492**	1,966,667
Basic loss per share (expressed in RMB per share)	**(3.03)**	(1.13)

(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 year ended December 31, 2016, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company before conversion to ordinary shares on December 15, 2016 (Note 26) and the shares options awarded under Pre-IPO ESOP (Note 24). For the year ended December 31, 2015, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company (Note 26) and the shares options awarded under Pre-IPO ESOP (Note 24). As the Group incurred losses for the years ended December 31, 2016 and 2015, 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, 2016 and 2015 are the same as basic loss per share of the respective years.

(Expressed in thousands of Renminbi, unless otherwise stated)

14 PROPERTY AND EQUIPMENT

	Furniture and office equipment RMB'000	Servers and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2016					
Cost	**2,798**	**43,967**	**4,558**	**16,398**	**67,721**
Accumulated depreciation	**(526)**	**(8,980)**	**(1,046)**	**(3,795)**	**(14,347)**
Net book amount	**2,272**	**34,987**	**3,512**	**12,603**	**53,374**
Year ended December 31, 2016					
Opening net book amount	**2,272**	**34,987**	**3,512**	**12,603**	**53,374**
Additions	**3,793**	**41,646**	**3**	**14,796**	**60,238**
Disposals	**(732)**	**(3,720)**	**—**	**(2,710)**	**(7,162)**
Depreciation charges	**(904)**	**(17,926)**	**(1,009)**	**(6,964)**	**(26,803)**
Closing net book amount	**4,429**	**54,987**	**2,506**	**17,725**	**79,647**
At December 31, 2016					
Cost	**5,781**	**81,669**	**4,602**	**28,143**	**120,195**
Accumulated depreciation	**(1,352)**	**(26,682)**	**(2,096)**	**(10,418)**	**(40,548)**
Net book amount	**4,429**	**54,987**	**2,506**	**17,725**	**79,647**
At January 1, 2015					
Cost	2,138	10,165	3,018	4,721	20,042
Accumulated depreciation	(252)	(2,426)	(390)	(875)	(3,943)
Net book amount	1,886	7,739	2,628	3,846	16,099
Year ended December 31, 2015					
Opening net book amount	1,886	7,739	2,628	3,846	16,099
Additions	895	34,657	2,558	11,677	49,787
Disposals	(121)	(208)	(816)	—	(1,145)
Depreciation charges	(388)	(7,201)	(858)	(2,920)	(11,367)
Closing net book amount	2,272	34,987	3,512	12,603	53,374
At December 31, 2015					
Cost	2,798	43,967	4,558	16,398	67,721
Accumulated depreciation	(526)	(8,980)	(1,046)	(3,795)	(14,347)
Net book amount	2,272	34,987	3,512	12,603	53,374

(Expressed in thousands of Renminbi, unless otherwise stated)

14 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Cost of sales	**10,509**	4,436
Selling and marketing expenses	**982**	191
Administrative expenses	**5,638**	2,519
Research and development expenses	**9,674**	4,221
	26,803	11,367

(Expressed in thousands of Renminbi, unless otherwise stated)

15 INTANGIBLE ASSETS

	Online video license RMB'000	Domain names RMB'000	Computer software RMB'000	Copyrights RMB'000	Total RMB'000
At January 1, 2016					
Cost	**7,000**	**11,473**	**5,565**	**312**	**24,350**
Accumulated amortization	**—**	**(1,536)**	**(1,615)**	**(63)**	**(3,214)**
Net book amount	**7,000**	**9,937**	**3,950**	**249**	**21,136**
Year ended December 31, 2016					
Opening net book amount	**7,000**	**9,937**	**3,950**	**249**	**21,136**
Additions	**—**	**1,202**	**1,103**	**—**	**2,305**
Amortization	**—**	**(666)**	**(1,054)**	**(16)**	**(1,736)**
Closing net book amount	**7,000**	**10,473**	**3,999**	**233**	**21,705**
At December 31, 2016					
Cost	**7,000**	**13,350**	**6,668**	**333**	**27,351**
Accumulated amortization	**—**	**(2,877)**	**(2,669)**	**(100)**	**(5,646)**
Net book amount	**7,000**	**10,473**	**3,999**	**233**	**21,705**
At January 1, 2015					
Cost	7,000	9,938	4,213	295	21,446
Accumulated amortization	—	(430)	(1,163)	(31)	(1,624)
Net book amount	7,000	9,508	3,050	264	19,822
Year ended December 31, 2015					
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)
Closing net book amount	7,000	9,937	3,950	249	21,136
At December 31, 2015					
Cost	7,000	11,473	5,565	312	24,350
Accumulated amortization	—	(1,536)	(1,615)	(63)	(3,214)
Net book amount	7,000	9,937	3,950	249	21,136

(Expressed in thousands of Renminbi, unless otherwise stated)

15 INTANGIBLE ASSETS (CONTINUED)

Amortization charges were expensed in the following categories in the consolidated income statements:

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Cost of sales	**222**	213
Administrative expenses	**897**	513
Research and development expenses	**617**	300
	1,736	1,026

Impairment tests for the online video license

The net book amount of online video license is allocated to a group of cash generating units (the "**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 management based on its expectation for market development.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31, 2016 RMB'000	2015 RMB'000
Assets as per balance sheet		
Available-for-sale financial assets:		
— Short-term investments placed with banks (Note 17)	**280,820**	170,389
Financial assets at fair value through profit or loss:		
— Long-term investments (Note 11(b))	**300,279**	147,922
Loans and receivables:		
— Trade and other receivables (excluding prepayments)	**137,758**	73,575
— Short-term bank deposits (Note 21(c))	**725,229**	60,000
— Restricted cash (Note 21(b))	**400**	600
— Cash and cash equivalents (Note 21(a))	**4,508,522**	989,874
	5,953,008	1,442,360

(Expressed in thousands of Renminbi, unless otherwise stated)

16 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Liabilities as per balance sheet		
Financial liabilities at fair value through profit or loss:		
— Convertible redeemable preferred shares (Note 26)	**—**	5,681,892
Financial liabilities at amortized cost:		
— Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)	**442,435**	226,519
	442,435	5,908,411

17 SHORT-TERM INVESTMENTS PLACED WITH BANKS

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**170,389**	170,318
Additions	**465,000**	609,500
Disposals	**(355,000)**	(609,500)
Change in fair value	**7,085**	4,177
Investment income recognized in profit or loss	**(6,654)**	(4,106)
At the end of the year	**280,820**	170,389

The short-term investments placed with banks, which are denominated in RMB, are redeemable any time with expected rates of return ranging from 2.32% to 5.80% per annum for the years ended December 31, 2016 and 2015. The return on all of these short-term investments placed with banks are not guaranteed; therefore, the Group designated them as available-for-sale financial assets. As at December 31, 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

18 TRADE RECEIVABLES

	As at December 31, 2016 RMB'000	2015 RMB'000
Trade receivables, net	**86,138**	46,567

(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, 2016 RMB'000	2015 RMB'000
Up to 3 months	**69,807**	42,548
3 to 6 months	**6,765**	3,602
6 months to 1 year	**9,566**	385
1 to 2 years	**—**	32
	86,138	46,567

As at December 31, 2016 and 2015, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

(b) As of December 31, 2016 and 2015 trade receivables of RMB13,692,000 (2015: RMB4,018,000) 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, management believes the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at December 31, 2016 RMB'000	2015 RMB'000
Up to 3 months	**4,126**	3,602
3 to 6 months	**9,317**	385
6 months to 1 year	**249**	20
1 to 2 years	**—**	11
	13,692	4,018

(Expressed in thousands of Renminbi, unless otherwise stated)

19 PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2016	2015
Group	**RMB'000**	RMB'000
Included in non-current assets		
Rental and other deposits	**8,945**	4,816
Prepayments for software licenses	**390**	1,149
Prepayments for long-term investments	**—**	1,000
Recoverable value-added tax	**40,984**	29,197
	50,319	36,162
Included in current assets		
Recoverable value-added tax	**27,187**	—
Rental and other deposits	**13,556**	15,627
Prepayment for promotion and advertising	**10,159**	11,661
Prepayments to suppliers	**48,549**	9,034
Loans to investee companies (Note (a))	**10,406**	8,347
Loans to shareholders of investee companies (Note (b))	**—**	7,000
Interest receivables	**5,787**	601
Amounts due from controlling shareholders (Note (c))	**—**	121
Others	**1,092**	1,121
	116,736	53,512

Notes:

(a) In July 2015, the Group provided a loan of RMB8,347,000 (US$1,285,356) to Coveredge (Cayman) Inc., an investee company, 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 RMB3,469,000 (US$500,000) to Bellus 3D, Inc., an investee company, at an interest rate of 5% per annum with maturity of 12 months. In December 2016, the Group provided a loan of RMB6,937,000 (US$1,000,000) to Lemon, Inc., an investee company, at an interest rate of 8% 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, 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. The balance was fully repaid in July 2016.

(c) The amounts due from controlling shareholders were unsecured and interest-free and were fully repaid in June 2016.

(Expressed in thousands of Renminbi, unless otherwise stated)

19 PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

As of December 31, 2016 and 2015, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates. As of December 31, 2016 and 2015, there were no significant balances that are past due.

20 INVENTORIES

	As at December 31, 2016 RMB'000	2015 RMB'000
Raw materials	**337,846**	78,895
Finished goods	**37,413**	47,211
	375,259	126,106
Less: Provision for impairment (Note (a))	**(917)**	(205)
	374,342	125,901

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 consolidated income statement.

The cost of inventories recognized as expense and included in "cost of sales" for the years ended December 31, 2016 amounted to RMB1,149,753,000 (2015: RMB534,344,000).

21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31, 2016 RMB'000	2015 RMB'000
Cash at bank and in hand	**4,438,973**	637,458
Short-term bank deposits with initial terms within three months	**69,549**	352,416
	4,508,522	989,874

(Expressed in thousands of Renminbi, unless otherwise stated)

21 CASH AND BANK BALANCES (CONTINUED)

(b) Restricted cash

As at December 31, 2016, RMB400,000 (2015: RMB600,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As at December 31, 2016, short-term bank deposits amounting RMB725,229,000 (2015: RMB60,000,000) 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 1.17% per annum for the year ended December 31, 2016 (2015: 1.25%).

22 SHARE CAPITAL

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Number of preferred shares '000	Nominal value of preferred shares US$'000
Authorized:					
As at January 1, 2016		**445,653**	**45**	**154,347**	**15**
Reclassification and re-designation on issuance of Series D Preferred Shares	(c)	**(14,316)**	**(2)**	**14,316**	**2**
Cancellation and re-authorization	(d)	**168,663**	**17**	**(168,663)**	**(17)**
Effect of share subdivision	(e)	**5,400,000**	**—**	**—**	**—**
As at December 31, 2016		**6,000,000**	**60**	**—**	**—**
As at January 1, 2015		380,110	38	119,890	12
Reclassification and re-designation on issuance of Series C Preferred Shares	(a)	(34,457)	(3)	34,457	3
Increase of authorized ordinary shares	(b)	100,000	10	—	—
As at December 31, 2015		445,653	45	154,347	15

(Expressed in thousands of Renminbi, unless otherwise stated)

22 SHARE CAPITAL (CONTINUED)

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued:					
As at January 1, 2015 and December 31, 2015		196,667	20	121	—
Conversion of preferred shares into ordinary shares	(d)	168,663	17	117	12,804,419
Effect of share subdivision	(e)	3,287,965	—	—	—
Issuance of new shares upon IPO	(f)	574,000	6	39	4,211,435
As at December 31, 2016		**4,227,295**	**43**	**277**	**17,015,854**

Notes:

(a) On January 6, 2015, the Company entered into a share purchase agreement with the Series C Preferred Shareholders and pursuant to which, the Company reclassified and redesignated a total of 34,457,408 ordinary shares in the authorized share capital as Series C Preferred Shares, and 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.

(b) 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.

(c) On April 19, 2016, the Company entered into a share purchase agreement with the Series D Preferred Shareholders and pursuant to which, the Company reclassified and redesignated a total of 14,315,790 ordinary shares in the authorized share capital as Series D Preferred Shares, and 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.

(d) Upon completion of the IPO, all of the Company's authorized 168,662,788 preferred shares with par value of US$0.0001 each have been cancelled and 168,662,788 ordinary shares with par value of US$0.0001 each have been authorized. All of the Company's outstanding 168,662,788 preferred shares were converted into ordinary shares on an one-to-one basis immediately. As a result, the financial liabilities for the convertible redeemable preferred shares were derecognized and recorded as share capital and share premium.

(e) On November 25, 2016, the Company's shareholders resolved, among other things that, subject to the completion of initial public offering and fulfilment of certain other conditions, all the issued and unissued preferred shares will be re-classified and re-designated 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 re-classified and re-designated 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.

(f) Upon completion of the IPO, the Company issued 574,000,000 new shares at par value of US$0.00001 each for cash consideration of HK$8.5 each, and raised gross proceeds of approximately HK$4,879,000,000 (equivalent to RMB4,357,679,000). The respective share capital amount was approximately RMB39,000 and share premium arising from the issuance was approximately RMB4,211,435,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB146,205,000 were treated as a deduction against the share premium arising from the issuance.

(Expressed in thousands of Renminbi, unless otherwise stated)

23 RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
At January 1, 2016	**2,000**	**946**	**55,499**	**(235,232)**	**(176,787)**
Appropriation to statutory reserves (Note (b))	**—**	**117**	**—**	**—**	**117**
Share options awarded under Pre-IPO ESOP (Note 24)	**—**	**—**	**40,926**	**—**	**40,926**
Change in available-for-sale financial assets					
— short-term investments placed with banks (Note 17)	**—**	**—**	**—**	**431**	**431**
Currency translation differences (Note (a))	**—**	**—**	**—**	**(531,438)**	**(531,438)**
At December 31, 2016	**2,000**	**1,063**	**96,425**	**(766,239)**	**(666,751)**
At January 1, 2015	2,000	462	31,073	(5,513)	28,022
Appropriation to statutory reserves (Note (b))	—	484	—	—	484
Share options awarded under Pre-IPO ESOP (Note 24)	—	—	24,426	—	24,426
Change in available-for-sale financial assets					
— short-term investments placed with banks (Note 17)	—	—	—	71	71
Currency translation differences (Note (a))	—	—	—	(229,790)	(229,790)
At December 31, 2015	2,000	946	55,499	(235,232)	(176,787)

Notes:

(a) Currency translation differences represent 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.

(b) 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

24 SHARE-BASED PAYMENTS

(a) Pre-IPO ESOP

On February 15, 2014, the Board of Directors of the Company approved the establishment of the Pre-IPO ESOP with the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Pre-IPO ESOP shall be 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 the original Pre-IPO ESOP shall be 11,695,907 shares. The Pre-IPO ESOP was amended by resolution of the Board on November 18, 2015. The overall limit on the number of underlying Shares pursuant to the amended plan is 116,959,070 shares after the share subdivision.

(i) Shares options granted to employees under the Pre-IPO ESOP

The exercise price of the granted options to employees shall be US$0.3 per share (being US$0.03 after taking into account the share subdivision conducted on December 15, 2016). 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 vested 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.

Movements in the number of share options granted to employees outstanding and their related weighted average exercise prices are as follows:

	Exercise price	Number of share options Year ended December 31, 2016 RMB'000	2015 RMB'000
At the beginning of the year		**10,075,824**	9,262,907
Granted (Note (a))	US$ 0.3	**1,623,500**	1,615,000
Forfeited (Note (a))	US$ 0.3	**(3,430)**	(802,083)
Effect of share subdivision (Note (b))		**105,263,046**	—
At the end of the year		**116,958,940**	10,075,824

24 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

(i) Shares options granted to employees under the Pre-IPO ESOP (Continued)

Notes:

(a) The numbers of shares and average exercise price were presented as before the effect of the share subdivision. In January, April and October 2016, the Group granted 300,000, 430,000, 893,500 options to its employees under the Pre-IPO ESOP, respectively, (2015: In January, April and July, 10,000, 5,000 and 1,600,000 options were granted, respectively).

(b) It represented the effects of adjustments made to the numbers of shares as a result of the share subdivision. Upon the share subdivision became effective, the exercisable outstanding options and unvested outstanding options increased by 58,063,653 and 47,199,393 respectively. As at December 31, 2016, 64,515,170 outstanding options were exercisable (2015: 3,751,457 outstanding options, before the effect of the share subdivision).

(ii) Share options granted to non-employees under Pre-IPO ESOP

On February 15, 2014, the Company granted 282,600 share options (before the effect of the share subdivision) under Pre-IPO ESOP to the non-employees of the Company.

No share options were granted under Pre-IPO ESOP to non-employees of the Company in 2016 and 2015.

The exercise price of the options granted to the non-employees above is US$0.3 per share (before the effect of the share subdivision), and the vesting of the options is conditional, subject to their services received by the Company.

(iii) Fair value of share options granted under Pre-IPO ESOP

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.

(Expressed in thousands of Renminbi, unless otherwise stated)

24 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

(iii) Fair value of share options granted under Pre-IPO ESOP (Continued)

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 of the grant date. Key assumptions are set as below:

	Year ended December 31,	
	2016	2015
Discount rate	**17.5%**	20.0%–23.0%
Risk-free interest rate	**0.92%–1.54%**	1.41%–1.86%
Volatility	**47.00%–47.15%**	47.10%–47.20%
Dividend yield	**0%**	0%

The directors estimated the risk-free interest rate based on the yield of Hong Kong Government Bonds with a maturity life closed 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 weighted average fair value of options granted during the year ended December 31, 2016 was RMB4.61 per share (2015: RMB2.68 per share), after the effect of the share subdivision. The total expense recognized in the consolidated income statement for share options granted to employees for the year ended December 31, 2016 are RMB37,092,000 (2015: RMB19,064,000). The total expense recognized in the consolidated income statement for share options granted to non-employees for the year ended December 31, 2016 are RMB3,834,000 (2015: RMB5,362,000).

(iv) Expected Retention Rate under Pre-IPO ESOP

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, 2016, the Expected Retention Rate was assessed to be 95% (2015: 95%).

(b) Post-IPO Share Option Scheme and Post-IPO Share Award Scheme

The Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme was adopted pursuant to the written resolutions of the Shareholders passed on November 25, 2016. As at December 31, 2016, no shares or options have been granted by the Group under the Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.

(Expressed in thousands of Renminbi, unless otherwise stated)

25 TRADE AND OTHER PAYABLES

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade payables	**394,820**	214,619
Payroll and welfare payables	**57,374**	27,642
Advance from customers	**22,250**	3,778
Government grants	**8,790**	8,465
Other tax payables	**1,317**	7,776
Warranty provisions	**9,040**	7,956
Accrued professional fees	**36,597**	3,150
Others	**1,978**	794
	532,166	274,180

The aging analysis of trade payables based on invoice date is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Up to 3 months	**388,173**	212,300
3 to 6 months	**3,792**	1,962
6 months to 1 year	**1,971**	225
1 to 2 years	**791**	128
Over 2 years	**93**	4
	394,820	214,619

26 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 Preferred Shareholders 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.

On January 16, 2014, the Company entered into a share purchase agreement with the Series A-2A Preferred Shareholders 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 Preferred Shareholders 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 Preferred Shareholders 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 Preferred Shareholders 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 Preferred Shareholders 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.

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Upon completion of the IPO, all the convertible redeemable preferred shares were automatically converted and subdivided (pursuant to the share subdivision) to ordinary shares. As a result, 1,686,627,880 ordinary shares were issued, and the balance of convertible redeemable preferred shares was transferred to share capital and share premium of the Company on that date. All preferred rights entitled to the holders of convertible redeemable preferred shares lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

The fair value of the convertible redeemable preferred shares immediately before conversion into ordinary shares upon completion of IPO was assessed at the market price in the amount of HK$8.50 (approximately RMB7.59) per share.

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 United States 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 share shall be automatically converted into fully-paid, non-assessable ordinary shares, based on the then-effective applicable conversion price for such share: (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 Preferred Shares (calculated on an as converted basis) with respect to the conversion of the Series A Preferred 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 Preferred 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 Preferred 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 Preferred Shares.

QIPO means a firm underwritten public offering of the ordinary shares in the United States, 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 Preferred Shares 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 Preferred Shares 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.

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

(c) Redemption feature

Upon the written request of each majority series of 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: (i) the fourth anniversary of the Series D Preferred Shares issue date, 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 memorandum and articles, the Series D Preferred Share Purchase Agreement, or any ancillary agreements by any the Company and any of its subsidiaries, any ordinary shareholder, or Mr. Cai Wensheng or Mr. Wu Zeyuan; (iii) any act of the Company and any of its subsidiaries, any ordinary shareholder, or Mr. Cai Wensheng or Mr. Wu Zeyuan 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 (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 the Company redeems all or part of its preferred shares under event (iv).

The redemption price shall be paid by the Company to the preferred shares holders in an amount equal to: (i) one hundred percent (100%) of the original issue price on each preferred shares, plus (ii) an eight percent (8%) per annum interest of the original issue price on each preferred shares accrued during the period from the issue date of each preferred shares until the date on which the redemption price of 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 any other class or series of shares, the liquidation preference amount per share 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

The Group monitors preferred shares on a fair value basis and does not bifurcate any embedded derivatives from the host instruments and designates the entire instrument as financial liabilities at fair value through profit or loss with the changes in the fair value recognized in the consolidated income statement.

The movement of the convertible redeemable preferred shares is set out as below:

	RMB'000
At January 1, 2016	**5,681,892**
Issuance of Series D Preferred Shares	**879,920**
Changes in fair value	**5,606,109**
Currency translation differences	**636,615**
Conversion into ordinary shares	**(12,804,536)**
At December 31, 2016	**—**
Change in fair value of the preferred shares for the year included in profit or loss	**5,606,109**
At January 1, 2015	2,735,481
Issuance of Series C Preferred Shares	1,163,864
Changes in fair value	1,482,643
Currency translation differences	299,904
At December 31, 2015	5,681,892
Change in fair value of the preferred shares for the year included in profit or loss	1,482,643

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 before the conversion.

Key valuation assumptions used to determine the fair value of preferred shares are as follows:

	As at December 31,	
	2016	2015
Discount rate	**17.5%**	20.0%–23.0%
Risk-free interest rate	**0.28%**	0.33%–0.71%
Volatility	**46.7%**	39.7%–43.3%

26 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

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 Hong Kong Government Bonds with a maturity life closed to 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 IPO, liquidation and redemption scenarios 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 change in the preferred shares that are attributable to changes of credit risk of this liability being not significant.

27 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2016 and 2015.

(Expressed in thousands of Renminbi, unless otherwise stated)

28 CASH USED IN OPERATIONS

	Year ended December 31, 2016 RMB'000	2015 RMB'000
Loss before income tax	**(6,259,812)**	(2,216,786)
Adjustments for:		
— Depreciation of property and equipment (Note 14)	**26,803**	11,367
— Amortization of intangible assets (Note 15)	**1,736**	1,026
— Loss on disposals of property and equipment (see below)	**3,325**	376
— Share-based compensations (Note 24)	**40,926**	24,426
— Share of losses of investments in associates in the form of ordinary shares (Note 11(a))	**512**	319
— Fair value loss of convertible redeemable preferred shares (Note 26)	**5,606,109**	1,482,643
— Investment income on short-term investments placed with banks (Note 6)	**(6,654)**	(4,106)
— Fair value gains on other financial assets (Note 11(b))	**(11,212)**	—
— Interest income (Note 10)	**(11,181)**	(11,378)
— Interest expenses (Note 10)	**—**	43
— Foreign exchange gains/(loss), net (Note 10)	**11,796**	(7,675)
— Issuance costs of convertible redeemable preferred shares (Note 10)	**42**	40
— Impairment provision for investee companies (Note 11(c))	**45,091**	—
Changes in working capital:		
— Net increase in inventories	**(248,441)**	(113,145)
— Increase in trade receivables	**(39,571)**	(27,166)
— Increase in prepayments and other receivables	**(78,137)**	(55,718)
— Increase in trade and other payables	**226,939**	243,238
— Decrease/(increase) in restricted cash	**200**	(400)
Cash used in operations	**(691,529)**	(672,896)

(Expressed in thousands of Renminbi, unless otherwise stated)

28 CASH USED IN OPERATIONS (CONTINUED)

In the statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Net book amount (Note 14)	**7,162**	1,145
Loss on disposal of property and equipment (Note 7)	**(3,325)**	(376)
Proceeds from disposal of property and equipment	**3,837**	769

There were no material non-cash investing and financing transactions for the year ended December 31, 2016 (2015: nil).

29 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,	
	2016	2015
	RMB'000	RMB'000
Property and equipment	**1,280**	1,608
Intangible assets	**—**	1,044
Long-term investments	**8,591**	3,000
	9,871	5,652

(Expressed in thousands of Renminbi, unless otherwise stated)

29 COMMITMENTS (CONTINUED)

(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,	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	**43,660**	22,314
Later than 1 year and not later than 5 years	**66,357**	32,605
	110,017	54,919

30 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the year.

(a) 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,	
	2016	2015
	RMB'000	RMB'000
(i) Sales of goods and services:		
Companies significantly influenced by controlling shareholders	**51**	35
Associates	**915**	80
	966	115

(Expressed in thousands of Renminbi, unless otherwise stated)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (Continued)

	Year ended December 31, 2016 RMB'000	2015 RMB'000
(ii) Purchases of goods and services:		
Mr. Cai Wensheng	**—**	390
Companies significantly influenced by controlling shareholders	**1,484**	2,896
Investee companies	**11,778**	2,334
An associate	**5,114**	146
	18,376	5,766
(iii) Loans to investee companies	**10,406**	8,347
(iv) Repayment from an investee company	**8,347**	—

(Expressed in thousands of Renminbi, unless otherwise stated)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Year end balances with related parties

	As at December 31, 2016 RMB'000	2015 RMB'000
(i) Receivables from:		
Associates	**929**	60
An investee company	**—**	8,347
Mr. Cai Wensheng	**—**	86
Mr. Wu Zeyuan	**—**	35
	929	8,528
(ii) Payables to:		
Mr. Cai Wensheng	**—**	390
A company significantly influenced by controlling shareholders	**60**	108
An associate	**46**	89
	106	587
(iii) Prepayments to an investee company	**3,297**	4,226

Except for those as disclosed in Note 19, balances with other related parties were all unsecured, interest-free and repayable on demand.

(Expressed in thousands of Renminbi, unless otherwise stated)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) 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,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**7,891**	3,959
Pension costs — defined contribution plan	**122**	114
Other social security costs, housing benefits and other employee benefits	**274**	254
Share-based compensation expenses	**30,820**	16,203
	39,107	20,530

(Expressed in thousands of Renminbi, unless otherwise stated)

31 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director for the year ended December 31, 2016 is set out as below:

Name	Fees RMB'000	Salaries RMB'000	Pension costs–defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Executive Directors					
Cai Wensheng	598	—	—	—	598
Wu Zeyuan	287	302	23	40	652
Independent Non-executive Directors					
Ko Chun Shun Johnson (Note (a))	14	—	—	—	14
Zhou Hao (Note (a))	14	—	—	—	14
Lo Po Man (Note (a))	14	—	—	—	14
Non-executive Directors					
Guo Yihong	14	—	—	—	14
Lee Kai-Fu (Note (b))	143	—	—	—	143
	1,084	302	23	40	1,449

Notes:

(a) Appointed conditionally on November 20, 2016.

(b) Appointed on August 2, 2016.

(Expressed in thousands of Renminbi, unless otherwise stated)

31 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

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
Executive Directors					
Cai Wensheng	411	152	—	41	604
Wu Zeyuan	275	302	23	30	630
Non-executive Directors					
Guo Yihong	—	—	—	—	—
Gan JP (Note (a))	—	—	—	—	—
Tan Hainan (Note (a))	—	—	—	—	—
	686	454	23	71	1,234

Note:

(a) Resigned on December 15, 2016.

31 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: nil).

(d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2015: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: nil).

32 CONTINGENCIES

The Group did not have any material contingent liabilities as at December 31, 2016 (2015: nil).

33 SUBSEQUENT EVENTS

On March 24, 2017, the Directors passed a resolution pursuant to which the Company will apply the credit standing to the share premium account of the Company in the sum of approximately US$1,348,561,000 (equivalent to approximately RMB9,284,167,000) to set off the accumulated losses of the Company.

(Expressed in thousands of Renminbi, unless otherwise stated)

34 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at December 31, 2016 RMB'000	2015 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**74,237**	32,963
	74,237	32,963
Current assets		
Prepayments and other receivables	**2,940,442**	2,338,022
Short-term bank deposits	**513,338**	—
Cash and cash equivalents	**4,238,875**	13,613
	7,692,655	2,351,635
Total assets	**7,766,892**	2,384,598
EQUITY AND LIABILITIES		
Equity		
Share capital	**277**	121
Share premium	**17,015,854**	—
Reserves (Note 34(b))	**(512,272)**	(142,730)
Accumulated losses	**(8,753,663)**	(3,154,685)
Total equity	**7,750,196**	(3,297,294)
Liabilities		
Non-current liabilities		
Convertible redeemable preferred shares	**—**	5,681,892
	—	5,681,892
Current liabilities		
Trade and other payables	**16,696**	—
Total liabilities	**16,696**	5,681,892
Total equity and liabilities	**7,766,892**	2,384,598

(Expressed in thousands of Renminbi, unless otherwise stated)

34 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserves movement of the Company

	Reserves RMB'000	Accumulated losses RMB'000
At January 1, 2016	**(142,730)**	**(3,154,685)**
Loss for the year	**—**	**(5,598,978)**
Share options awarded under Pre-IPO ESOP (Note 24)	**40,926**	**—**
Currency translation differences (Note (a))	**(410,468)**	**—**
At December 31, 2016	**(512,272)**	**(8,753,663)**
At January 1, 2015	972	(1,675,901)
Loss for the year	—	(1,478,784)
Share options awarded under Pre-IPO ESOP (Note 24)	24,426	—
Currency translation differences (Note (a))	(168,128)	—
At December 31, 2015	(142,730)	(3,154,685)

Note:

(a) Currency translation differences represent the difference arising from the translation of the financial statements of the Company, of which the functional currency is US$, into the financial statements of the Company presented in RMB.

(Expressed in thousands of Renminbi, unless otherwise stated)

35 SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2016:

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares held by the Group (%)
Meitu (China) Limited	Hong Kong/Limited liability company	Investment holding, Hong Kong	HK$10,000	100%
Meitu Investment Ltd	The BVI/Limited liability company	Investment holding, the BVI	US$1	100%
Meitu Holdings Ltd	The Cayman Islands/ Limited liability company	Investment holding, the Cayman Islands	US$50,000	100%
Meipai Ltd	The Cayman Islands/ Limited liability company	Investment holding, the Cayman Islands	US$1	100%
Meipai Global Limited	Hong Kong/Limited liability company	Investment holding, Hong Kong	HK$1	100%
Meitu Technology, Inc.	The US/Limited liability company	Development and operation of apps, the US	US$4,970,050	100%
Meitu Technology (US), LLC	The US/Limited liability company	Development and operation of apps, the US	US$4,760,000	100%
Meitu Technology (Singapore) Pte. Ltd.	Singapore/Limited liability company	Development and operation of apps, Singapore	US$100,000	100%
Xiamen Home Meitu Technology Co., Ltd.	The PRC/Limited liability company	Provision of information technology services, the PRC	US$170,000,000	100%

(Expressed in thousands of Renminbi, unless otherwise stated)

35 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares held by the Group (%)
Beijing Meitu Home Technology Co., Ltd.	The PRC/Limited liability company	Provision of information technology services, the PRC	RMB10,000,000	100%
Xiamen Meitu Mobile Technology Co., Ltd.	The PRC/Limited liability company	Development, manufacturing and sales of smartphones, the PRC	RMB600,000,000	100%
Xiamen Meitu Networks Technology Co., Ltd.	The PRC/Limited liability company	Development and operation of apps, the PRC	RMB32,000,000	100%
Beijing Meitu Huyu Technology Co., Ltd.	The PRC/Limited liability company	Development and research of apps, the PRC	RMB10,000,000	100%
Xiamen Meipai Technology Co., Ltd.	The PRC/Limited liability company	Development and operation of apps, the PRC	RMB10,000,000	100%

Four Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended December 31,			
	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	85,877	488,049	741,813	**1,578,580**
Gross profit	49,605	86,673	100,490	**239,160**
Loss for the year	(25,813)	(1,772,336)	(2,217,557)	**(6,260,880)**
Adjusted Net Loss	(2,312)	(112,343)	(710,488)	**(540,454)**

CONDENSED CONSOLIDATED BALANCE SHEETS

	As at December 31,			
	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets				
Non-current assets	7,461	40,840	261,975	**458,078**
Current assets	86,605	1,770,844	1,446,843	**6,092,187**
Total assets	94,066	1,811,684	1,708,818	**6,550,265**
Equity and liabilities				
Equity attributable to owners of the Company	(35,406)	(1,824,957)	(4,247,807)	**6,017,242**
Total equity	(35,406)	(1,824,957)	(4,247,807)	**6,017,242**
Non-current liabilities	53,885	3,592,141	5,681,892	**—**
Current liabilities	75,587	44,500	274,733	**533,023**
Total liabilities	129,472	3,636,641	5,956,625	**533,023**
Total equity and liabilities	94,066	1,811,684	1,708,818	**6,550,265**

Definitions

"Adjusted Net Loss"	adjusted net loss is calculated as the loss for the year, excluding the impact from certain non-cash or non-recurring expenses including: (i) fair value loss of convertible redeemable preferred shares; (ii) share-based compensation; (iii) fair value gain and impairment loss of long-term investments; and (iv) one-off listing expenses incurred in connection with the initial public offering and Listing in December 2016
"AGM"	the annual general meeting of the Company to be held on Friday, June 2, 2017
"Articles" or "Articles of Association"	the amended articles of association of the Company adopted on November 25, 2016 and effected on December 15, 2016 (the Listing Date), as amended from time to time
"ASP"	average selling price
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Baolink Capital"	Baolink Capital Ltd, a company incorporated under the laws of the BVI on June 29, 2007, which is wholly-owned by Mr. Cai and holds approximately 11.35% of the issued share capital of our Company, and one of our Controlling Shareholders
"Board of Directors" or "Board"	our Board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. "Chinese" shall be construed accordingly
"Company", "our Company", "the Company", "Meitu", "we" or "us"	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 "美圖之家" (in Chinese) as approved 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, *Meitu*

"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Concert Party"	Mr. Wu, Mr. Cai and Ms. Wang (including, where applicable, any entity directly or indirectly controlled by them that directly holds the Shares)
"Concert Party Agreement"	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
"Contractual Arrangements"	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 annual report
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, means Mr. Wu, Mr. Cai, Xinhong Capital, Longlink Capital and Baolink Capital
"Director(s)"	the director(s) of our Company
"Group", "our Group", or "the Group"	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the contractual arrangements) from time to time
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"ICP"	Internet content provider
"ICP License"	Value-added Telecommunications Service Operating Permit for Internet information service

Definitions

"IFRSs"	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
"IVAS"	Internet value-added services
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Rules"	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
"Listing Date"	December 15, 2016 the date on which the Shares were listed on the Stock Exchange
"Longlink Capital"	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 holds approximately 14.67% of the issued share capital of our Company, 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
"MAUs"	monthly active users
"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
"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 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
"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 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
"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)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Mr. Cai"	Mr. Cai Wensheng (蔡文胜), our founder, chairman, executive Director, one of our Controlling Shareholders and an authorized representative

Definitions

"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, our Chief Financial Officer, one of our joint companies 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
"NASDAQ"	the National Association of Securities Dealers Automated Quotations
"Nomination Committee"	the nomination committee of the Company
"NYSE"	the New York Stock Exchange
"Post-IPO Share Award Scheme"	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
"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on November 25, 2016 which complies with the provisions of Chapter 17 of the Listing Rules
"Pre-IPO ESOP"	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
"PRC Operational Entities"	Meitu Networks and its subsidiaries and branches, the financial results of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
"Pre-IPO Investor(s)"	the Series A-1 Preferred Shareholders, Series A-2 Preferred Shareholders, Series B Preferred Shareholders, Series C Preferred Shareholders and Series D Preferred Shareholders
"Prospectus"	the prospectus of the Company dated December 5, 2016
"Remuneration Committee"	the remuneration committee of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of PRC
"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 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 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 Shareholders"	the holder of the Series B Preferred Shares
"Series B Preferred Shares"	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
"Series C Preferred Shareholders"	the holder of the Series C Preferred Shares
"Series C Preferred Shares"	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

Definitions

"Series D Preferred Share Purchase Agreement"	the series D preferred share purchase agreement dated April 19, 2016 between, among others, the Company, Mr. Wu and the Series D Preferred Shareholders
"Series D Preferred Shareholders"	the holder of the Series D Preferred Shares
"Series D Preferred Shares"	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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a par value of US$0.00001 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"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 holds approximately 13.40% of the issued share capital of our Company, and one of our Controlling Shareholders
"%"	per cent

Meitu, Inc.
美图公司