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

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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
Professor ZHANG Shoucheng
(appointed on February 22, 2018)

AUDIT COMMITTEE

Mr. ZHOU Hao *(Chairman)*
Dr. GUO Yihong
Mr. KO Chun Shun Johnson

REMUNERATION COMMITTEE

Mr. KO Chun Shun Johnson *(Chairman)*
Dr. LEE Kai-Fu
Professor ZHANG Shoucheng

NOMINATION COMMITTEE

Mr. CAI Wensheng *(Chairman)*
Mr. ZHOU Hao
Professor ZHANG Shoucheng

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

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Cricket Square, Hutchins Drive
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Cayman Islands

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Kowloon
Hong Kong

LEGAL ADVISORS

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

As to PRC law (in alphabetical order)
Jingtian & Gongcheng
Tian Yuan Law Firm

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

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Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
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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

2017 Highlights

RMB 4.5 billion
Total revenues of 2017 increased by **187%** year on year

652%
year on year revenue growth of the Internet business segment

154%
year on year revenue growth of the Smart hardware segment

92%
Adjusted Net Loss of 2017 **reduced significantly by 92%** year on year to RMB 46 million

66 billion
Photos processed by our apps in the year of 2017

416 million
Total MAUs in 2017, reached a historical high of **455** million in Feb 2018

Key Financial and Operational Data

KEY FINANCIAL DATA

	Year ended December 31, 2017 RMB'000	2016 RMB'000	Year on year change (%)
Revenue	**4,527,484**	1,578,580	186.8%
— Internet Business	**787,418**	104,677	652.2%
— Smart Hardware	**3,740,066**	1,473,903	153.8%
Gross Profit	**1,044,486**	239,160	336.7%
— Internet Business	**184,993**	(57,720)	-420.5%
— Smart Hardware	**859,493**	296,880	189.5%
Gross Margin	**23.1%**	15.2%	+7.9p.p.
— Internet Business	**23.5%**	-55.1%	N/A
— Smart Hardware	**23.0%**	20.1%	+2.9p.p.
Adjusted Net Loss*	**(45,950)**	(540,454)	-91.5%

Note:

* For details of Adjusted Net Loss, please refer to the section headed "Management Discussion and Analysis — Loss for the Year and Non-IFRS Measure: Adjusted Net Profit/(Loss)".

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I would like to present the annual results of the Group for the year ended December 31, 2017.

Company strategic highlights

2017 was a very fruitful year as we have laid down a strong foundation for future growth, both in terms of user base and scalable internet monetization. We achieved breakeven by the end of 2017 and generated Adjusted Net Profit for the last quarter of year 2017, according to unaudited management accounts. This demonstrates the significant progress we have made and the effectiveness of our strategy.

Business Review

Meitu's business model is to provide our users with a portfolio of products and services that satisfy their diverse demand for beauty. One of the key strategies we executed in 2017 was to broaden the application of AI technologies across our products and services. We have integrated AI into new app features such as *Andy the ArtBot in Meitu and Creative Backdrop* in *Meipai*, which drove over a billion times usage among our users. AI was also employed in our video recognition technology, helping us understand the context of the videos that were uploaded to *Meipai*. Such insights served as important inputs in our recommendation algorithms to increase user engagement. By our estimation, the improvement in our recommendation algorithms has contributed a 50% increase in per-user interactions such as comments and likes of our featured videos in the second half of 2017, as compared to the first half of 2017. We have also launched an AI-based skin detection feature in our e-commerce platform, *MeituBeauty*, which recommends skincare and cosmetic products according to one's skin conditions. Users who have used the skin detection feature showed significantly higher buying conversion and retention rates. Even on the smartphone side, we have used AI and 3D reconstruction technologies to enable users to create photos as if they are taken in a studio with professional lighting. We believe the incorporation of cutting-edge technologies will continue to differentiate Meitu's smartphones from its competitors, through generating better quality, personalized and creative photos. We will continue to invest in AI to further enhance our user engagement and monetization potential.

Building a scalable infrastructure for internet monetization was also one of our strategic focuses in 2017. We have not only worked hard to build a professional advertising team that has now over 160 people, but have also put in place the technology to serve targeted and programmatic advertisements. We have also been exploring new advertising formats such as newsfeeds to better connect brands with our users. In terms of our IVAS, revenue from live streaming has continued to increase throughout 2017. Given our audience is primarily female, the competition that our live streaming platform faces is less intense as most other live streaming platforms' audience consists primarily of male. We have continued to differentiate ourselves by giving our female users a diverse and fun experience through interesting content such as cosmetics, dancing, pets, food and travel.

One other interesting trend that we observed in 2017 was the increasing participation of female users in various online entertainment mediums, such as games and online literature, which are traditionally more male-focused. We will be launching more IVAS options to cater to these new demands.

User growth highlights

	As at December 31,		Year on year
	2017	2016	**change**
(in '000 unless otherwise specified)	**'000**	'000	**(%)**
Total MAUs	**415,789**	450,051	-7.6%
MAU[1] breakdown by product:			
Meitu	**117,100**	101,984	14.8%
BeautyCam	**96,724**	125,628	-23.0%
Meipai[2]	**98,139**	113,819	-13.8%
Others	**103,826**	108,620	-4.4%
MAU breakdown by geography:			
Mainland China	**303,919**	363,648	-16.4%
Overseas	**111,870**	86,403	29.5%

(1) MAU of apps other than *Meipai* include in-app users only.

(2) As of December 31, 2017, the MAU of *Meipai* included in-app users of 29.5 million (as of December 31, 2016: 23.6 million) and mobile web users of 68.6 million (as of December 31, 2016: 90.2 million).

Chairman's Statement

The primary goal of 2017 was to build a foundation for growth in user base and engagement. To this end, we have adopted different strategies for each of our major apps, with a similar objective of increasing focus on serving their target audience. Inevitably, some of the apps experienced short-term volatility in their MAU numbers as a result of these adjustments, but all of them were much better positioned strategically entering into 2018. We are very pleased to see that total MAUs in February 2018 have rebounded to 454.7 million, and we have maintained number one position in the photo app market in terms of monthly active users.

For *Meitu*, MAU growth remained solid at 14.8% year on year in 2017. We believe there is still significant potential to grow our user base by focusing on lower-tier cities and technical optimization for lower-end devices. For *BeautyCam*, we have adjusted our strategy to focus more on serving the female user group. Although MAU on December 31, 2017 has declined 23.0% year on year, we believe it is just temporary due to such strategic shift. Importantly, the proportion of female users have increased and their engagement, measured in daily time spent, reached a historical high in early 2018. For *Meipai*, in-app MAUs increased 25.0% year on year. In 2017, we have been experimenting with converting the web MAUs into in-app MAUs. This has led to some decline in web MAUs, but has also driven a significant increase in the number of daily video viewed per user, indicating an increase in overall user engagement.

From a geographical perspective, overseas MAUs has increased significantly by 29.5%, mainly driven by the continued growth of *BeautyPlus* and *BeautyPlusMe*, as we continued to execute our localization strategies in various overseas countries, launching relevant features and interactive campaigns that are well received by our overseas users.

As of December 31, 2017, the number of accumulated unified user accounts, MTid, was 267 million, representing a growth of 33.5% from June 30, 2017.

Financial highlights

For the year ended December 31, 2017, total revenue increased 186.8% year on year to RMB4,527.5 million; revenue from the Internet business segment and smart hardware segment increased 652.2% and 153.8% year on year, respectively. Revenue contribution from the Internet business segment has continued to increase throughout 2017, accounting for 23.0% of total revenue in the second half of 2017, compared to 6.6% for the full year 2016.

Adjusted Net Loss was RMB46.0 million for the year ended December 31, 2017, representing a 91.5% reduction in loss compared to RMB540.5 million for the year ended December 31, 2016.

Business Outlook

In 2018, we will continue to focus on growing our user base through launching innovative new features as well as new apps. We aim to increase engagement level of our users through building active communities on our photo apps. In particular, we are working to transform *Meitu* into a photo social platform, where users can share their interesting lives and follow the latest trend and fashionable content. We currently expect to launch this upgrade by the end of June this year.

We will continue to invest significantly in our research and development, particularly in artificial intelligence, augmented reality, and computer vision. From a monetization perspective, we will continue to scale up our advertising business to better connect brands with our users and launch a portfolio of IVAS businesses to cater for our users' diverse demand for beauty and entertainment. For our smart hardware business, we will focus on the premium-priced T and V series, and we expect to launch two new models in June and November 2018, respectively. At the same time, we will make a foray into beauty-related smart hardware.

We generated Adjusted Net Profit for the last quarter of year 2017, according to unaudited management accounts. Assuming there is no unforeseen situation, we expect our positive business momentum will continue in 2018.

APPRECIATION

On behalf of everyone at Meitu, I would like to express my sincere gratitude to all 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 inspire more people in expressing their beauty.

Mr. Cai Wensheng
Chairman

Hong Kong
March 26, 2018

Management Discussion and Analysis

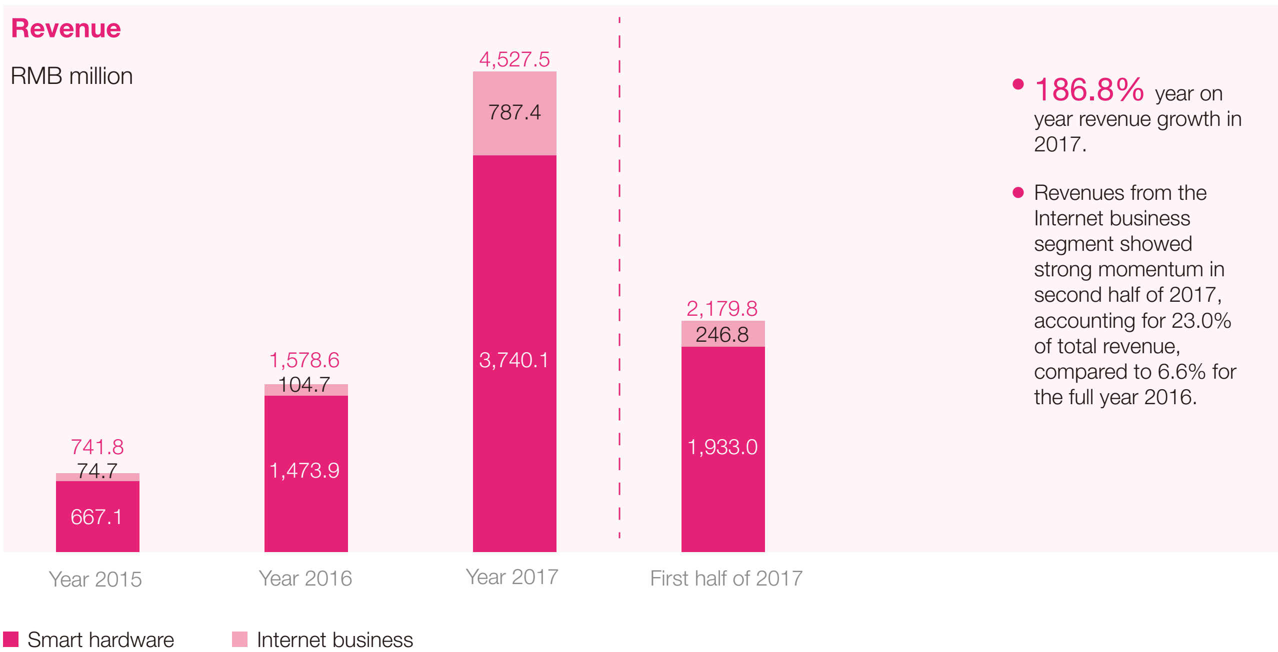
YEAR ENDED 31 DECEMBER 2017 COMPARED TO YEAR ENDED 31 DECEMBER 2016

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Revenue	**4,527,484**	1,578,580
Cost of sales	**(3,482,998)**	(1,339,420)
Gross profit	**1,044,486**	239,160
Selling and marketing expenses	**(596,729)**	(424,845)
Administrative expenses	**(237,865)**	(198,586)
Research and development expenses	**(447,062)**	(243,261)
Other income	**49,402**	12,980
Other losses, net	**(47,191)**	(37,658)
Finance income/(costs), net	**101,187**	(981)
Fair value loss of convertible redeemable preferred shares	**—**	(5,606,109)
Shares of profits/(losses) of investments accounted for using the equity method	**16**	(512)
Loss before income tax	**(133,756)**	(6,259,812)
Income tax expense	**(63,568)**	(1,068)
Loss for the year	**(197,324)**	(6,260,880)
Loss attributable to:		
— Owners of the Company	**(197,324)**	(6,260,880)
Non-IFRS measure:		
Adjusted Net Loss	**(45,950)**	(540,454)

Revenue

Our total revenue increased by 186.8% to RMB4,527.5 million for the year ended December 31, 2017, compared to RMB1,578.6 million for the year ended December 31, 2016. Revenue growth of the Internet business segment greatly exceeded that of the smart hardware business. This particularly reflected the significant progress we have made on the monetization of our massive user base.

	Year ended December 31,			
	2017		2016	
	Amount RMB'000	% of total revenues	Amount RMB'000	% of total revenues
Internet business	**787,418**	**17.4%**	104,677	6.6%
Smart hardware	**3,740,066**	**82.6%**	1,473,903	93.4%
Total	**4,527,484**	**100.0%**	1,578,580	100.0%



Internet business

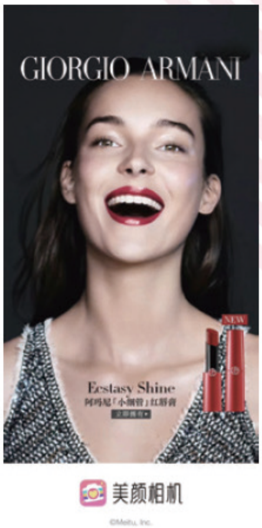
The breakdown of segment revenue of Internet business is as follows:

	Year ended December 31,		Year on year
	2017	2016	**change**
	RMB'000	RMB'000	**(%)**
Online advertising	**307,481**	60,446	408.7%
Internet value-added services and others	**479,937**	44,231	985.1%
Total	**787,418**	104,677	652.2%

Online Advertising

Revenue from online advertising increased by more than 4 times year on year to RMB307.5 million for the year ended December 31, 2017. The significant growth was driven by strengthened sales team, enhanced advertising infrastructure and refined marketing solutions centered on servicing key accounts which are primarily comprised of quality brand advertisers. We have also launched a demand-side platform for programmatic sales as well as the *Project M* initiative that connected advertisers with key opinion leaders on *Meipai* platform. Both products have started to contribute to our advertising revenue growth in 2017. In addition, we developed new advertising solutions such as branded filters and tailored social campaign that activated *Meipai's* community. We expect our revenue from advertising in 2018 will be subject to meaningful seasonality effect as key accounts are likely to be the main contributors in the revenue mix.

We aim to further expand our advertising business by bringing in more high quality brand advertisers, as well as providing more effective advertising solutions to drive higher advertising revenue. With the increased adoption of MTid, we have gained greater understanding of our user demographics and preferences, which improves our ability to assist our advertisers to launch interesting and interactive advertising campaigns that can enhance user experience of our app products. We also plan to rollout targeted advertising products, enabling advertisers to reach specific audience groups to achieve greater relevance, engagement and marketing effectiveness.



Internet value-added services and others

Revenue from IVAS and others increased by almost 10 times year on year to RMB479.9 million for the year ended December 31, 2017. Our IVAS business mainly composes of sales of virtual items on *Meipai's* live streaming. Such revenue growth was driven by (i) increase of average monthly paying users, which increased to 313,571 for the year ended December 31, 2017, compared to 200,738 for the year ended December 31, 2016; and (ii) increase in average revenue per paying user. This was achieved through differentiated female-related content, effective community management as well as the introduction of new activities that promote interaction and engagement such as online claw crane machine.

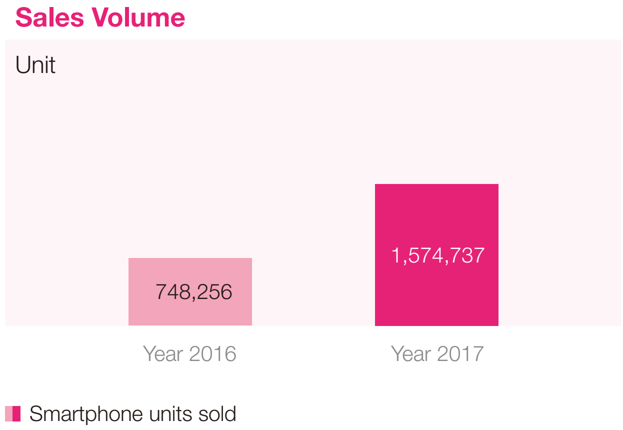
We have launched our e-commerce platform focusing on cosmetics and skincare products since October 2017. The platform is embedded with an AI-empowered feature to analyze users' skin conditions and offer tailored product recommendations to drive repeat purchase behaviors and customer retention.

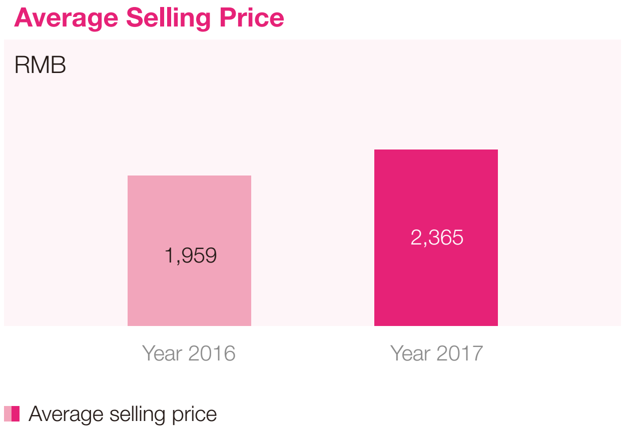
Smart hardware

Revenue from the smart hardware segment increased by 153.8% to RMB3,740.1 million for the year ended December 31, 2017 from RMB1,473.9 million for the year ended December 31, 2016, primarily due to an increase in both volume and ASP. The number of smartphone units sold was 1,574,737 for the year ended December 31, 2017, as compared to 748,256 for the year ended December 31, 2016, which is in line with our expectations. During the year ended December 31, 2017, we launched 5 new models in three of our smartphone series, two models from each of the M and T series, and one model from the V series. We currently do not expect to launch as many new models in 2018 as in 2017, as we plan to focus on the more premium-priced segment. Our month-to-month revenue for this segment is highly dependent on the launch schedule of the phones. For a particular model, typically revenue will be highest during the first few months after launch, after which revenue will start to reduce.

ASP was RMB2,365 for the year ended December 31, 2017, as compared to RMB1,959 for the year ended December 31, 2016. Product mix is a key factor that drives ASP. In 2017, we introduced the premium T series and launched a model in the luxury V series. These models carried higher suggested retail prices compared to that of M Series and drove the increase in ASP.

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





Cost of Sales

Our cost of sales increased by 160.0% to RMB3,483.0 million for the year ended December 31, 2017, compared to RMB1,339.4 million for the year ended December 31, 2016, which is in line with our revenue growth.

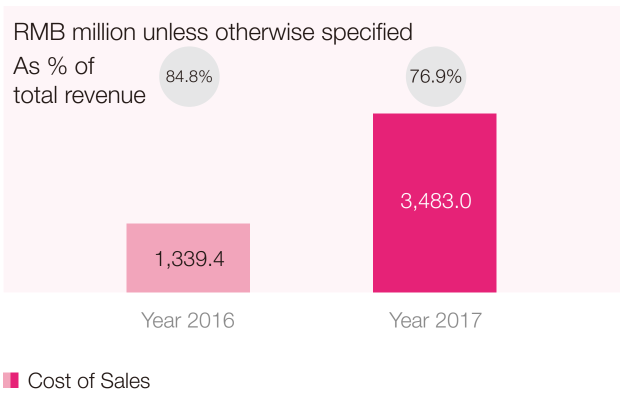
Internet business

Segment cost for Internet business increased by 271.0% to RMB602.4 million in 2017, from RMB162.4 million in 2016. Such increase was primarily due to (i) revenue-sharing of RMB350.9 million 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 by 15.4% to RMB112.8 million, which is primarily correlated to the size and engagement level of our user base on *Meipai*.

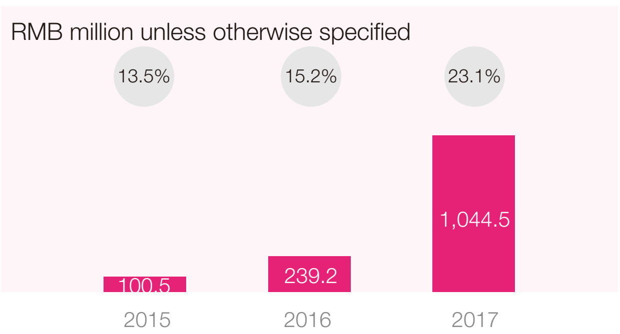
Smart hardware

Segment cost for smart hardware increased by 144.7% to RMB2,880.6 million in 2017, compared to RMB1,177.0 million in 2016, 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 RMB1,743 in 2017 from RMB1,518 in 2016. The increase was mainly due to introduction of the more premium priced model Meitu T series into the business mix which used higher-priced key components as compared to the phones launched in 2016.

Cost of Sales



Gross Profit and Gross Profit Margin



Gross Profit and Gross Profit Margin

Our gross profit increased by 336.7% to RMB1,044.5 million in 2017, from RMB239.2 million in 2016. Our overall gross margin increased to 23.1% in 2017, from 15.2% in 2016.

	Year ended December 31,			
	2017		2016	
	Amount	Gross margin	Amount	Gross margin
	RMB'000	%	RMB'000	%
Internet business	**184,993**	**23.5%**	(57,720)	-55.1%
Smart hardware	**859,493**	**23.0%**	296,880	20.1%
Total	**1,044,486**	**23.1%**	239,160	15.2%

Internet business

Our Internet business segment has achieved profitability at the gross level during the first financial year after our Listing, generating a gross profit of RMB185.0 million in 2017, compared to a gross loss of RMB57.7 million in 2016.

Gross profit margin was 23.5% for the year ended December 31, 2017, compared to a gross loss margin of 55.1% for the year ended December 31, 2016. The fast expansion of gross margin was driven by (i) the rapid growth of our advertising and IVAS businesses; and (ii) operating leverage. Two of the major costs items for IVAS, bandwidth and storage related costs and video content monitoring fee, were primarily correlated to the size and engagement of the user base of *Meipai*. Therefore, when revenue ramped up during 2017, these costs did not grow as fast, thereby generating strong operating leverage.

Smart hardware

Gross profit and margin of our smart hardware segment increased to RMB859.5 million and 23.0% in 2017 from RMB296.9 million and 20.1% in 2016, primarily due to the change in product mix. The introduction of our higher-priced Meitu T series, which also carried higher gross margin, was the main driver for margin expansion of this segment.

Research and Development Expenses

Our research and development expenses increased by 83.8% to RMB447.1 million in 2017, from RMB243.3 million in 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Selling and Marketing Expenses

Selling and marketing expenses increased by 40.5% to RMB596.7 million in 2017, from RMB424.8 million in 2016, primarily due to (i) an increase in personnel related expenses which include share-based compensation; and (ii) an increase in promotion and advertising expenses that were mainly driven by our expanding businesses.

We generally do not rely on paid marketing campaigns to drive user growth of our apps, as the majority of our user growth is driven by organic downloads. However, we will typically launch paid marketing campaigns when we launch a new app, or a major upgrade of an app. If an app or a major upgrade's initial performance is better than our expectations, we may temporarily increase the scale of such paid marketing campaigns to maximize the potential of such apps' long-term growth prospect.

In April 2018, there has been some changes in the competitive landscape of the short-form video and live-streaming industry. In particular, some of our competitors were publicly reprimanded and penalized by PRC governmental authorities for having inappropriate contents. We believe some of our competitors have reduced their marketing expenditures as a result. Some premium marketing resources (such as sponsorship of popular reality TV shows) that were not readily available in 2017 have therefore become available. Although these premium marketing resources require very significant costs, we intend to evaluate and invest in these premium marketing resources if they can generate positive business momentum (which we define as active users and revenue growth) for us.

Administrative Expenses

Our administrative expenses increased by 19.8% to RMB237.9 million in 2017 from RMB198.6 million in 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Other Income

Other income increased by 280.6% to RMB49.4 million for the year ended December 31, 2017, from RMB13.0 million for the year ended December 31, 2016, with a main contributing factor being an increase in the amount of government grants received.

Other Losses, Net

Other losses in 2017 increased to RMB47.2 million, primarily due to recognition of net unrealized fair value losses of RMB77.4 million on several early-stage investments. Their financial performances and liquidity positions were below expectation and were therefore written down to their estimated recoverable amount. Such fair value losses were partially offset by the realized gains on disposal of long-term investments of RMB32.7 million, which were also early-stage investments.

Finance Income/(Costs), Net

Our finance income/(costs), net mainly comprised of interest income and foreign exchange gains/(losses), net. We had a net finance income of RMB101.2 million in 2017, compared to a net finance cost of RMB1.0 million in 2016, mainly due to an increase in interest income to RMB84.3 million generated by the proceeds from our Listing.

Income Tax Expense

Income tax expenses for the year ended December 31, 2017 were RMB63.6 million, compared to RMB1.1 million for the year ended December 31, 2016. Although the Group was loss-making on a consolidated level for the year ended December 31, 2017, some of our entities generated positive net profits and therefore increased our income tax expenses for the year ended December 31, 2017.

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

Our loss for the year ended December 31, 2017 decreased significantly by 96.8% year on year to RMB197.3 million, compared to RMB6,260.9 million in 2016, primarily due to a fair value loss on the convertible redeemable preferred shares of RMB5,606.1 million was recognized for the year ended December 31, 2016, but did not recur in the year ended December 31, 2017, as the convertible redeemable preferred shares were automatically converted into ordinary shares upon listing in December 2016.

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.

Our Adjusted Net Loss was RMB46.0 million for the year ended December 31, 2017, which represented a significant decrease of 91.5% compared to RMB540.5 million for the year ended December 31, 2016. The reduction in Adjusted Net Loss was primarily driven by strengthening business fundamentals that reflected the early success of the monetization of our businesses.

The following table reconciles our Adjusted Net Loss for the years ended December 31, 2017 and 2016 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Loss for the year	**(197,324)**	(6,260,880)
Excluding:		
Fair value loss of convertible redeemable preferred shares	**—**	5,606,109
Share-based compensation	**111,095**	40,926
Fair value losses/(gains) on long-term investments, net of tax	**72,053**	(11,212)
Impairment loss on long-term investments	**—**	45,091
Gains on disposal of long-term investments, net of tax	**(31,774)**	—
One-off listing expenses	**—**	39,512
Adjusted Net Loss	**(45,950)**	(540,454)

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, 2017 and 2016 were as follows:

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**1,396,632**	4,508,522
Short-term bank deposits	**3,774,807**	725,229
Short-term investments placed with banks	**—**	280,820
Cash and other liquid financial resources	**5,171,439**	5,514,571

As at December 31, 2017, we had cash and other liquid financial resources of RMB5,171.4 million. The decrease in cash and other liquid financial resources was partially due to payments for long-term investments, partly offset by positive cash flow generated from operations.

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. 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, 2017, 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, 2017. 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,	
	2017	2016
	RMB'000	RMB'000
Purchase of property and equipment	**52,407**	60,238
Purchase of intangible assets	**2,386**	2,305
	54,793	62,543

Our capital expenditures primarily include 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,	
	2017	2016
	RMB'000	RMB'000
Investment in associates in the form of ordinary shares	**23,940**	3,259
Investment in financial assets at fair value through profit or loss	**34,573**	141,634
Investment in available-for-sale financial assets	**6,534**	45,091
	65,047	189,984

We have made minority investments that we believe have technologies or businesses that supplement and benefit our business. None of these individual investments is regarded as material. Some of the investments we made were early-stage companies that do not generate meaningful revenue and profits. It is therefore 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.

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 the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency during the year ended December 31, 2017 (2016: None).

Pledge of Assets

As at December 31, 2017, we pledged a restricted deposit of RMB1,000,000 (2016: RMB400,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As at December 31, 2017, we did not have any material contingent liabilities (2016: None).

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 2,066 full-time employees as of December 31, 2017 (2016: 1,328), primarily based in our headquarters in Xiamen, with the rest based in other parts of the PRC, Hong Kong, 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 eligible participants of the Pre-IPO ESOP, Post-IPO Share Option Scheme, and Post-IPO Share Award Scheme. 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

Save for the long term investment activities as disclosed in "Long-term Investment Activities" above, as of December 31, 2017, we did not hold any significant investments in the equity interests of any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

Save as disclosed in this annual report and in the Prospectus, the Group did not have any other plans for material investments and capital assets as at the Latest Practicable Date.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended December 31, 2017, we did not have any material 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 as at the Latest Practicable Date:

Members of our Board

Name	Age	Position/Title	Date of Appointment
Mr. CAI Wensheng	48	Executive Director and Chairman	July 2013
Mr. WU Zeyuan	37	Executive Director and Chief Executive Officer	July 2013
Dr. GUO Yihong	54	Non-executive Director	January 2014
Dr. LEE Kai-Fu	56	Non-executive Director	August 2016
Mr. KO Chun Shun Johnson	66	Independent non-executive Director	November 2016[(1)]
Mr. ZHOU Hao	41	Independent non-executive Director	November 2016[(1)]
Professor ZHANG Shoucheng	55	Independent non-executive Director	February 2018

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 48, is a founder, executive Director and the Chairman of our Group, and is the chairman of the Nomination Committee of our Company since 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 held 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) between June 2015 and October 2016, and TTG Fintech Limited (Australian Securities Exchange Ticker: TUP) between September 2012 and August 2017.

Mr. WU Zeyuan (吳澤源) (also known as Mr. Wu Xinhong (吳欣鴻)), aged 37, 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.

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 until the Company's voluntary deregistration in October 2017.

Non-executive Directors

Dr. GUO Yihong (過以宏), aged 54, 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 56, 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, Hon Hai Precision Industry Co., Ltd. (Taiwan Stock Exchange Stock Code: 2317) since July 2016 and Fosun International Limited (Hong Kong Stock Exchange Stock Code: 656) since 28 March 2017.

Dr. Lee has served as chairman and chief executive officer of Innovation Works Limited, a venture capital firm, since 2009. Dr. Lee has been the chairman of Innovation Works (Beijing) Enterprise Management Co., Ltd. (National Equities Exchange and Quotations Stock Code: 835966), a venture capital firm, since September 2015 and independent non-executive director of LightInTheBox Holding Co., Ltd, a NYSE-listed company (NYSE: LITB) since June 5, 2013.

Dr. Lee is a co-founder and the managing partner of Innovation Works Development Fund L.P., one of our Pre-IPO Investors and a Shareholder of our Company.

Independent non-executive Directors

Mr. KO Chun Shun Johnson (高振順), aged 66, has been appointed as an independent non-executive Director of our Company, chairman of the Remuneration Committee and a member of the Audit Committee of our Company with effect from Listing. From December 2006 to June 19, 2015, he served as an executive director of Concord New Energy Group Limited (Hong Kong Stock Exchange Stock Code: 0182). He served as an executive director of Sheng Yuan Holdings Limited (Hong Kong Stock Exchange Stock Code: 0851) from 2007 to June 4, 2009. He served as an executive director of Huayi Tencent Entertainment Company Limited (Hong Kong Stock Exchange Stock Code: 0419) from June 2002 to January 2008.

Over the past three years, Mr. Ko has also 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;

- ReOrient Group Limited (now known as Yunfeng Financial 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; and

- Frontier Services Group Limited (Hong Kong Stock Exchange Stock Code: 0500) as an executive director since February 1999 and currently is also the deputy chairman.

Mr. ZHOU Hao (周浩), aged 41, has been appointed as an independent non-executive Director of our Company, chairman of the Audit Committee and member of the Nomination Committee of our Company with effect from Listing. Mr. Zhou is our Director with appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below. Mr. Zhou received his bachelor's degree from Shanghai International Studies University (上海外國語大學) in July 1998. Mr. Zhou joined General Electric (China) Co., Ltd. (通用電氣 (中國) 有限公司) in January 2007 as a financial manager. From May 2009 to September 2010, Mr. Zhou was the vice president of finance and the chief financial officer at Wuxi PharmaTech (Cayman) Inc., (NYSE: WX). In September 2010, Mr. Zhou joined CITIC Pharmaceutical Co Ltd. (中信醫藥實業有限公司), a pharmaceutical service provider that supplies medicine and related consumables to hospitals as chief financial officer. Since May 2011, Mr. Zhou has served as the chief financial officer of 58.com Inc., (NYSE: WUBA), a company that operates online marketplace serving local merchants and consumers in China.

Professor ZHANG Shoucheng (張首晟), aged 55, has been appointed as an independent non-executive Director of our Company, members of the Nomination Committee and Remuneration Committee of our Company on February 22, 2018. He is a professor of physics at Stanford University, a fellow of the American National Academy of Sciences, a fellow of the American Academy of Arts and Sciences and a foreign academician of the Chinese Academy of Sciences. He received a bachelor's degree from the Free University of Berlin in Germany in 1983 and a Ph.D. from the State University of New York at Stony Brook in 1987.

Professor Zhang was a postdoctoral fellow of the Kavli Institute of Theoretical Physics, University of California, Santa Barbara, in the United States from 1987 to 1989, a senior fellow of the IBM Almaden Research Center from 1989 to 1993, and was employed by the Stanford University Department of Physics in 1993. His main research area was condensed matter physics, the focus of which was on topological insulators. He had made a large number of international first-class original innovations in the research direction of high-temperature superconductivity, quantum Hall effect, spintronics, strong associated electronic systems, etc..

For his groundbreaking research on quantum spin Hall effect and topological insulators, he has won the Europhysics Prize in 2010, the Oliver Buckley Prize by the American Physical Society in 2012, the Dirac Medal by the International Centre for Theoretical Physics under the auspices of UNESCO in 2012, and the Physics Frontier Prize in 2013 (which was presented on the same stage with the famous physicist Stephen Hawking). In 2015, Professor Zhang was awarded the Benjamin Franklin Medal (one of the most prestigious science prizes in the world), the historical recipients of which included scientific giants such as Albert Einstein, Madame Curie, Stephen Hawking, Yang Zhenning, 116 Nobel laureates, as well as inventors such as Thomas Edison (electric light inventor), Nikola Tesla (AC Grid inventor), Alexander Bell (telephone inventor) and Orville Wright (inventor of aircraft).

Professor Zhang was an angel investor in Stanford University's startup company VMWare, which was a cloud computing industry leader previously having reached a market value of US$48 billion. For many years, Professor Zhang has strived hard in promoting scientific and technological exchanges between China and the United States of America. Professor Zhang founded DHVC (Danhua Capital) in 2013 and took the position of founding chairman, primarily investing in innovative companies that originated from the Stanford University/Silicon Valley region with investment focus in areas such as artificial intelligence, big data, augmented/virtual reality, gene therapy and other industries.

Professor Zhang has been a keynote speaker in many conferences and summits on the area of blockchain technology, including but not limited to the 'Blockchain Technology Evolution in US and China Summit' organized by Blockchain Connect Conference in San Francisco on January 26, 2018.

OUR SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of the Group as at the Latest Practicable Date, in addition to the Directors listed above.

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. NGAN King Leung Gary (顏勁良)	34	Chief Financial Officer and joint company secretary	Overall financial strategy, investor relations and company secretarial matters	June 2015
Mr. CHENG Yu (程昱)	40	Chief Operating Officer	Monetization strategies	November 2017
Mr. ZHANG Wei (張偉)	32	Chief Technology Officer	Company's research and technology	March 2008
Ms. RUAN Yongli (阮永麗)	32	Group Senior Vice President of Technology	Development of web infrastructure and data analytics	April 2006
Mr. CHEN Jie (陳杰)	31	Group Senior Vice President of Product Development	Management and design for Internet products	April 2009
Ms. ZENG Zhiping (曾志蘋)	40	Group Senior Vice President of Human Resources, Administration and Public Relations	Human resources and administration	August 2011

See disclosure in "Directors and Senior Management — Our Directors" for the biographies of Mr. Cai and Mr. Wu.

Mr. NGAN King Leung Gary (顏勁良), aged 34, 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: 484), a mobile games and web game company listed on the Stock Exchange. Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited from February 2013 to November 2014.

Mr. CHENG Yu (程昱), aged 40, is our Chief Operating Officer and joined our Group in November 2017. Prior to joining the Group, Mr. Cheng has served as vice president (from 2015 to 2017) and general manager (from 2012 to 2015) of Weibo Corporation (NASDAQ: WB, "Weibo"), responsible for Weibo's various revenue streams (including advertising, membership services, e-commerce, internet finance, mobile payment, live streaming, mobile value-added services, etc.) as well as exploration of new revenue opportunities. Mr. Cheng has over 17 years of experience in the technology sector in both China and the United States of America with proven track record in developing successful products and implementing monetization strategies. Prior to his tenure at Weibo, Mr. Cheng has held various management, product development and engineering positions at Microsoft Corporation (NASDAQ: MSFT) and Qihoo 360 Technology Co. Ltd., among others. Mr. Cheng holds a Master of Science degree in Computer Engineering from the University of Akron in the United States of America.

Mr. ZHANG Wei (張偉), aged 32, 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.

Ms. RUAN Yongli (阮永麗), aged 32, is our Group 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.

Mr. CHEN Jie (陳杰), aged 31, is our Group Senior Vice President of Product Development. Mr. Chen joined our Group in April 2009 and is primarily responsible for the management and design of our software products. Mr. Chen received his specialist degree in graphics design from Putian University in the PRC in July 2008. In August 2014, Mr. Chen was appointed as an executive director of Meitu Technology.

Ms. ZENG Zhiping (曾志蘋), aged 40, is our Group 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.

JOINT COMPANY SECRETARIES

Mr. NGAN King Leung Gary (顏勁良) and **Ms. LEE Ka Man (李嘉文)** of Fair Wind Secretarial Services Limited were both appointed as the joint company secretaries of our Company on August 2, 2016. See disclosure in "Directors and Senior Management — Our Senior Management" for the biography of Mr. Ngan.

Ms. LEE Ka Man (李嘉文), aged 44, is an associate member of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee obtained a bachelor's degree in business administration from The Open University of Hong Kong in June 2002. She obtained a master's degree in business administration from The Open University of Hong Kong in December 2004. Ms. Lee joined Fair Wind Secretarial Services Limited in August 1999. She has more than 15 years of experience in the field of company secretarial services.

GENERAL COUNSEL

Mr. LAW Yat Yang Arthur (羅日陽), aged 34, was appointed as the General Counsel of the Group on September 18, 2017.

Prior to joining the Group, he was a Legal Counsel of Alibaba Group (NYSE: BABA) from January 2017 to September 2017, primarily responsible for Alibaba Group's cloud computing and IT equipment procurement businesses. Between February 2014 and January 2017, Mr. Law worked at Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484), with his last position being General Counsel & Company Secretary from June 2015. Between October 2010 and January 2014, Mr. Law worked as a Solicitor in the Corporate & Commercial Department of Messrs. Woo, Kwan, Lee & Lo.

Mr. Law was admitted as a solicitor of New South Wales (Australia) by the Supreme Court of New South Wales (Australia) in August 2007 and as a solicitor of Hong Kong by the High Court of Hong Kong in September 2010. He obtained a Bachelor of Applied Finance degree and a Bachelor of Laws degree from Macquarie University, Sydney (Australia) in April 2007, a graduate diploma in legal practice from The College of Law (New South Wales, Australia) in August 2007, and a Postgraduate Certificate in Laws from the University of Hong Kong in June 2008.

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, 2017.

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 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 activity 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

Our Shares were listed on the Stock Exchange on December 15, 2016 and the net proceeds raised during our Listing were approximately RMB4,211.5 million. As at December 31, 2017, the Group had:

- used approximately RMB1,221.3 million for component and raw material sourcing to produce smartphones;
- used approximately RMB65.0 million to invest in or acquire businesses that are complementary to our business;
- used approximately RMB569.6 million to implement sales and marketing initiatives in both China and overseas market;
- used approximately RMB140.7 million to expand Internet services business;
- used approximately RMB278.0 million to expand research and development capabilities;
- used approximately RMB379.0 million as general working capital.

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

RESULTS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of comprehensive income on page 107 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended December 31, 2017 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 9 and pages 10 to 21 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 43 of this annual report. An account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the "Environmental, Social and Governance Report" on pages 65 to 99 of this annual report.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2017.

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, 2017, the Company had distributable reserves of US$1,110,919,000 (equivalent to RMB7,729,303,000) (2016: US$1,109,832,000 (equivalent to approximately RMB8,262,191,000)).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2017 are set out in the consolidated statement of changes in equity on pages 110 to 111 and in Note 35(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, 2017 are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2017 are set out in Note 22 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 36 to the consolidated financial statements.

BORROWINGS

The Group did not have any outstanding bank loans and other borrowings as at December 31, 2017.

DONATION

During the year ended December 31, 2017, the Group made charitable donations of approximately RMB200,000 (2016: RMB295,808).

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 190 of this annual report.

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

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's or any of its subsidiaries' listed securities.

DEBENTURE ISSUED

The Group has not issued any debentures during the year ended December 31, 2017.

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 Post-IPO Share Award 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 32, 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.

For the year ended December 31, 2017, Mr. Wu was paid discretionary bonuses of a total sum of RMB100,000 (equivalent to approximately 2 months of his base salary). Save as disclosed above, none of the Directors were paid discretionary bonuses for the year ended December 31, 2017.

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 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, 2017, outstanding options representing 79,339,909 underlying Shares were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 24(a) to the consolidated financial statements.

As at the Latest Practicable Date, options to subscribe for an aggregate of 77,533,986 Shares were outstanding, representing approximately 1.81% of the issued share capital of the Company as at the Latest Practicable Date.

No further option could be granted under the Pre-IPO ESOP.

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 is valid and effective for a period of 10 years from February 15, 2014 and up to February 15, 2024. The remaining life of the scheme is approximately 6 years. Any options that are outstanding on the expiry date of the Pre-IPO ESOP shall remain in force according to the terms of the Pre-IPO ESOP.

Consideration

No 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 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, 2017 and as at the Latest Practicable Date, 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 9.89% and 9.89% of the issued share capital of the Company respectively.

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 is 422,729,455 Shares, being no more than 10% of the Shares in issue as at the Listing Date. 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.

Remaining Life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to December 15, 2026. The remaining life of the Post-IPO Share Option Scheme is approximately 8 years.

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, 2017 and as at the Latest Practicable Date, 31,887,806 Shares and 32,743,806 Shares had respectively 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 179,476,921 Shares and 178,620,921 Shares respectively, representing approximately 4.20% and 4.18% respectively of the issued share capital of the Company.

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 4,273,552,759 Shares (being the number of Shares in issue as at December 31, 2017) and 4,275,358,682 Shares (being the number of Shares in issue as at the Latest Practicable Date) to 4,401,759,341 Shares and 4,403,619,442 Shares respectively.

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, 2017.

DIRECTORS

The Directors and members of senior management of the Company who held office during the year ended December 31, 2017 and up to the Latest Practicable Date were:

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
Mr. KO Chun Shun Johnson
Ms. LO Po Man (resigned from the Board effective February 22, 2018)
Professor ZHANG Shoucheng (appointed on February 22, 2018)

Pursuant to Article 83(3) of the Articles of Association of the Company, Professor ZHANG Shoucheng having been appointed by the Board as an independent non-executive Director effective from February 22, 2018 shall hold office until the AGM and, being eligible, will offer himself for re-election at the AGM.

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. LEE Kai-Fu and Mr. ZHOU Hao 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 22 to 28 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 (excluding Professor ZHANG Shoucheng) 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).

Professor ZHANG Shoucheng has signed a letter of appointment with the Company commencing from February 22, 2018 until the third annual general meeting of the Company from such commencement date.

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, none of the Directors nor any entity connected with the Directors 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, 2017.

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, 2017. 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, 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended December 31, 2017 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, 2017, 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	1,673,166,670	39.15%
Mr. WU Zeyuan[1]	Interest of a party to an agreement regarding interest in the Company	1,673,166,670	39.15%
LEE Kai-Fu	Interest in a controlled corporation	32,994,151	0.77%

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 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.

(2) The percentages are calculated on the basis of 4,273,552,759 Shares in issue as at December 31, 2017.

Save as disclosed above, as at December 31, 2017, none of the Directors and chief executive 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2017, 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 Shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Easy Prestige Limited(2)(3)	Interest of a party to an agreement regarding interest in the Company(1)	1,673,166,670	39.15%
Xinhong Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,673,166,670	39.15%
Baolink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,673,166,670	39.15%
Longlink Limited(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,673,166,670	39.15%
Longlink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,673,166,670	39.15%
Lion Trust (Singapore) Limited(2)(3)	Trustee of a discretionary trust	1,398,366,670	32.72%
IDG-Accel China Growth Fund GP III Associates Ltd.(4)	Interest of controlled corporation	275,453,690	6.45%
Ho Chi Sing	Interest of controlled corporation	275,453,690	6.45%
Zhou Quan	Interest of controlled corporation	275,453,690	6.45%
IDG-Accel China Growth Fund III L.P.(4)	Beneficial owner	257,218,660	6.02%
IDG-Accel China Growth Fund III Associates L.P.(4)	Interest of controlled corporation	257,218,660	6.02%
Chen Jiarong	Interest of controlled corporation/ Beneficial owner/Interest of spouse	477,493,180	11.17%
Kingkey Enterprise Holdings Limited	Interest of controlled corporation	418,324,680	9.79%
Chen Jiajun	Interest of controlled corporation	418,324,680	9.79%

Notes:

(1) Pursuant to the Concert Party Agreement.

(2) The entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu. The entire interest of Baolink Capital is held by Mr. Cai and the entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.

(3) The entire interest of Easy Prestige Limited and Longlink Limited is held by Lion Trust (Singapore) Limited and is deemed to be interested in these Shares.

(4) 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 6.45% of the voting rights of the Company as at the Latest Practicable Date.

(5) The percentages are calculated on the basis of 4,273,552,759 Shares in issue as at December 31, 2017.

Save as disclosed herein, as at December 31, 2017, 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, 2017, neither our Controlling Shareholders nor any of our Directors 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 has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended December 31, 2017.

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, 2017.

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, 2017 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, 2017, the accumulated losses of Meitu Networks and its subsidiaries amounted to RMB87.2 million. Meitu Home enjoys all the economic benefits derived from the businesses of Meitu Networks and its subsidiaries and bears Meitu Networks' business risks. If Meitu Networks runs into financial deficit or suffers severe operation difficulties, Meitu Home will provide financial support to Meitu Networks.

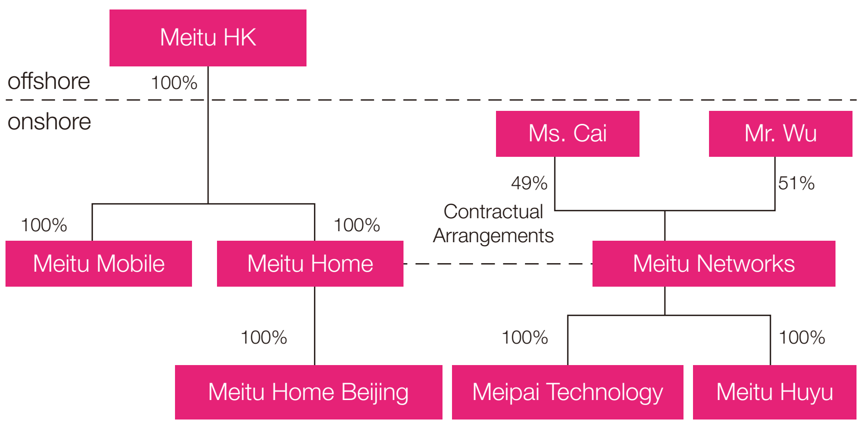
(c) Share Pledge Agreement

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, 2017. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2017.

For the year ended December 31, 2017, 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, 2017 and 2016 were RMB755.6 million and RMB140.1 million, respectively.

For the year ended December 31, 2017, the revenue of Meitu Networks and its subsidiaries amounted to approximately 16.7% (2016: 8.9%) 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 the year ended December 31, 2017 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, 2017, (iii) no new contracts were entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2017, 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 according to the relevant agreement governing the Contractual Arrangements on terms that 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, 2017:

(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, 2017, no related party transactions disclosed in Note 31 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, 2017, the revenue amounts from the Group's five largest customers accounted for 62.8% (2016: 66.1%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 33.6% (2016: 36.5%) of the Group's total revenue.

As at December 31, 2017, the Chairman of our Board, Mr. Cai Wensheng, indirectly owned approximately 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 year ended December 31, 2017, 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, 2017, the purchase amounts placed with the Group's five largest suppliers accounted for 46.7% (2016: 38.1%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 20.6% (2016: 17.9%) 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 or customers.

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

There were no important events affecting the Group which occurred after December 31, 2017 and up to the Latest Practicable Date.

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 Latest Practicable Date, 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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors of the Company are set out below:

(1) Ms. LO Po Man resigned as an independent non-executive Director effective from February 22, 2018.

(2) Professor ZHANG Shoucheng was appointed by the Board as an independent non-executive Director effective from February 22, 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 25, 2018 to June 5, 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on June 5, 2018. All transfers of Shares accompanied by the relevant share certificates and transfer forms 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, Wanchai, Hong Kong before 4:30 p.m. on May 24, 2018.

MEITU AND THE COMMUNITY

As a global company, Meitu, Inc. is committed "to inspire more people in expressing their beauty" as its core mission and "to become the most valuable technology company" as its vision.

By the order of the Board
Mr. CAI Wensheng
Chairman

Hong Kong
March 26, 2018

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

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, 2017.

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 for the year ended December 31, 2017.

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 for the year ended December 31, 2017 after making reasonable enquiry.

BOARD OF DIRECTORS

Board Composition

As at the Latest Practicable Date, 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

Name of Director	Membership of Board Committee(s)
Independent non-executive Directors:	
Mr. KO Chun Shun Johnson	Chairman of the Remuneration Committee
	Member of the Audit Committee
Mr. ZHOU Hao	Chairman of the Audit Committee
	Member of the Nomination Committee
Professor ZHANG Shoucheng	Member of the Remuneration Committee
(effective from February 22, 2018)	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 22 to 28 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, 2017 and up to the Latest Practicable Date, the Board has 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 (excluding Professor ZHANG Shoucheng) 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.

Professor ZHANG Shoucheng has signed a letter of appointment with the Company and was appointed as an independent non-executive Director commencing on February 22, 2018 until the third annual general meeting of the Company from such commencement date.

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, investments, 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, investments 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, General Meetings and Committee Meetings

The Board meets four times during a year as a minimum and it met 5 times during the year ended December 31, 2017. The attendance of each Directors at Board and Committee meetings and general meetings is detailed in the table below.

	Attendance/No. of Meeting(s)				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. CAI Wensheng	5/5	–/–	–/–	1/1	1/1
Mr. WU Zeyuan	5/5	–/–	–/–	–/–	1/1
Dr. GUO Yihong	5/5	3/3	–/–	–/–	1/1
Dr. LEE Kai-Fu	5/5	–/–	1/1	–/–	1/1
Mr. KO Chun Shun Johnson	5/5	3/3	1/1	–/–	1/1
Mr. ZHOU Hao	5/5	3/3	–/–	1/1	1/1
Ms. LO Po Man(1)	5/5	–/–	1/1	1/1	1/1
Professor ZHANG Shoucheng(2)	–/–	–/–	–/–	–/–	–/–

Notes:

(1) Ms. LO Po Man resigned from the Board on February 22, 2018.

(2) Professor ZHANG Shoucheng was appointed to the Board on February 22, 2018

In accordance with code provision A.2.7 of the CG Code, apart from the regular board meetings above, the Chairman of the Board also held meetings with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

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.

During the year ended December 31, 2017, all Directors have participated in continuous professional training to develop and refresh their knowledge and skills in relation to their contribution to the Board.

Name of Director	Participated in continuous professional training
Executive Directors	
Mr. CAI Wensheng	✓
Mr. WU Zeyuan	✓
Non-executive Directors:	
Dr. GUO Yihong	✓
Dr. LEE Kai-Fu	✓
Independent non-executive Directors:	
Mr. KO Chun Shun Johnson	✓
Mr. ZHOU Hao	✓
Ms. LO Po Man(1)	✓
Professor ZHANG Shoucheng(2)	—

Notes:

(1) Ms. LO Po Man resigned from the position of independent non-executive Director effective on February 22, 2018.

(2) Professor ZHANG Shoucheng was appointed as an independent non-executive Director on February 22, 2018.

Directors' knowledge and skills are continuously developed and refreshed by, inter alia, the following means:

1. participation in continuous professional training seminars and/or conferences and/or courses and/or workshops on subjects relating to, inter alia, corporate governance, directors' duties and legal and regulatory changes organised and/or arranged by the Company and/or professional bodies and/or lawyers;

2. reading materials provided from time to time by the Company to Directors regarding legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties; and

3. reading news, journals, magazines and/or other reading materials regarding legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties.

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 has set up the Audit Committee 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, the effectiveness of the Company's internal audit function, 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, effectiveness of the Company's internal audit function, 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 comprises a majority of independent non-executive Directors and includes members with appropriate accounting or related financial management expertise as required under the Listing Rules. As at the Latest Practicable Date, the members of the Audit Committee are Mr. ZHOU Hao, Mr. KO Chun Shun Johnson and Dr. GUO Yihong. Dr. GUO Yihong is a non-executive Director, and Mr. KO Chun Shun Johnson and Mr. ZHOU Hao are independent non-executive Directors. Mr. ZHOU Hao is the chairman of the Audit Committee.

The Audit Committee held 3 meetings during the year ended December 31, 2017. Individual attendance record of each Committee member is set out on page 55 of this annual report. During the meetings, the Audit Committee reviewed the annual results announcement and the annual report of the Group for year ended December 31, 2016, the interim results announcement and interim report of the Group for the six months ended June 31, 2017, internal control and risk management systems of the Group, etc..

Remuneration Committee

The Company has set up the Remuneration Committee 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 comprises a majority of independent non-executive Directors. As at the Latest Practicable Date, the members of the Remuneration Committee are Mr. KO Shun Johnson, Dr. LEE Kai-Fu and Professor ZHANG Shoucheng. Dr. LEE Kai-Fu is a non-executive Director, and Mr. KO Chun Shun Johnson and Professor ZHANG Shoucheng are independent non-executive Directors. Mr. KO Chun Shun Johnson is the chairman of the Remuneration Committee.

The Remuneration Committee held 1 meeting during the year ended December 31, 2017. Individual attendance record of each Committee member is set out on page 55 of this annual report. During the meetings, the Remuneration Committee reviewed the remuneration policy and structure and made 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 for the year ended December 31, 2017 are set out in Note 32 to the audited consolidated financial statements contained in this annual report.

The remuneration of the members of senior management by band for the year ended December 31, 2017 is set out below:

	Number of members of senior management
HK$500,001 to HK$1,500,000	6
HK$20,000,001 to HK$40,000,000	2
Total	8

Nomination Committee

The Company has set up the Nomination Committee 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 comprises a majority of independent non-executive Directors. As at the Latest Practicable Date, the members of the Nomination Committee are Mr. CAI Wensheng, Mr. ZHOU Hao and Professor ZHANG Shoucheng. Mr. CAI Wensheng is an executive Director, and Mr. ZHOU Hao and Professor ZHANG Shoucheng are independent non-executive Directors. Mr. CAI Wensheng is the chairman of the Nomination Committee.

The Nomination Committee held 1 meeting during the year ended December 31, 2017. Individual attendance record of each Committee member is set out on page 55 of this annual report. During the meetings, the Nomination Committee reviewed the composition of the Board, the diversity of the Board, assessed the independence of independent non-executive Directors and recommended to 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. The board has performed the above duties during the year ended December 31, 2017.

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, 2017.

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 100 to 105 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, 2017, 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 audit function 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. In 2017, the Board has further strengthened the risk management and internal control systems of the Group by having recruited suitable manpower and qualified personnel to cope with the present structure and scale of operations of the Group.

Results of audit work together with an assessment of the overall internal control framework are reported to the Audit Committee as appropriate. The internal audit function also reviews the Company's management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issues.

Review on risk management and internal control systems

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, 2017 and confirmed that the Group's risk management and internal control systems 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, 2017 is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	6,879.3
Non-audit Services	335.0
	7,214.3

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) where he worked from May 2012 to June 2015, 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 F.1.1 of the CG Code.

During the year ended December 31, 2017, 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, 2017.

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

ABOUT THIS REPORT

Purpose of the Report

The Report is the second Environmental, Social and Governance ("ESG") Report (the "Report") of Meitu, Inc. (the "Company", together with its subsidiaries, and Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) and its subsidiaries, collectively "Meitu," the "Group" or "We"). The Report reports on the strategies, guidelines and performance of the Group's core businesses in all areas of sustainable development.

Reporting Year and Scope

Unless otherwise stated, the Report covers our major business operating regions, including Xiamen (where our head office is located), and Beijing, Shanghai, Shenzhen, Hangzhou, and the Hong Kong Special Administrative Region of the People's Republic of China (the "PRC") (where other offices are located), from January 1, 2017 to December 31, 2017 (the "Reporting Period").

Reporting Standards

The Report was prepared in accordance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Access to the Report

The Report is part of the Group's annual report in both Chinese and English. It is available on the Group's website at https://corp.meitu.com.

Contact Information

We attach great importance to the valuable comments of stakeholders and welcome comments on the Report or the overall sustainability performance of the Group. Please contact us at ir@meitu.com.

ABOUT MEITU

MISSION

to inspire more people in expressing their beauty

VISION

to be the technology company that understands beauty best

Besides domestic offices in Beijing, Shanghai, Hangzhou, Guangzhou, Shenzhen, Hong Kong and the headquarters in Xiamen, China, Meitu has also established localization teams in overseas markets to launch localized apps and services. Since its inception, we have worked tirelessly to build a beauty ecological chain through a series of innovative photo editing apps, short-form video platforms and live streaming communities, beauty e-commerce platforms, as well as smartphones, changing the way users create and share beauty and ingraining the selfie culture in the minds of the general public. Meitu is not only a representation for “enhancing images”, but is also a brand that symbolizes beauty, trendiness and youthfulness.

PORTFOLIO OF CORE APPS PRODUCTS

As of December 31, 2017, the total number of monthly active users ("MAUs") for the full suite of apps was 416 million. We are repeatedly ranked among the top 10 iOS non-game app developers globally.

Smartphones

Meitu smartphones are our self-developed hardware products, which are designed and integrated for optimizing the selfie-taking experience. The M Series, T Series and V Series Meitu smartphones have all applied the industry-leading artificial intelligence ("AI") beauty technology and its powerful selfie-taking feature has been well received. Meitu smartphones have already become synonymous with selfie-taking mobile phones, bringing more beautiful selfies to people from all around the world.

M Series

T Series

V Series

Awards and Recognition

During the year, Meitu has received many awards where our efforts to pursue sustainable development were recognized. The following are some of our awards and recognition:

- The Company has been selected as a constituent of the Hang Seng China (Hong Kong — listed) 100 Index, Hang Seng Stock Connect Hong Kong Index, and the Hang Seng Composite LargeCap & MidCap Index

- The Company has been selected as a constituent of the MSCI China Index

- *Meitu M8* and *Meitu T8* ranked 1st and 2nd in terms of mobile phone sales amount, and 4th and 6th in terms of mobile phone sales volume during the Tmall 6.18 Ecommerce Festival. The Company ranked 1st in terms of mobile phone brand sales amount, and 3rd in terms of mobile phone brand sales volume during the Tmall 6.18 Ecommerce Festival

- The Company was among the Top 50 "China Outbound Marketing Brands Ranking (中國出海人本營銷領先品牌排行榜)" jointly launched by Facebook and KPMG

- *Meitu* ranked 17th in the 25 Best Apps of the Year So Far of 2017 by Times Magazine

- *Meipai* and *Meitu* ranked among the Most Popular Short-form Video Apps in 2016 (2016年度短視頻類最嗨APP) of the Most Popular Apps of 360 Mobile Assistant (360手機助手嗨APP全民榜)

- The apps of the Company were listed among the best food and entertainment apps of China's Best Apps 2016 next big 50 (中國好應用2016 next big 50) selected by Zero2IPO Research Center and Testin

- The Company was awarded the title of "2017 Growing Most Enterprise (2017年最具成長性企業)" jointly selected by the Organizing Committee of China Communications Industry Development Conference (中國通信行業發展大會組委會), China Communications Industry Association (中國通信工業協會) and Enterprise Information Construction Committee (企業信息化建設委員會)

- The Company was awarded the title of "2017 China Top 100 Internet Enterprises (2017年中國互聯網百強企業)" by the China Internet Society (中國互聯網協會) and the Information Center of the Ministry of Industry and Information Technology (工業及信息化部信息中心)

- *Meitu V6* mobile phone was rated as "the Annual Best Camera Phone in 2017–2018 (2017–2018年度最佳攝影手機)" by IDG

- *Meipai* won the Silver Award of the 9th Golden Net Award for Entertainment Marketing (第九屆金網獎娛樂營銷銀獎) and the Bronze Award of the 9th Golden Net Award for Social Marketing (第九屆金網獎社會化營銷銅獎) organized by Jinwanghui (金網匯) and Tianji Media Group in 2017

- The Company was awarded the title of "Top 100 Telecommunications Enterprises of China 2017 (2017年中國通信業100強企業)" and *Meitu T8/T8s* mobile phones won the Best Product Innovation Award 2017 (2017年最佳產品創新獎), both of which were jointly organized by the China Communications Industry Association (中國通信工業協會) and the Organizing Committee of China Communications Industry Development Conference (中國通信行業發展大會組委會)

- *Meipai* was among the 2017 Annual App List for Short-form Video (2017年度應用風雲榜 — 短視頻) and Meitu was among the 2017 Annual App List for Photography (2017年度應用風雲榜 — 圖片攝影), both of which were selected by TalkingData

Participating Events

We actively participate in industry events. The following are some of the participation during the year:

Event Name	Organizer
China TMT Conference	Morgan Stanley China
2017 Greater China Technology and Internet Conference	Credit Suisse
Internet and Technology Summit	China Merchants Bank
China Internet Corporate Day	Deutsche Bank
The 7th Vision and Learning Seminar ("VALSE")	VALSE
Computer Vision and Pattern Recognition 2017 ("CVPR")	CVPR
International Joint Conference on Artificial Intelligence ("IJCAI")	IJCAI, Australian Computer Society, University of Technology Sydney
International conference on computer vision ("ICCV")	ICCV
New wisdom creates the future, 2017 New Retail Summit (新智造致未來, 2017新零售峰會)	Nandu Media
2017 China Mobile Electronic Commerce Annual Conference (2017 中國移動電子商務年會)	Ebrun

SUSTAINABLE JOURNEY TO BEAUTY

Meitu believes that people are born to have an intention to improve one's appearance and that the pursuit of beauty is everyone's dream. Meitu's mission "to inspire more people in expressing their beauty" is our core value and the cornerstone to drive our sustainable development. We are committed to creating long-lasting value for our stakeholders and take environmental, social and governance factors and risk management strategies into account in the course of business operations. Led by the four dimensions of beauty, namely the beauty of customers beautification, the beauty of staff care, the beauty of environmental protection and the beauty of community contribution, we embark on our sustainable beautifying journey to build a better world.

CORPORATE GOVERNANCE

Maintain Integrity

Integrity is the core value of Meitu. We require our staff to strictly comply with the relevant laws and regulations, industry standards, professional ethics and the rules and regulations of the Company, so as to establish a good atmosphere of integrity, diligence and dedication. Meitu has set up an internal control department to identify the problems and deficiencies existing in the operation and management of the Company in a timely manner. It has also broadened the reporting channels inside and outside the Company, and strengthened the internal and external supervision systems to establish and create a clean and self-disciplined corporate culture. Internal documents, such as Employees Manual of Meitu, Inc. (《美圖員工手冊》), Labor Discipline and Norms for Employees of Meitu, Inc. (《美圖員工勞動紀律規範》), Management Rules for Sending and Accepting Gifts by Employees of Meitu, Inc. (《美圖公司員工收受禮品管理規範》) and Anti-Fraud and Reporting System of Meitu, Inc. (《美圖公司反舞弊與舉報制度》), clearly stipulate the procedures for making declarations of interests, keeping trade secrets, protecting customer and business information, lodging claims for compensation and fighting against corruption. The internal control department regularly pays return visits to suppliers, customers and other partners to deliver the Company's message on promoting integrity and anti-fraud and listen to the feedbacks from partners on the integrity issues during the engagement.

Meitu has zero tolerance towards corruption, extortion, fraud and money laundering. Meitu's internal staff and external stakeholders can report to the Company for employee violation of professional ethics or related events by phone, e-mail and other means. Meitu will ensure that informants and whistleblowers are protected when assisting in the investigation. Meitu prohibits any unlawful discrimination or retaliation, or hostile behaviour to employees involved in the investigation. Anyone who illegally leaks the information of whistleblowers or who takes retaliation against the informants will be punished accordingly. During the Reporting Period, the Group was not involved in major corruption, extortion, fraud and money laundering litigation.

Supplier Management

The operation and development of suppliers are closely related to the business of Meitu. Therefore, Meitu has strict management rules on the selection of suppliers and the continuous monitoring and management of suppliers. During the year, Meitu's major suppliers included mobile phone accessory suppliers and *MeituBeauty's* beauty product suppliers. Meitu has developed the Purchase Order Management Rules (《採購訂單管理規範》) and Fixed Assets and Other Non-Production Materials Procurement Management Rules of Meitu, Inc. (《美圖公司固定資產及其他非生產物料採購管理規範》) to strictly manage the internal procurement process.

We believe that the supplier's ethics and performance may affect the quality of our services and products and may also affect the reputation of the Group. The Group strives to adopt the best environmental and social practices and expects our business partners to uphold the same philosophy of integrity, fair treatment of employees, protection of the environment and compliance with all applicable laws and regulations. We have developed the Code of Conduct on Suppliers (《供應商行為守則》) in various aspects such as environmental protection, occupational health and safety, ethics, laws and regulations, etc. By clearly expressing the Group's basic requirements for our business partners, suppliers are required to sign the Code of Conduct on Suppliers to show that their acceptance of it.

COMMUNICATION WITH STAKEHOLDERS

Meitu believes that the voice of stakeholders will bring valuable insights to the business development of the Group and is of crucial importance to the material matters and growing factors for a sustainable future. We consider customers and users, employees, suppliers, shareholders, governments and communities as our important stakeholder groups. We regularly communicate with stakeholders to understand in depth their requirements on and expectations for the Group and respond to them in an effort to minimize risks and to strengthen key relationships.

Regular Ways of Communication of Meitu with its Stakeholders

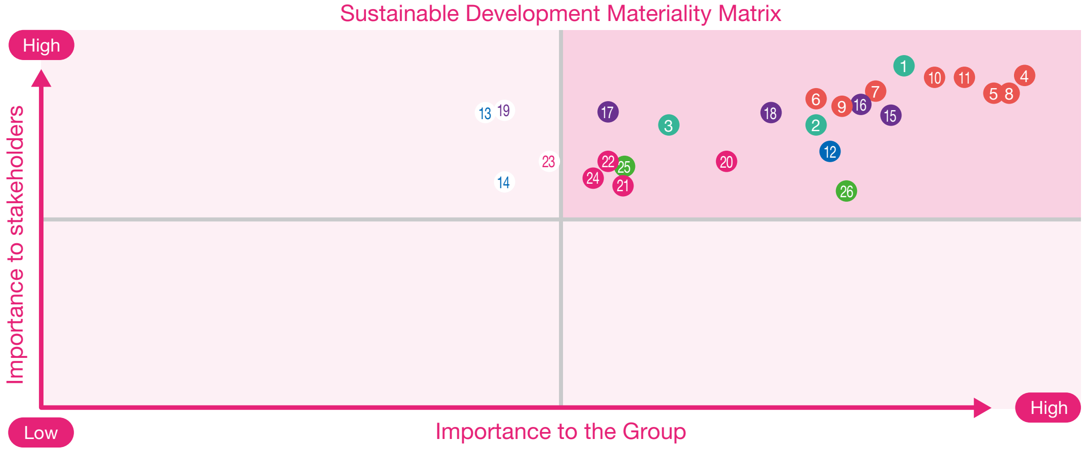
Stakeholder Group	Ways of Communication	
Employees	• Various MT-Club activities • Internal communication system • Annual Meeting	• Meetings • Performance evaluation • Social media (e.g. official WeChat and official Weibo)
Suppliers	• Field trips • Assessment	• Audit • Continuous direct communication
Shareholders	• Meetings • Annual reports, financial statements and announcements • Investor briefings	• The Group's website • Roadshow • Investor summits • Direct communication
Governments	• Direct communication • Annual meeting	• Forums • Seminars and workshops
Customers and Users	• The Group's website • Mass media • Direct communication • Customer satisfaction survey	• Social media (e.g. official WeChat and official Weibo) • Customer service hotline • Experience store
Communites	• The Group's website • Mass media	• Social media (e.g. official WeChat and official Weibo) • Direct communication

Materiality Analysis

We engaged a third-party consulting firm to conduct a stakeholder online survey which include stakeholders from different sectors to express their opinions on our performance in sustainable development. At the same time, we identify and prioritize the issues that are most important to the development of the Group and are of most concern to stakeholders. We believe this will help us to timely formulate strategies to meet the needs of stakeholders so that we can take precautionary measures to prevent problems from happening. In addition, identifying stakeholders' concerns is crucial to the determination of the major issues included in the Report.

In order to identify and prioritize the issues that are most important to the development of the Group and are of most concern to stakeholders, we have conducted a substantive assessment in respect of the opinions of internal and external stakeholders. Estimate and prioritize the issues identified during the stakeholders' involvement, identify economic, environmental, and social issues of greatest concern to the Company and stakeholders, adjust resource allocation, and assist us in identifying the most critical issues, to make the establishment of major issues in the sustainability report more pertinent. A total of 22 issues were included in the important category for the year.

Sustainable Development Materiality Matrix



Material aspects

Operating practices

1. Anti-fraud and anti-corruption
2. Assessment on suppliers
3. Supplier's environmental and social performance management

Product liability

4. Product research and development
5. Product quality
6. Customer service
7. Product safety and health
8. Product and service compliance
9. Intellectual property protection
10. Internet information security
11. User data and system security

Human rights protection

12. Anti-discrimination, diversity and equal opportunities
13. Freedom of association and collective bargaining
14. Prevention of child labor or forced labor

Workplace practices

15. Employee benefits
16. Training and development
17. Employment relationship
18. Communication with employees
19. Occupational safety and health

Environmental protection

20. Energy efficiency
21. Greenhouse gas emissions
22. Water consumption
23. Waste management
24. Other impacts on the environment

Community investment

25. Charitable donations
26. Organization public welfare activities

THE BEAUTY OF CUSTOMER BEAUTIFICATION

Meitu has been transforming the way our users create and share beauty since the launch of our first product, *Meitu*, in 2008. Centered around our core design philosophy of "smart and simple", Meitu's portfolio of innovative photo and community apps has precipitated the selfie phenomenon in China. To better meet our users' demands for higher quality selfies, we launched Meitu smartphones in 2013. Meitu smartphones integrate proprietary image processing algorithms and specialized image processors which generate high-quality selfies, continue to make breakthroughs and constantly get closer to the perfection of the mobile image processing field.

Quality Assurance

Mobile APP

Quality Test

Meitu's mobile apps are mainly developed by MTLAB and have to strictly meet the launch requirements and standards. Meitu's testing department plays an important role in conducting software product quality inspections strictly according to the Testing Quality Assurance System (《測試質量保障體系》), and participates in the different stages of the process from product R&D to official launch to ensure product quality. Meitu's products must meet the following conditions before they can be rolled out online:

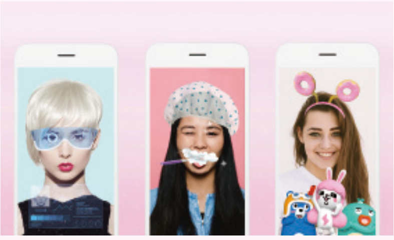
- Logic functions have satisfied the product requirements, the features, user interface ("UI") and effect designs of the products have been accepted by product managers, UI designers and effect designers;
- No fatal or serious problem or discrepancy with the requirement document exists for the bugs recorded on the defect management system, and minor problems relating to designs or other aspects are required to be reviewed and confirmed by product managers. Problems that cannot be rectified at the time are required to be reviewed and confirmed by development managers and product managers;
- Functions have been inspected and accepted in both testing environment and real environment;
- Where applicable, the testing needs to cover all the mainstream device systems, resolution rates and manufacturers with larger market shares;
- Performances meet with performance indicators and no serious issues existed; and
- Compliance with The General Principles of the Civil Law of the People's Republic of China (《中華人民共和國民法通則》), the Provisions on the Administration of Online Publishing Services (《網絡出版服務管理規定》), the Regulation on Telecommunications of the People's Republic of China (《中華人民共和國電信條例》), the Regulation on Internet Information Services (《互聯網信息服務管理辦法》) and Management Provisions on Electronic Bulletin Services in Internet (《互聯網電子公告服務管理規定》), and other Chinese laws and regulations, as well as the Broadcasting Authority Ordinance (《廣播事務管理局條例》) of Hong Kong and other applicable local laws and regulations.

Meitu has obtained the Value-added Telecommunications Business License of the People's Republic of China, Online Culture Operating License and Internet Publication License and other business licenses and permits.

Beautification Case Study — MTLAB

Meitu established MTLAB in 2010 to develop AI to research cutting-edge imaging technologies related to computer vision and deep learning, such as facial technology which can accurately detect and identify face and facial features, smart retouching technology which can customize personalized beauty solutions by analyzing the user's age, gender and other facial features, image segmentation technology and so on. On this basis, Meitu continues to launch apps that support the Augmented Reality ("AR") function and design various novel and fun AR effects.

In July, Facebook has named Meitu as its first partner for Facebook's AR Studio Beta to provide three AR camera effect for the studio: Selfie from the Future (明日自拍) , Instant Glam (瞬間魅力), and Meitu Family (美圖大家族) , hoping to bring richer and more interesting selfie-taking ways and new interactive experiences for the Facebook community around the world.



The following is the development and utilization of AI technologies in Meitu's apps during the year:

Meitu

In February, using AI technology, a new hand-drawn feature was introduced by *Meitu*, allowing users to transform their selfies into a hand-drawn style instantly. This new feature utilizes AI deep analysis technology to pinpoint face and hair to make different retouching effects on different body parts through MTFace (face recognition technology), MTBeauty (retouching technology) and MTSegmentation (image segmentation technology which can recognize face, hair and other body parts). The new feature was used by 15 million users on the first day of its launch and was used more than 520 million times globally within 3 months after its launch.

MakeupPlus

In June, *MakeupPlus* cooperated with Natura, Brazil's largest makeup manufacturer. Simply by opening the *MakeupPlus* app, Brazilian users can use the AR makeup feature to test the makeup effects of using Natura's three series of lipsticks with a total of 20 lipsticks. After experiencing the makeup effects of different lipstick colors, users can purchase their desired lipsticks directly through Natura's website link provided by *MakeupPlus*. In addition to the online makeup testing cooperation, Natura also recommends *MakeupPlus* to its distributors and stores to quickly present makeup effects to users. Following this cooperation, Natura expressed the hope for long-term commercial cooperation with Meitu in its other products, and has planned to expand the makeup testing cooperation from Brazil to more Latin American countries.

Customer Service

We have set up a dedicated customer service team for each mobile app and developed related customer service and complaint management systems to standardize and optimize the quality of our customer service so as to provide our customers with quality services. We frequently contact users who are highly active on one or more apps and have organized an online discussion group to get feedback on how we can enhance user experience by improving existing apps or launching new ones. Our users also voluntarily provide feedback to our customer service team to help us further improve our products and services as well as develop and launch new products and services. In addition, Meitu has been collecting and analyzing users' needs through user opinion survey and analysis, social media (such as WeChat and Weibo), using big data and business intelligence to analyze customer needs and market trends, etc., so as to make positive and continuous improvements.

Meitu not only provides online services, but also actively organizes offline activities to enhance exchanges with customers and to know their needs. Here are some events held during the year:

Meitu held Andy's offline exhibition of pictures (Andy線下畫展).

BeautyCam held "*BeautyCam's* Girls from the Future Party — The Beauty You Want (美顏相機超時空少女派對 — 總有你要的美)" offline activity.

Smartphones

Quality Control

Meitu smartphones are designed and integrated for optimizing the selfie-taking experience, and are equipped with distinctive selfie-related features, such as High-quality Cameras, Auto-beautification, and High-quality Image under Low-light Conditions. We design and develop Meitu smartphones in-house and source and procure a majority of our own components and materials. Our smartphones are manufactured by contract manufacturers specialized in electronic equipment manufacturing and with excellent production conditions and rich experience. For Meitu mobile phones' R&D, production and related services, we have obtained ISO9001: 2008 quality management system certification, and standardized our R&D processes, production processes, inspection and testing and after-sales service. In the meantime, regular reviews and continuous improvement of the system and process operations will also be conducted. In respect of purchasing accessories, the Group has developed a number of precautionary measures to ensure that the purchased products have the highest quality and meet safety standards. In terms of production, we set relevant requirements on raw material specifications, assembly process and inspection. Our quality control team conducts on-site quality checks and inspections at its production facilities to fully control the quality of products and to ensure that the quality and specifications of phones meet the standards and comply with the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》). We have also introduced different levels of requirements, including wireless communications capabilities, software and hardware reliability, security and user interface. All selected accessories are accompanied by quality certificates and are subjected to safety evaluation and pre-qualification trial prior to the mobile phones manufacturing process.

After-sales Service

In accordance with relevant laws and regulations, we protect the rights and interests of consumers of Meitu mobile phones. In case of any problem with the quality of Meitu mobile handset, we offer returns within seven days, exchange within 15 days and repair within one year from the date of purchase. In addition, users who purchase Meitu mobile phones from official online channels can enjoy returns within seven days for no reason. Meitu implements a comprehensive warranty policy in accordance with the Mobile Phone Performance Failures Table (《移動電話機商品性能故障表》) stipulated by the government. Customers can bring their mobile phones, warranty certificates, shopping lists or invoices to Meitu's authorized service outlets to check their phones. If the phones meet the repair or return conditions after fault detection at Meitu's authorized service outlets, Meitu will provide corresponding warranty or return service in accordance with the Meitu Mobile Phone Repair Policy (《美圖手機維修政策》).

MeituBeauty Shopping Platform

Medical-grade Data Support

In October 2017, MTLAB, Shanghai Dermatology Hospital (上海市皮膚病醫院) and Pifubao (皮膚寶) app jointly developed a technology called "MTskin", a "tech magic" for AI skin examination, and launched a new e-commerce platform app — *MeituBeauty* by using medical-grade image data and under the full support of a professional team. Through a selfie of the user, the app system can generate a professional skin test report, and based on the report results, recommend skin care and makeup products that can be bought on the app by users according to their skin conditions. At the same time, professional dermatologists will continue to mark the data to ensure the accuracy of the AI skin examination. In December 2017, MTLAB, Shanghai Dermatology Hospital and Pifubao jointly published "2017 Research Report on Chinese Female Skin Problems (《2017中國女性皮膚問題研究報告》)" on the basis of 1.5 million questionnaires to enable Chinese females to get a more comprehensive and correct understanding of their own skin problems.

Product Quality and Assurance

MeituBeauty selects more than 2,000 quality beauty brands from around the world and conducts thorough investigations and research tours through field visits to their warehouses, companies and sources of products to ensure product quality. *MeituBeauty* has been officially authorized by numerous brands to create genuine products direct-purchasing channels through cooperation to ensure that the products bought on the app are genuine. *MeituBeauty* also works with Zhongan Insurance (眾安保險) to provide consumers with a genuine products guarantee of "a ten-time fine for any counterfeit goods sold (假一賠十)". *MeituBeauty* and Zhongan Insurance jointly carry out rigorous reviews on various aspects, including brand authorization, supply chain integrity, production, business scope and product safety for all products. Meanwhile, Zhongan Insurance also conducts on-site spot checks on co-brands' products to ensure the traceability of the source of goods and supply channels. All products in *MeituBeauty's* warehouse have been inspected by professional quality inspection personnel to eliminate fake products from the source. We carry out 100% inspection on the product packaging, expiration date, etc., and perform random unpacking inspection regularly. In addition, *MeituBeauty's* direct mail products and bonded goods have been subject to customs inspection before delivery to the warehouse. In terms of logistics, *MeituBeauty* cooperated with Sinotrans Shipping to provide international logistics service for *MeituBeauty* to ensure fast and safe delivery of goods.

Health and Safety

Product Safety

Meitu strictly complies with the laws and regulations on product safety, such as Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) and Consumer Protection Law of the People's Republic of China (《中華人民共和國消費者權益保護法》), to fully protect the safety of its users and provide quality products.

Mobile Phones

According to the Regulation Concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, Meitu ensures that its mobile phone products have passed the compulsory product certification, and leave factory, are sold, imported or used in other business activities after being labeled with the China Compulsory Certification (CCC) mark. In addition, our mobile phones have also obtained the Radio Transmission Equipment Type Approval Certificate, Network Access License for Telecommunications Equipment and CCC according to the Radio Regulations of the People's Republic of China (《中華人民共和國無線電管理條例》), Regulation on Telecommunications of the People's Republic of China (《中華人民共和國電信條例》) and Regulation Concerning Management of Compulsive Product Certification, to ensure that our mobile phones are in compliance with relevant regulations and technical standards. Meitu has a dedicated quality control team to execute quality assurance procedures at all stages of the mobile phone production. We can enter all our production facilities as required and our quality control team continuously monitors the quality of components and materials as well as the manufacturing processes at contract manufacturer's facilities to ensure that high-quality products are produced. The finished handsets made by the contract manufacturers are inspected by our quality control team. We also require contract manufacturers to control the quality of their logistic, warehousing, production and inspection processes in accordance with ISO9001 quality standards.

Products of *MeituBeauty*

For product safety of *MeituBeauty*, please refer to the "Quality Assurance — *MeituBeauty* Shopping Platform" section.

Video Content

Meitu has taken a series of measures to ensure the security of the video content in *Meipai*. Meitu strictly verifies the identity of live-streaming users to validate their registration by checking the identification documents such as ID cards according to the relevant laws and regulations like the Administrative Regulations on Online Live-streaming Services (《互聯網直播服務管理規定》). Meitu has also entered into service agreements with live-streaming users to require them to comply with laws, regulations and platform practices. Meitu establishes a credit rating management system for live-streaming users and a blacklist management system, provides management and services based on relevant credit ratings, prohibits blacklisted live-streaming users from re-registering accounts, and immediately reports such users to the relevant Internet Information Office.

In compliance with the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》), Meitu arranges in-house teams and two external vendors specialized in content monitoring to monitor inappropriate contents, including but not limited to statutorily prohibited content as well as copyrighted content. Aided by proprietary technologies and procedures combining automated and manual screening, the external and internal monitoring teams monitor, screen and review the content transmitted to *Meipai* around the clock on a real-time basis through comparing the contents against a filter list item by item. The filter list is a compilation of content and behaviors that we have determined are likely to be indicative of inappropriate or illegal content or activities, having taken into account relevant PRC laws and regulations, including but not limited to live-streaming content and videos that are classified as being overly violent, overly bloody, associated with terrorism, pornographic in nature, or containing gambling or other similarly prohibited elements. We immediately block and remove contents identified as falling into the filter list, freeze the uploading users' accounts and report the incident to competent public security or national security authorities if applicable. In addition, we review any complaints alleging the inappropriate nature of content on *Meipai* and remove such content if appropriate.

User Data and System Security

We have built a comprehensive system for data collection, and data collected on the Internet are encrypted multiple times for maximum security while transmitting. Meitu has developed the Network Security Management Measures (《網絡安全管理辦法》) to regulate the use of work-related network by employees, including providing wireless access for visitors, banning employees from leaking the password of internal accounts, and regularly changing the password of internal accounts. Meitu has formulated the Computer Room Management Measures (《機房管理辦法》) to standardize the management of equipment of the Company's computer room and information security to ensure a safe computer room environment and information security. Meitu only allows authorized staff to enter the computer room, while visitors entry must be approved and accompanied by authorized staff. All staff who enter and exit the computer room must fill out the Entry and Exit Registration Form of the Computer Room (《機房進出登記表》). Anything that poses a threat to the normal operation of the equipment and is unrelated to the work of the computer room is strictly prohibited from entering the room. Inspection on temperature, humidity and voltage of the computer room is conducted every day while detailed examination of the computer room's operation is carried out on a weekly basis. To ensure information security, the installation, maintenance and deletion of the equipment systems of the computer room are required to be authorized by the IT department and the operation and maintenance department. We have installed anti-virus software, firewalls, intrusion detection and prevention system in our servers against external attacks. In order to ensure the security of the server, Meitu has in place professional security team for 24-hour monitoring and on standby. Meitu regards the Internet Protocol address (IP address), account number, password and other related information of the computer room as the Company's confidential information and forbids anyone from transmitting it. To enhance data backup and management, avoid core data loss, and ensure data security in case of disasters, Meitu has developed Data Backup Management System (《數據備份管理制度》). Meitu effectively classifies data, while the backup data's saving time and storage amount are determined based on its importance and the cycle of its effective use or other specific use. Meitu also regularly performs backup data integrity and recoverability testing.

Pursuant to the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), Meitu takes technical measures and other necessary measures to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. Meitu also forbids using the Company's network to set up without permission wireless network hotspots and download network resources, in order to prevent system or network problems caused by browsing possible virus-laden websites.

User Privacy

Meitu values user's privacy. Meitu develops the Privacy Policy of Meitu (《美圖私隱政策》) according to Chapter IV Network Information Security (《網絡信息安全》) of the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》) to ensure that the user information collected is kept strictly confidential and has established a comprehensive system for protecting user information. To safeguard the privacy interests of customers using Meitu's various products and services and to protect the privacy of Meitu's customer information, Customer Information Management Regulations of Meitu, Inc. (《美圖公司客戶信息管理規定》) are formulated. The Management Regulations include five aspects, namely the receipt and collection management of customer information, verification management, storage management, application and security management, the confidential responsibility management and also includes the reviewing management of the information released by customers.

Through the User Agreement (使用者協議) that appears when the Meitu mobile phones are switched on for the first time, the Software License and Service Agreement (《軟件許可及服務協議》), the Account Rules of Meitu (《美圖帳號規則》), Cloud Storage Agreement of Meitu (《美圖雲端存儲協議》) and the Privacy Policy of Meitu (《美圖私隱政策》), Meitu's official websites, Meitu mobile phone systems and mobile apps communicate with users regarding the purpose of the collection of their personal information, which is to legitimately provide them with products and services and to enhance the product's performance and user experience. Meitu ensures that users' information are collected and stored only if they accept the agreements.

Meitu protects users' information through various data management security systems, internal controls, audits and confidentiality agreements to prevent against unauthorized access, use or disclosure. Except as provided by applicable laws and regulations, Meitu will not disclose or leak users' information to any third party without the permission of the users.

Advertising Management

In relation to the promotion and advertising of the Group's own brands, we have developed the Compliance Manual (《合規手冊》according to The Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》) and The Trade Descriptions Ordinance (《商品説明條例》) of Hong Kong to ensure that all information published by ways of advertising, promotion, marketing, media presentations, brochures, mobile manuals and other means is true, and in full compliance with applicable laws and regulations. Meitu specifies the requirements and standards of media descriptions to avoid misrepresentation and exaggerated descriptions. We specify that product descriptions and highlights must be clear and visible, and avoid vague information such that customers can clearly understand the product features and specifications, etc. In addition, we strictly manage offline and spokespersons activities to ensure the accuracy and effectiveness of various promotional activities. We also actively monitor the quality of our agents or distributors to ensure that their customer services are reliable.

On the other hand, we sell advertising space and provide advertising platforms in our apps. Meitu complies with The Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) promulgated by the SAIC to regulate our online advertising. We also enter into written contracts with key opinion leaders who intend to use the *Meipai* platform for advertising to clearly express their responsibility for the authenticity of their advertisements. Meitu will immediately stop any person from using the *Meipai* platform to release illegal advertisements.

Intellectual Property Management

We respect and strive to protect the copyrights of users. We have established a content monitoring system and our third-party content management teams also specifically monitor and screen videos uploaded to *Meipai* for copyrighted content in accordance with industry practices and applicable PRC laws. Our third-party content management teams manually screen the content in accordance with our prescribed standards, which includes, among other things, the list of copyright-protected work products publicly available on the website of the National Copyright Administration of the PRC (中華人民共和國國家版權局). We immediately remove any content responsive to the list if a violation is found to have occurred. In addition, if a copyright holder asserts, with supportive evidence, his/her claim of copyright to certain content available on *Meipai*, we will remove the disputed content within 48 hours of the claim and notify the uploading user of the reason for the removal, including the concern that the content might constitute copyright infringement.

At the same time, pursuant to the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) and the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), Meitu has developed the Management Measures on Intellectual Property of Meitu, Inc. (《美圖公司知識產權管理辦法》) to strengthen the management of intellectual property rights and safeguard the legal rights and interests of Meitu's intellectual property. Meitu primarily safeguards our proprietary technologies through contractually requiring our employees and contract manufacturers to keep all our proprietary technologies confidential, as well as seeking to protect our proprietary technologies through patents and copyrights.

Meitu has formulated the Incentive Scheme for Patents (《專利獎勵辦法》) to encourage employees to participate in the protection, application and supervision of intellectual property rights and also encourage employees to make innovations, research and developments related to intellectual property, and actively reward them with bonuses. Meitu has established a risk prevention system for intellectual property inside and outside the Company, encourages employees to communicate with professional departments and has established supervision channels, communication and reporting mailboxes. Meitu regularly conducts training on the prevention of legal risk of intellectual property to relevant staff and instills legal knowledge to all employees and requires each employee to have awareness of intellectual property risk management and identification in order to accurately identify, evaluate, control and report the intellectual property compliance risk in relation to their own positions. Intellectual property specialists regularly collect and identify the intellectual property training requirements for the Company's employees before and after relevant trainings. Meitu has established an accountability mechanism for intellectual property rights and implemented job responsibility system in such aspects as product art, music production, research and development, outsourcing services and legal examination and approval to clarify the responsibilities for the examination and approval of intellectual property rights. We conduct regular assessment and results accountability for relevant employees who do not follow the relevant procedural requirements for the examination and approval of intellectual property rights and who have intentional or gross negligence in their work. In addition, Meitu protects the copyright of *Meipai* users' uploaded videos through watermarks.

As of December 31, 2017, Meitu has registered over 527 patents including 351 invention patents, 144 design patents and 32 utility model patents and holds copyrights of 35 software programs. Among them, 47 are newly registered patents during the Reporting Period.

During the Reporting Period, we found 1 case of infringement on Meitu mobile phones' design patent and filed a lawsuit in a court, requesting the infringer to bear the liability for compensation of the infringement.

THE BEAUTY OF STAFF CARE

In order to practice Meitu's mission of "To inspire more people in expressing their beauty", it is one of our core strategies to inspire talents to find their potential, enabling employees to create the power of beauty together with us. We view our staff as the most valuable asset. Meitu cannot do without the collective efforts of the staff in its development. We are committed to providing a pleasant working environment for our employees and ensuring that our employees develop themselves in a good working environment with fair and challenging opportunities, which not only is the most important part of Meitu's development, but also a powerful manifestation of our commitment to corporate responsibility.

Sustainable Recruitment

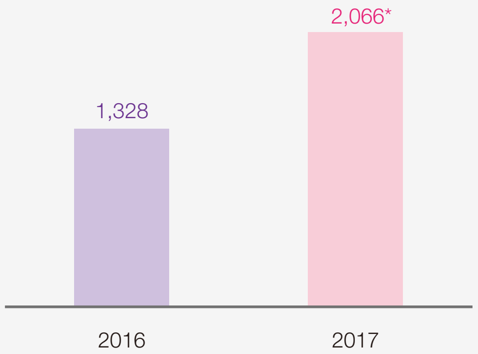
Meitu hopes to organize our workforce by recruiting multi-skilled employees with same working concepts with us. Meitu is committed to creating a dedicated team of talents who work together to achieve our common goals with their different professional skills. We assign personnel to our positions based on their personal qualifications and the Company's needs. Each job seeker enjoys equal opportunity to compete with his or her peers. To find the right talent, Meitu leverages different recruiting channels, including campus recruitments, job-hunting websites, headhunters, employee referrals and the Meitu website. In addition, Meitu also prohibits the recruitment of any child labor and forced labor. Provisions on employee turnover are set out in the employee manual. Meitu offers flexible working hours of 7.5 hour a day and 5 days a week and we encourage employees to complete their work during working hours. If overtime is arranged by the Company, Meitu requires the relevant department to submit the reason for overtime work, a list of employees and the proposed overtime hours 2 working days in advance, and their overtime in a month cannot exceed 36 hours. We provide reimbursement for taking taxi to home and dinner allowance for overtime work.

As of December 31, 2017, the Group had a total of 2,066 employees, primarily based at our headquarters in Xiamen, with the rest based in Hong Kong, Singapore and the United States.

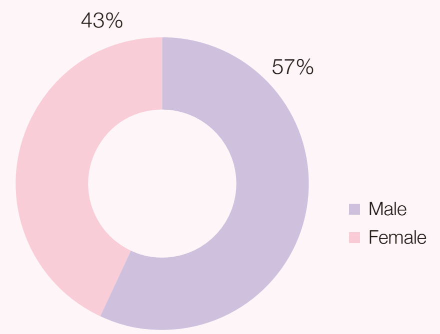
Age Distribution

22%	77%	1%
18-24	25-40	41-59

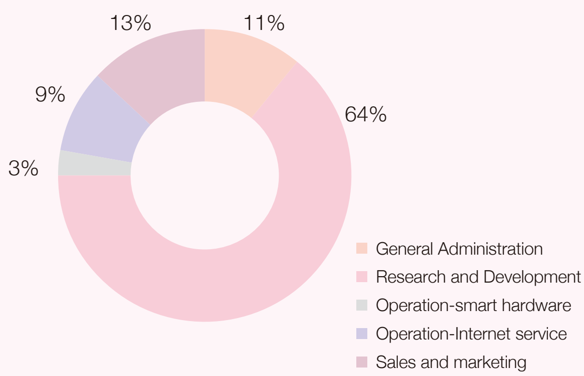
Total number of employees



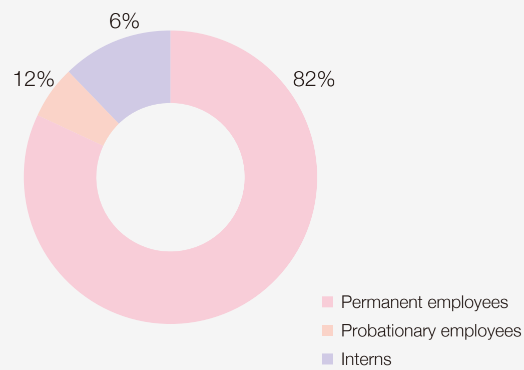
Proportion of male and female employees



Function distribution



Proportion of employment type



* The figure is the total number of the employees of the Group

Total number of staff resigned in 2017		651
By gender	**#**	**%**
Male	326	50%
Female	325	50%
By employment types	**#**	**%**
Permanent and probationary employees	424	65%
Interns	227	35%
Function distribution	**#**	**%**
General Administration	41	6%
Research and Development	354	54%
Operation-smart hardware	8	1%
Operation-Internet service	154	24%
Sales and marketing	94	15%
Age distribution	**#**	**%**
Under 18	0	0%
18–24	254	39%
25–40	386	59%
41–59	11	2%
60 and above	0	0%

Beautification Case Study - Mentorship Programme for New Employees

During the year, Meitu introduced Mentorship Programme for New Employees of Meitu, Inc. (《美圖公司新人輔導制度》) to enable new joiners to integrate into the new environment and corporate culture as soon as possible. We arrange mentors who have two or more years of work experience and have worked in Meitu for six months or more to guide up to two new employees at the probationary stage. Mentors will provide guidance to new employees pursuant to A Letter Addressed to Mentors (Guidance for Mentors) (《致輔導人的一封信 (輔導人工作指南) 》) and give timely feedback on issues to help new joiners become familiar with the business processes quickly and pass corporate cultural values on to them. Mentors will help new employees to set a target and make monthly summary and evaluation in terms of their work and integration into team culture. To encourage mentors, their mentoring experience will be included in staff promotion indicators. Mentors can enjoy 500RMB allowance per one new employee for daily interaction with the new employee.

Diversified Benefits

Meitu regards every employee as a family member, and does its best to create a young, fresh, interesting and dynamic work environment for staff, to make the staff feel like home. Meitu strictly complies with the national laws and regulations, such as 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》), the Social Insurance Law (《社會保險法》), the Law of the People's Republic of China on the Protection of Women's Rights and Interests (《中華人民共和國婦女權益保障法》), the Regulations Concerning the Labor Protection for Female Staff and Workers (《女職工勞動保護規定》), the Regulation on Public Holidays for National Annual Festivals and Memorial Days (《全國年節及紀念日放假辦法》), and the Regulation on Labor Security Supervision (《勞動保障監察條例》); relevant rules, laws and regulations applicable to certain regions, such as Beijing Labor Contract Regulations (《北京勞動合同條例》), Protection Measures of Female Staff and Workers of Zhejiang Province (《浙江省女職工勞動保護辦法》), the Work Injury Insurance Ordinance of the Guangdong Province (《廣東省工傷保險條例 》), Shanghai Urban Resident Basic Medical Insurance Operating Rules (《上海市城鎮居民基本醫療保險操作細則》); as well as the labor laws and regulations of other jurisdictions where overseas employees are located, including the Employment Ordinance (《僱傭條例》) of Hong Kong. Meitu offers competitive salaries, remuneration, holidays and insurance. In addition, Meitu also provides a large number of additional benefits, including birthday shopping cards, training subsidies, business trip allowances, paid examination holidays, free shuttle bus services, annual physical examination and free breakfast supplies.

To create a young, lively working environment, Meitu has organized a variety of activities to raise employees' morale and increase their sense of belonging. By participating in these activities, employees can build closer relationships with one another so that they can work together to achieve outstanding performance through concerted efforts.

2017 Meitu Mid-Autumn Festival Dinner

The 3rd Happy Show

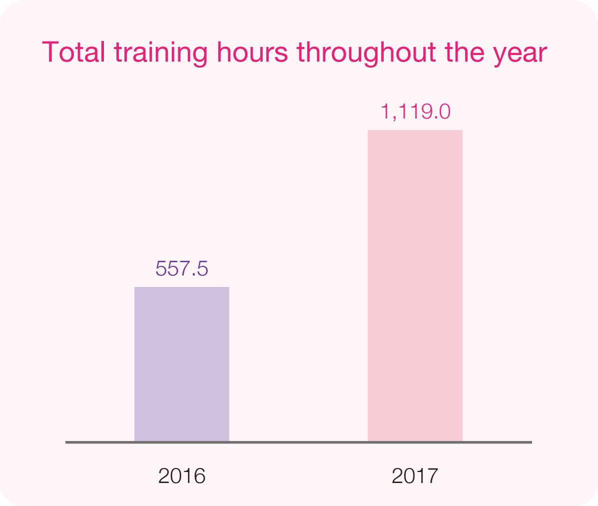
Family Activities During Children's Day

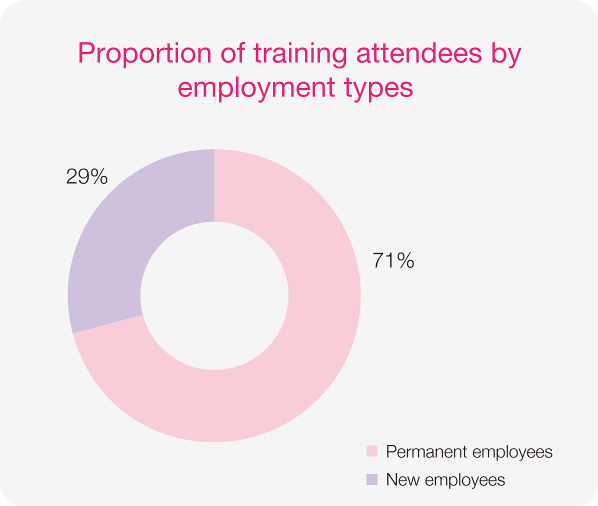
Beautification Case Study — Staff Social Club "MT Club"

Meitu has established a staff social club called "MT Club". Through arts and entertainment, sports, lectures, gatherings and other various forms of activities, Meitu promotes communications and exchanges between staff at all levels. With Meitu's business development in various cities, the MT Club also sets up branches in those cities which enrich employees' cultural lives during their spare time in strengthening employees' sense of belonging and cohesion. In addition, MT Club also provides staff with hotel discounts in various regions, discounts at over a hundred retail stores and internal time-limited sale. There are also a variety of monthly activities such as book lending, sports activities, movie screenings and singing contests that allow employees to have work-life balance.

All-round Training

Meitu is committed to creating a comprehensive training system to effectively promote business development. Meitu hopes to integrate the learning spirit into its corporate culture to enable employees to achieve their own values in Meitu. We planned and organized a total of 600 training courses totaling 1,119 hours throughout the year, among which, 519 courses were organized in Xiamen totaling 844 hours with 2,813 attendees, 81 courses were organized in Shanghai, Beijing, Shenzhen and Hangzhou totaling 275 hours with 2,439 attendees.





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 1,151 new employees in Xiamen, Beijing, Shenzhen Shanghai, Hangzhou and Hong Kong.

Location	Total training hours	Total number of attendees	Number of sessions held in 2017	Number of sessions held in all
Xiamen	179 hours	643	13	37
Beijing	60 hours	193	10	23
Shenzhen	56 hours	172	7	13
Hangzhou	14 hours	143	7	10

Meitu also organizes various training courses for interns in different cities, including “Goals and Time Management” (目標與時間管理) and “Workplace Communications” (職場溝通那些事兒) in Xiamen’s “Smartphones Training Camp” (《搞機訓練營》), “Role Transition” (《角色轉換》), “System Design & Practice” (《系統設計實踐》), “Performance Advocacy” (《績效宣導》) in Hangzhou, the 10th session “Set Sail with Meitu — Interns Training Camp” (《美圖啟航計劃 — 實習生訓練營》) in Shenzhen, and “From Ivory Tower to Meitu” (《從象牙塔到大美圖》) training courses in Beijing with attendees totaling 112.

Beautifation Case Study — Dialogue with the CEO

In addition to the "Meet with Xinhong" (《欣鴻有約》) which is to open to all employees, all sessions of new employees training camp "Set Sail with Meitu" have organized the "Dialogue with the CEO" (與CEO對話) activity to provide an opportunity for employees to interact directly with our CEO, Wu Xinhong (formerly known as Wu Zeyuan), in order to promote two-way communications between staff and management while strengthening employees' sense of belonging.

Occupational Trainings

We organized 46 "MTC Lectures" (《MTC大講堂》), 42 "MT Talk" (《MT Talk》) and 1 "Meitu Labshow" (《美圖Labshow》) with contents on products and markets, technical research and development and general working skills for our employees. These lectures had over 2,356 attendees in total. Meitu started organizing the "Meitu Internet Technology Salon" (《美圖互聯網技術沙龍》) exchange activities in 2016 and invited external technical personnel to participate. In 2017, Meitu organized a total of 4 sessions of the Salon with 457 attendees. In order to further the training of our personnel, Meitu hired external trainers to provide training courses for our staff with a total attendance of 1,313 and total training time of 127 hours. In addition, Meitu also arranged for 5 outstanding staff to receive external professional training courses totaling 56 hours in 2017.

Management Trainings

During the year, Meitu organized a total of 520 hours of professional training courses for management with a total attendance of 736, covering English courses and courses for improving management capability and leadership skills.

"Meitu Management Training Camp"《美圖管理訓練營》

"Utalk — Foreign Teachers Teach You English"
《Utalk — 外教帶你學英語》

Exchanges and Communications

Meitu has established 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》) to encourage employees, from the perspective of work, to make active, serious and responsible feedbacks with effective information so as to identify all kinds of feasible suggestions for improvement conducive to the development of the Company, improving work efficiency and the corporate image. Staff can make reasonable suggestions or complaints in written form to department heads or to the Company's management through instant messaging tools, or send suggestions or complaints directly to the feedback mailbox. Meitu has also added a discussion forum to the office system and WeChat corporate account to provide employees with a platform to express their views.

Health and Safety

Protecting the health and safety of our employees is a priority for Meitu. Meitu complies with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and strives to create a working environment with "zero" work injury. As Meitu mainly operates in offices, staff involve a lot of computer work, which may easily cause backache. As such, Meitu organizes some sports activities such as badminton, soccer, yoga and basketball, to encourage employees to do more sports and to relax their muscles. Meitu also arranges an annual physical examination for all employees to ensure that they are physically and mentally fit. Meitu's fire fighting facilities and equipment have passed the relevant government checks and are awarded a certificate of qualification. Meitu will also give gentle reminders to staff to be cautious when they attend some outdoor activities during long holidays.

THE BEAUTY OF ENVIRONMENTAL PROTECTION

The Group is determined to promote green culture and reduce emissions through employees' participation. Due to the nature of our business, Meitu's daily operations are mainly office-based, however, we will not lessen our efforts to devote ourselves to protecting environment in many aspects. The Group proactively protects the environment to create a better environment in compliance with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and other relevant laws and regulations. During the Reporting Period, Meitu has found no environmental-related violations.

Energy Efficiency and Greenhouse Gas Emissions

The Group's greenhouse gas mainly originates from the use of electricity in our offices. Reducing energy consumption can not only bring environmental benefits, but also reduce costs. As such, we seek innovative ways to improve energy efficiency.

Strengthen the energy-saving management of power consumption equipment, and promote the use of energy-saving lamps; turn off the lights of offices for one hour during lunchtime; advising staff to form a habit of turning off lights while leaving offices.

Promote the establishment of video conferencing system to reduce carbon emissions from business travel.

Set the temperature of air conditioners at 26 degrees celsius to save electricity. Consider the durability of office supplies during the procurement process.

Water Consumption

Water is an important and valuable natural resource. Though the Group's business does not involve the consumption of large amounts of water, we will nonetheless try our best to save water.

We put "Save Water" signs in the toilets and encourage staff to save water. We also check public facilities regularly and conduct repairs immediately when discovering water leakage or broken water pipes to prevent water from constant running.

Waste Management

We have introduced various management measures to avoid wasting resources. General refuse shall be reasonably and legally disposed of according to relevant requirements. For our business nature, no significant hazardous waste has been generated in the ordinary course of business. Dry batteries, waste toner and cartridges are collected and arranged for recycling service.

To reduce waste at the source, Meitu carefully calculates the amount of materials needed in mobile phone production to avoid over-procurement.

Computer equipment is indispensable to us as we provide online platforms. Therefore, the Group preferably purchases durable devices. The computer department is responsible for the maintenance and management of computers equipment and regular upgrade of the systems and hardware. New computers are only purchased when necessary.

In order to encourage employees to recycle waste, Meitu sets up a trading platform for second-hand goods in the office system so that employees can buy and sell second-hand goods, giving a “second life” to used products.

Put “Save Paper” signs in the toilets and encourage staff to conserve the use of toilet paper.

Green Office

As a comfortable and green working environment helps to improve work efficiency, Meitu is committed to maintaining an orderly office and a clean environment. We also depend on employees to protect the environment. We post signs in appropriate locations to remind staff to save energy. Meitu has taken the following measures to create a green office:

Introduce office automation ("OA") system to integrate the management of various departments and make announcements. Some documents can be processed within the system, thereby reducing printing of paper.

Re-use paper products, such as using used document envelopes and envelopes for internal document circulation, to reduce paper wastage.

Ensure that only necessary purchases of office equipment are made and standardize the supply of office products; Promote the utilize of re-used paper, and two-sided printing.

External Promotion of Environmental Protection

Besides internal education, we also actively promote environmental protection externally. During the year, we hosted the "*Meitu V6* Photo Exhibition" (*美圖V6*攝影展) to showcase pictures taken by users with *Meitu V6* smartphones. In addition to portraits, we also exhibited pictures of natural environment. We hoped that the exhibited pictures of the beautiful natural environment and wildlife will arouse people's interest in the beauty of nature and their love for the Earth.

Main Environmental Data

Indicators	Unit	Total
Total Greenhouse Gas (GHG) Emissions	Tonnes of CO_2e	1481.39
Direct Emissions (Scope 1)	Tonnes of CO_2e	261.47
Indirect Emissions (Scope 2) [1]	Tonnes of CO_2e	1219.92
Intensity of Total GHG Emissions (Scope 1 and 2)	Kilogram of CO_2e per square meter	78.89
Nitrogen Oxides (NOx)	Kilogram	7.22
Sulphur Oxides (SOx)	Kilogram	0.28
Particulate Matter (PM)	Kilogram	0.53
Total Energy Consumption [1]	Kilowatt hour	1,852,779.43
Electricity	Kilowatt hour	1,679,794.34
Unleaded Petrol	Kilowatt hour	172,985.08
Intensity of Energy Consumption	Kilowatt hour per square meter	98.67
Total Water Consumption [1]	Cubic meter	5,936.04
Intensity of Water Consumption	Cubic meter per square meter	0.97
Total Non-Hazardous Waste [2]	Tonnes	2.23
Intensity of Non-Hazardous Waste [2]	Kilogram per square meter	0.18
Total and Intensity of Hazardous Waste [3]		Not Applicable
Total Packaging Material	Tonnes	749.51
Intensity of Packaging Material	Kilogram per square meter	29.59

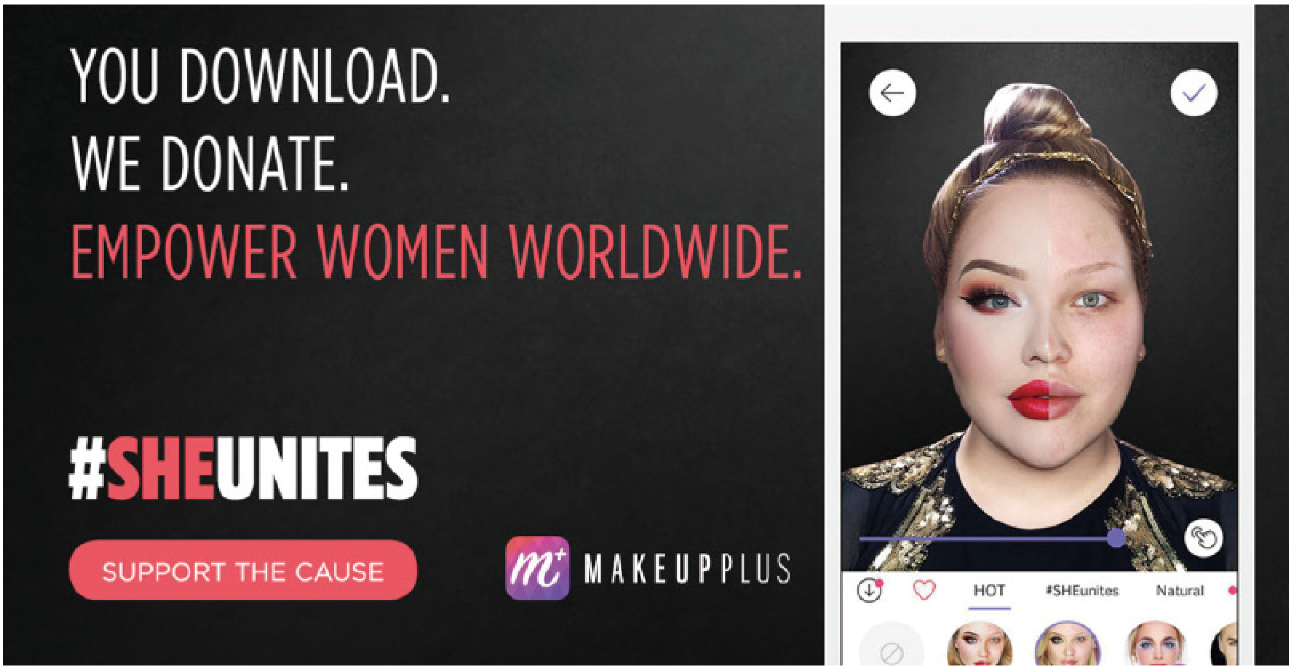
1. Some of our offices in Shenzhen, Hangzhou, Xiamen and Hong Kong have been operated in leased premises which electricity and water supply have been solely controlled by building management which considered the provision of electricity and water supply and sub-meter for individual occupant not feasible. Hence, the total water and electricity consumption data was collected from offices in PRC and Hong Kong of which electricity and water supply are under control by the Group.
2. The data for non-hazardous wastes was solely collected from some of our offices in Xiamen and Shenzhen. Since no reliable data was collected from our other offices, relevant data will be disclosed in the future when appropriate.
3. Due to nature of our business, no significant hazardous waste would be generated.

THE BEAUTY OF COMMUNITY CONTRIBUTION

Meitu's software and hardware products are popular among female users. Therefore, Meitu's sustainable development strategy in making contribution to the community also focuses on female users. By utilizing the influence of Meitu, we hope to offer support to women, pay attention to women's health issues, empower them and stimulate their creativity, so that they can experience a change in life.

#SHEunites Campaign*

In March, Meitu launched the #SHEunites campaign together with the international non-governmental organization, the Peacemakers Network. The campaign provided a digital platform for women to share their inspiring stories, and at the same time raised money for the Peacemakers Network to expand their trainings and seminars to support the building of women networks around the world. The Peacemakers Network, launched by the United Nations and established as a global non-governmental organization network, aimed at improving equality and respect among different communities and raising the voice of peacebuilders from grass-roots organizations. Women are crucial to the building of a prosperous and peaceful society. However, their contributions are often not well recognized. As a result, *MakeupPlus*, an app of Meitu based on AI for presenting different makeup effects, cooperated with the Peacemakers Network to support women around the world. NikkieTutorials, a world-famous YouTube make-up artist blog, had created three unique make-up as *Makeuplus*' special virtual makeup filters to promote the #SHEunites campaign. The campaign encouraged its supporters to download *MakeupPlus*, apply their favorite #SHEunites virtual makeup, share their photos and hashtag #SHEunites on Instagram. Meitu donated US$0.25 each time a user downloaded a virtual makeup filter. In the end, Meitu donated a total of RMB100,000 through the campaign.



* The above disclosure covers the activities of the U.S. office

"Dare to Think and Change, and to Become More Beautiful for Love" (「敢想敢變, 為愛變美」) Charity Press Conference

While *MakeupPlus* launched the first charitable filtering effect — the "pink ribbon makeup effect" last year, to raise users' attention to breast cancer prevention and control campaign, this year, Meitu initiated and collaborated with the Health and Fashion Magazine (《時尚健康雜誌社》) as well as Rebecca, a well-known wig brand, to hold a charitable press conference titled "Dare to think and change, and to become more beautiful for love" (「敢想敢變, 為愛變美」) in Sanlitun, Beijing, integrating charity with women's care. With the same theme, Meitu called on users to take selfies and to use *BeautyCam's* AI technology to turn their hair colour into pink, promoting the pink power. By leveraging Meitu's brand influence and rich product base, we hope to motivate breast cancer patients while raising women's awareness to health problems at the same time. As such, every woman not only can become beautiful externally, but can also lead a healthy happy life, which gives full expression to Meitu's initial goal of helping females around the globe to become more beautiful. At the conference, Meitu donated to the Yongyuan Foundation (永源基金會), a foundation under Pink Ribbon, taking care of physical health of female teachers in rural areas.

Take Pictures for Love, Present Wishes of the Elderly

Meitu cooperated with many photographers during the Chongyang Festival to take pictures for the elderly in remote mountainous areas, war veterans, and old people in cities and exhibited those pictures to show their wishes, leaving their most beautiful moments.

"After travelling around more than half of China, my greatest dream now is to travel abroad, go to the United States, and take a picture with the Statue of Liberty."

An 80-plus-year-old woman likes to try new things. She has been travelling whenever she wants, and she still managed to travel to Hong Kong and Taiwan all alone.

"After we have seen so many mountains and traveled through so many grasslands, our greatest wish is that we can go to the beach one day."

In Inner Mongolia of China, a pair of elderly couple, with both husband and wife above 70, lead a very happy life although they don't have children.

HKEX ESG REPORTING GUIDE INDEX

KPI	Chapter/Omission Reason
A. Environment	
Aspect A1: Emissions	
A1-General disclosure	The Beauty of Environmental Protection
A-1.1	The Beauty of Environmental Protection
A-1.2	The Beauty of Environmental Protection
A-1.3	The Beauty of Environmental Protection
A-1.4	The Beauty of Environmental Protection
A-1.5	The Beauty of Environmental Protection
A-1.6	The Beauty of Environmental Protection
Aspect A2: Use of resources	
A2-General disclosure	The Beauty of Environmental Protection
A-2.1	The Beauty of Environmental Protection
A-2.2	The Beauty of Environmental Protection
A-2.3	The Beauty of Environmental Protection
A-2.4	The Beauty of Environmental Protection
A-2.5	The Beauty of Environmental Protection
Aspect A3: The Environment and Natural Resources	
A3-General disclosure	The Beauty of Environmental Protection
A-3.1	The Beauty of Environmental Protection
B. Society	
Aspect B1: Employment	
B1-General disclosure	The Beauty of Staff Care
B-1.1	The Beauty of Staff Care
B-1.2	The Beauty of Staff Care
Aspect B2: Health and Safety	
B2-General disclosure	Health and Safety
B-2.1	No reported case of death because of work during the Reporting Period
B-2.2	This category is currently not reported
B-2.3	Health and Safety

KPI	Chapter/Omission Reason
Aspect B3: Development and Training	
B3-General disclosure	All-round Training
B-3.1	All-round Training
B-3.2	This category is currently not reported
Aspect B4: Labour Standards	
B4-General disclosure	The Beauty of Staff Care
B-4.1	This category is currently not reported
B-4.2	This category is currently not reported
Aspect B5: Supply Chain Management	
B5-General disclosure	Supplier Management
B-5.1	This category is currently not reported
B-5.2	This category is currently not reported
Aspect B6: Product Responsibility	
B6-General disclosure	The Beauty of Customer Beatification
B-6.1	This category is currently not reported
B-6.2	This category is currently not reported
B-6.3	The Beauty of Customer Beatification
B-6.4	The Beauty of Customer Beatification
B-6.5	The Beauty of Customer Beatification
Aspect B7: Anti-corruption	
B7-General disclosure	Maintaining Integrity
B-7.1	No such cases during the Reporting Period
B-7.2	Maintaining Integrity
Aspect B8: Community Investment	
B8-General disclosure	The Beauty of Community Contribution
B-8.1	This category is currently not reported
B-8.2	This category is currently not reported

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 106 to 189, which comprise:

- the consolidated balance sheet as at December 31, 2017;
- 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, 2017, 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.

Fair value measurement of investments classified as financial assets through profit and loss ("**FVTPL**") is identified as a key audit matter in our audit, and is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss	
Refer to Note 3.3 Fair value estimation, Note 4(a) Critical accounting estimates and judgements and Note 15(b) Financial assets at fair value through profit or loss of the consolidated financial statements. As at December 31, 2017, the Group's carrying value of long-term investments classified as financial assets at fair value through profit and loss ("FVTPL") amounted to RMB280,863,000. For the year ended December 31, 2017, the Group has recognised a fair value net loss of RMB77,365,000 on the long-term investments and gains of RMB32,677,000 upon disposal of certain of the long-term investments.	• We understood and evaluated the management's processes and key controls over the valuation process in relation to the financial assets at FVTPL. • We assessed the appropriateness of the valuation methodology with the involvement of our valuation experts.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
The fair value of financial assets at FVTPL has been determined using either the discounted cash flow method or equity allocation model based on significant unobservable inputs. Fair value measurement had taken into account the estimation of the following significant unobservable inputs: • Revenue growth rates and long-term pre-tax operating margin in the discounted cash flow method; • Expected volatility of shares under liquidation and redemption scenario, marketability discount and risk-free rate in equity allocation model. We focused on this area due to significant estimation and judgement involved in determining the respective fair value of financial assets at FVTPL, which do not have direct open market quoted prices, with respect to the adoption of applicable valuation methodologies and the key assumptions in the valuation.	• To assess the reliability of the management's forecast and reasonableness of the key assumptions used in the discounted cash flow method, we evaluated the revenue growth rate, operating expenses and long term pre-tax operating margin with reference to historical data and our knowledge of the industry. • We assessed the reasonableness of expected volatility of shares under liquidation and redemption scenarios with reference to historical volatilities of comparable companies and also benchmarked the marketability discount and risk-free rate adopted against market data with the involvement of our valuation experts. • We evaluated the management's sensitivity analysis on the key assumptions. • We tested the mathematical accuracy of the calculation of the management's assessments. Based on our audit procedures, we found the management's estimation and judgement involved in determining the respective fair values of financial assets at FVTPL were supported by the evidence that we gathered.

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 Wilson W.Y. Chow.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2018

Consolidated Income Statement

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Revenue	5	**4,527,484**	1,578,580
Cost of sales	5, 8	**(3,482,998)**	(1,339,420)
Gross profit		**1,044,486**	239,160
Selling and marketing expenses	8	**(596,729)**	(424,845)
Administrative expenses	8	**(237,865)**	(198,586)
Research and development expenses	8	**(447,062)**	(243,261)
Other income	6	**49,402**	12,980
Other losses, net	7	**(47,191)**	(37,658)
Finance income/(costs), net	10	**101,187**	(981)
Fair value loss of convertible redeemable preferred shares	27	**—**	(5,606,109)
Share of profits/(losses) of investments accounted for using the equity method	15(a)	**16**	(512)
Loss before income tax		**(133,756)**	(6,259,812)
Income tax expense	11	**(63,568)**	(1,068)
Loss for the year		**(197,324)**	(6,260,880)
Loss attributable to:			
— Owners of the Company		**(197,324)**	(6,260,880)
Loss per share attributable to owners of the Company for the year			
(expressed in RMB per share)	12		
— Basic		**(0.05)**	(3.03)
— Diluted		**(0.05)**	(3.03)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Loss for the year		**(197,324)**	(6,260,880)
Other comprehensive 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	**(820)**	431
Currency translation differences		**(295,482)**	(531,438)
Other comprehensive loss for the year, net of tax		**(296,302)**	(531,007)
Total comprehensive loss for the year, net of tax		**(493,626)**	(6,791,887)
Total comprehensive loss attributable to:			
— Owners of the Company		**(493,626)**	(6,791,887)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

	Note	As at December 31, 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property and equipment	13	**91,898**	79,647
Intangible assets	14	**21,298**	21,705
Long-term investments			
— Investments in associates in the form of ordinary shares	15(a)	**28,415**	6,128
— Financial assets at fair value through profit or loss	15(b)	**280,863**	300,279
— Available-for-sale financial assets	15(c)	**6,534**	—
Deferred tax assets	26	**9,784**	—
Prepayments and other receivables	19	**64,305**	50,319
		503,097	458,078
Current assets			
Inventories	20	**658,416**	374,342
Trade receivables	18	**307,388**	86,138
Prepayments and other receivables	19	**160,182**	116,736
Short-term investments placed with banks	17	**—**	280,820
Short-term bank deposits	21(c)	**3,774,807**	725,229
Restricted cash	21(b)	**1,000**	400
Cash and cash equivalents	21(a)	**1,396,632**	4,508,522
		6,298,425	6,092,187
Total assets		**6,801,522**	6,550,265

Consolidated Balance Sheet

	Note	As at December 31, 2017 RMB'000	2016 RMB'000
EQUITY AND LIABILITIES			
Equity			
Share capital	22	**280**	277
Share premium	22	**7,679,137**	17,015,854
Reserves	23	**(263,065)**	(666,751)
Accumulated losses		**(1,774,312)**	(10,332,138)
Total equity		**5,642,040**	6,017,242
Liabilities			
Current liabilities			
Trade and other payables	25	**1,119,560**	532,166
Income tax liabilities		**39,922**	857
		1,159,482	533,023
Total liabilities		**1,159,482**	533,023
Total equity and liabilities		**6,801,522**	6,550,265

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 106 to 189 were approved by the Board of Directors on March 26, 2018 and were signed on its behalf.

Cai Wensheng
Director

Wu Zeyuan
Director

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company				
		Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at January 1, 2017		277	17,015,854	(666,751)	(10,332,138)	6,017,242
Comprehensive loss						
Loss for the year		—	—	—	(197,324)	(197,324)
Other comprehensive loss						
Available-for-sale financial assets —short-term investments placed with banks	17	—	—	(820)	—	(820)
Currency translation differences	23(a)	—	—	(295,482)	—	(295,482)
Total comprehensive loss for the year		—	—	(296,302)	(197,324)	(493,626)
Transactions with owners as their capacity as owners						
Value of employee services:						
— Pre-IPO ESOP Scheme	24	—	—	41,714	—	41,714
— Post-IPO Share Award Scheme	24	—	—	69,381	—	69,381
Shares issued upon exercise of employee share options	22	3	7,326	—	—	7,329
Appropriation to statutory reserves	23(b)	—	—	15,985	(15,985)	—
Share premium set off the accumulated losses	22, 23	—	(9,344,043)	572,908	8,771,135	—
Total transactions with owners as their capacity as owners		3	(9,336,717)	699,988	8,755,150	118,424
Balance at December 31, 2017		280	7,679,137	(263,065)	(1,774,312)	5,642,040

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company				
		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)
Other comprehensive loss						
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 for the year		—	—	(531,007)	(6,260,880)	(6,791,887)
Transactions with owners as their capacity as owners						
Value of employee services:						
— Pre-IPO ESOP Scheme	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

The above consolidated statement of changes in equity should be read in conjunction with accompanying notes.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	29	**65,506**	(691,529)
Interest received		**4,046**	2,953
Income tax paid		**(34,287)**	(764)
Net cash generated from/(used in) operating activities		**35,265**	(689,340)
Cash flows from investing activities			
Purchase of property and equipment	13	**(52,407)**	(60,238)
Purchase of intangible assets	14	**(2,386)**	(2,305)
Proceeds from disposal of property and equipment	29	**77**	3,837
Investments in associates in the form of ordinary shares		**(23,940)**	(3,259)
Investments in financial assets at fair value through profit or loss		**(34,573)**	(141,634)
Proceeds from disposal of financial assets at fair value through profit or loss		**9,008**	2,000
Investments in available-for-sale financial assets		**(6,534)**	(45,091)
Proceeds from disposal/(purchase) of short-term investments placed with banks, net		**280,000**	(110,000)
Investment income received from short-term investments placed with banks		**21,193**	6,654
Placement of short-term bank deposits		**(5,130,051)**	(1,521,078)
Receipt from maturity of short-term bank deposits		**1,867,013**	855,849
Interest received from short-term bank deposits		**24,103**	3,042
Loans to an associate in form of preferred shares		**(7,500)**	(10,406)
Deposit for an acqusition		**(50,000)**	—
Loan to a third party		**(3,921)**	—
Repayment from an investee company		**7,500**	8,347
Loans to shareholders of investee companies		—	(2,000)
Repayments received from shareholders of investee companies		—	9,000
Others		**(957)**	—
Net cash used in investing activities		**(3,103,375)**	(1,007,282)

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Proceeds from issuance of convertible redeemable preferred shares		–	879,920
Payments of issuance costs of convertible redeemable preferred shares		–	(42)
Proceeds from issuance of ordinary shares relating to the initial public offering		–	4,357,679
Payments of issuance costs of ordinary shares relating to the initial public offering	22	(7,201)	(146,205)
Proceeds from shares issued under employee share option scheme		7,170	—
Net cash (used in)/generated from financing activities		(31)	5,091,352
Net (decrease)/increase in cash and cash equivalents		(3,068,141)	3,394,730
Cash and cash equivalents at the beginning of the year	21	4,508,522	989,874
Effects of exchange rate changes on cash and cash equivalents		(43,749)	123,918
Cash and cash equivalents at the end of the year	21	1,396,632	4,508,522

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2017

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

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

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

Certain of the Group's business are subject to foreign investment restrictions. To comply with the relevant PRC laws, 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 is able to effectively control 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 consolidates the financial position and results of operations of these entities in the consolidated financial statements of the Group.

1 GENERAL INFORMATION (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.

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 redeemable preferred shares were converted into ordinary shares on an 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). Concurrently, each issued and unissued ordinary share, of US$0.0001 par value each, of the Company was subdivided into 10 shares of US$0.00001 par value each. Accordingly, all shares, share options, awarded shares, and per share amounts in this consolidated financial statements have been adjusted, where applicable, to reflect the subdivision and adjustments of the convertible redeemable preferred shares.

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

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 to all the years presented, 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.

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, 2017:

- Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IFRS 12, and
- Disclosure initiative – amendments to IFRS 7.
- Annual Improvements to IFRS Standards 2014–2016 Cycle.

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, 2017. They are relevant to the operations of the Group but have not been early adopted. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for set out below.

(i) IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- Classification and measurement of financial instruments

Equity instrument with investment in form of ordinary shares that is currently classified as available-for-sale financial assets ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available; and equity investments in form of convertible redeemable preferred shares and ordinary shares with preference rights currently measured at fair value through profit or loss ("FVTPL") which will continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

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

(i) IFRS 9 "Financial instruments" (Continued)

- Impairment of 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. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects increase in the loss allowance for account receivables to be insignificant given the historical default rates of the outstanding balances with customers are low.

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.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group does not intend to adopt this standard before its mandatory effective date. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" will replace IAS 18 "Revenue" which covers contracts for goods and services and IAS 11 "Construction contracts" which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group does not intend to adopt this standard before its effective date while a modified retrospective approach is expected to be applied upon the adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

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

(ii) IFRS 15 "Revenue from contracts with customers" (Continued)

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Accounting for free services/benefits delivered – IFRS 15 requires the transaction price to be allocated to each separate performance obligation based on relative stand-alone selling prices of the goods or services provided to the customer. This will result in allocation of sales values to certain free advertising space given away to customers that are attached to the bundled advertising contracts, and the timing of the revenue recognition will also be affected. Nevertheless, the impacts on the deferred revenue and retained earnings are considered to be insignificant to the Group given the advertising operations of the Group were insignificant.

- Presentation of contract assets and contract liabilities in the balance sheet – IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities in relation to expected volume discounts and rights to return which are currently included in other balance sheet line items.

(iii) IFRS 16 "Lease"

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2017 are approximately RMB65,714,000, (Note 30). However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt this standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.2(a)(i)).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) 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 acquired business 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, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes 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 or transferred to another category of equity as specified/ permitted by applicable IFRSs.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (a) below), after initially being recognized at cost.

(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 of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment. 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 are reclassified to profit or loss where appropriate.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees 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 convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable 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 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 at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary 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 statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.6 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the Reporting Period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

— Furniture and office equipment	5 years
— Servers and other equipment	3 years
— Motor vehicles	4 years
— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (Continued)

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 proceeds with carrying amount. These are included in profit or loss.

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 contents through an Internet online platform. The online video license is shown at historical cost of acquisition. 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 these assets. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(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 had been no development costs meeting these criteria and capitalized as intangible assets as at December 31, 2017 (2016: None).

Development costs previously recognized as an expense are not recognized as an asset in a subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each Reporting Period.

2.9 Investments and other 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 whethen the assets are quoted in an active market. Management determines the classification of its investments at initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investments and other financial assets (Continued)

(a) Classification (Continued)

(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 convertible redeemable preferred shares issued by investee companies, which are hybrid instruments with embedded derivatives not closely related to the host contracts. 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 contracts.

Assets in this category are presented as current assets if they are expected to be settled within 12 months after the end of the Reporting Period; otherwise, they are presented as non-current assets. As at December 31, 2017 and 2016 the Group's investments in this category are all classified as non-current assets.

(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. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of "trade receivables" (Note 18), "prepayments and other receivables" (Note 19), "short-term bank deposits" (Note 21(c)), "restricted cash" (Note 21(b)) and "cash and cash equivalents" (Note 21(a)) in the consolidated balance sheet.

(iii) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables) are also included in the available-for-sale category. The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the Reporting Period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investments and other financial assets (Continued)

(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. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value are recognized as follows:

- for "financial assets at fair value through profit or loss" – in profit or loss within "other losses, net"

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company has 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 Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of 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. 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.

(a) Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. 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 profit or loss.

(b) Assets classified as available-for-sale financial assets

If there is objective evidence of impairment for available-for-sale financial assets, 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 recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of finished goods comprises raw materials and contract manufacturer related production costs. Cost excludes borrowing costs. Costs of purchased raw materials are determined after deducting rebates and discounts. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods 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. See Note 2.9 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

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

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. These amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the Reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 27.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

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 27).

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the 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 end of the Reporting Period in the countries where the Company's subsidiaries and associates 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 provided in full, 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. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the Reporting Period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

(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.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(d) Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.19 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the Reporting Period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as other payables in the consolidated balance sheet.

(b) 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 contribution 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.

(c) 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.

(d) Bonus plans

The expected cost of bonuses is recognized as a liability and an expense 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 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 and Post-IPO Share Award Scheme, which is an equity-settled shared-based compensation plan under which share awards are granted to employees as part of their remuneration package.

The fair value of the employee services received in exchange for the grant of the share-based awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share-based awards 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.

At the end of each reporting period, the Group revises its estimates of the number of share-based awards that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, 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 recognising the expense during the period between service commencement period and grant date.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions

Provisions for legal claims, service warranties and make good obligations 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 can be 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 management's best estimate of the expenditure required to settle the present obligation at the end of the Reporting Period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the 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. Amounts disclosed as revenue are net of returns, trade allowance, rebates and amounts collected on behalf of third parties. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Internet Business

(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 the users.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

(a) Internet Business (Continued)

(ii) Internet value-added services and others

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

Revenue from e-commerce is earned and recognized when goods are delivered to customers.

(b) Sales of Smart Hardware Products

(i) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

(b) Sales of Smart Hardware Products (Continued)

(ii) Sales of products — Direct sales

Revenue from the sales 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. It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Accumulated experience is used to estimate and provide for such returns at the time of sales.

2.23 Interest income

Interest income is recognized using the effective interest method. When a 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 is recognized using the original effective interest rate.

2.24 Dividend income

Dividends are recognized as revenue when the right to receive payment is established.

2.25 Government grants

Grants from the 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 not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss 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 security 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 functional currency of the Company is US$. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to US$. 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, 2017 would have been approximately RMB4,227,000 (2016: RMB7,002,000) lower/higher, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US$.

(ii) Cash flow and fair value interest rate risk

Other than interest-bearing cash and cash equivalents, short-term bank deposits 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.

(iii) Price risk

The Group is exposed to price risk in respect of long-term investments held by the Group that are classified in 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk (Continued)

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with limits set by the Group. Each investment is managed by senior management personnel 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, 2017 would have been approximately RMB14,370,000 (2016: RMB 15,014,000) lower/higher.

(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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At December 31,2017			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	**727,582**	**2,584**	**730,166**
At December 31, 2016			
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	432,511	884	433,395

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

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, 2017, by level of the inputs to valuation methodologies 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).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets that are measured at fair value as at December 31, 2017:

	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 15(b))	**—**	**—**	**280,863**	**280,863**
— Available-for-sale financial assets (Note 15(c))	**—**	**—**	**6,534**	**6,534**
	—	**—**	**287,397**	**287,397**

The following table presents the Group's assets 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 15(b))	—	—	300,279	300,279
Short-term investments placed with banks (Note 17)	—	—	280,820	280,820
	—	—	581,099	581,099

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 (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the Reporting Period. 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.

(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 using valuation methodologies which maximize the use of observable market data 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. This is the case for unlisted equity securities.

Specific valuation methodologies used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments; and

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

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

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 available-for-sale financial assets.

The following table presents the changes in level 3 instruments of financial assets at fair value through profit or loss and available-for-sale financial assets for the year ended December 31, 2017.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**300,279**	147,922
Additions	**111,195**	187,725
Disposals	**(37,747)**	(2,000)
Changes in fair value	**(77,365)**	11,212
Provision for impairment	**—**	(45,091)
Currency translation differences	**(8,965)**	511
At December 31	**287,397**	300,279
Total unrealized (losses)/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	**(77,365)**	11,212

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 year ended December 31, 2017.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**280,820**	170,389
Additions	**3,442,260**	465,000
Disposals	**(3,722,260)**	(355,000)
Change in fair value	**20,373**	7,085
Investment income recognized in profit or loss	**(21,193)**	(6,654)
At December 31	**–**	280,820
Total investment income for the year included in "other income" for short-term investments placed with banks at the end of the year	**21,193**	6,654
Unrealized gains for the year included in "other comprehensive income" for short-term investments placed with banks at the end of the year	**–**	431

The Group has a team of personnel with valuation experience that manages the evaluation 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 methodologies to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The valuation of the level 3 instruments mainly included investments in private companies (Note 15(b)). As the investments in private companies are not traded in an active market, their fair value have been determined using various applicable valuation methodologies and major assumptions were used in the valuations were presented as follows:

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

(RMB in thousands)

Description	Fair value at December 31, 2017	Valuation methodology(s)	Unobservable input	Range (weighted average)
Debt security:				
Financial assets at fair value through profit or loss (Note 15(b))	280,863	Discounted cash flow	long-term revenue growth rate	0%–10%
			long-term pre-tax operating margin	0%–10%
		Equity allocation model	Expected volatility of shares under liquidation and redemption scenario	2%–2.7%
			Marketability discount	23%–25%
			weighted average cost of capital	2%–2.7%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. 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 methodologies. The Group uses its judgment to select a variety of methods and make assumptions, as mentioned in Note 3.3(c), 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) 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.

(c) 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.

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 Business

— Smart Hardware

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other losses, net, finance income/(costs), net share of profits/(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, revenue sharing fee, bandwidth and storage related costs, salary and compensation expenses, video content monitoring fee and warranty expenses, and others.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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 year ended December 31, 2017 is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Internet Business:		
— Internet value-added services and others	**479,937**	44,231
— Online advertising	**307,481**	60,446
	787,418	104,677
Smart Hardware	**3,740,066**	1,473,903
Total revenue	**4,527,484**	1,578,580

The segment results for the year ended December 31, 2017 are as follows:

	Year ended December 31, 2017		
	Internet Business	Smart Hardware	Total
	RMB'000	RMB'000	RMB'000
Segment revenue	787,418	3,740,066	4,527,484
Segment cost of sales	(602,425)	(2,880,573)	(3,482,998)
Gross profit	184,993	859,493	1,044,486

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 Business 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 major customers which contributed more than 10% of the total revenue of the Group for the year ended December 31, 2017 are listed as below.

	Year ended December 31,	
	2017 **%**	2016 %
Smart Hardware		
Customer A	**33.6%**	36.5%
Customer B	*	12.7%

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

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, 2017, 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 year ended December 31, 2017 are presented in the consolidated income statement of the Group.

6 OTHER INCOME

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Government grants	**23,678**	5,398
Investment income on short-term investments placed with banks (Note 17)	**21,193**	6,654
Others	**4,531**	928
	49,402	12,980

7 OTHER LOSSES, NET

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Gains on disposal of long-term investments (Note 15(b))	**32,677**	—
Fair value (losses)/gains on long-term investments (Note 15(b))	**(77,365)**	11,212
Impairment loss on long-term investments (Note 15(c))	**—**	(45,091)
Loss on disposal of property and equipment	**(18)**	(3,325)
Others	**(2,485)**	(454)
	(47,191)	(37,658)

8 EXPENSES BY NATURE

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Inventories consumed and recognized as:		
— cost of sales (Note 20)	**2,771,871**	1,149,753
— selling and marketing and other expenses	**28,350**	25,824
Employee benefit expenses (Note 9)	**636,360**	274,623
Promotion and advertising expenses	**412,733**	324,582
Revenue sharing fee	**351,221**	28,495
Bandwidth and storage related costs	**113,121**	97,731
Operating lease expenses	**48,527**	34,118
Warranty expenses	**44,700**	19,791
Depreciation of property and equipment (Note 13)	**40,061**	26,803
Provision for inventory impairment (Note 20)	**33,748**	712
Travelling and entertainment expenses	**28,144**	19,755
Video content monitoring fee	**27,618**	19,339
Development cost related to smartphone manufacturing equipment	**26,574**	10,087
Tax and levies	**17,684**	4,359
License fees	**17,185**	9,079
Utilities and office expenses	**14,622**	16,615
Outsourced technical services	**12,976**	6,936
Auditor's remuneration		
— annual audit services	**6,879**	1,800
— non-audit services	**335**	200
Amortization of intangible assets (Note 14)	**2,793**	1,736
Listing expenses	**—**	39,512
Others	**129,152**	94,262
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**4,764,654**	2,206,112

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**431,300**	203,978
Share-based compensation expenses (Note 24)	**111,095**	37,092
Pension costs — defined contribution plans	**24,254**	11,304
Other social security costs, housing benefits and other employee benefits	**69,711**	22,249
	636,360	274,623

(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 32, is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Share-based compensation expenses	**56,349**	30,820
Wages, salaries and bonuses	**9,959**	6,505
Pension costs — defined contribution plans	**109**	99
Other social security costs, housing benefits and other employee benefits	**265**	234
	66,682	37,658

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,	
	2017	2016
Nil to HK$500,000	**—**	—
HK$500,001 to HK$1,500,000	**4**	5
HK$1,500,001 to HK$3,000,000	**—**	—
HK$3,000,001 to HK$10,000,000	**—**	1
HK$10,000,001 to HK$20,000,000	**—**	—
HK$20,000,001 to HK$40,000,000	**2**	1
	6	7

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include none directors (2016: None). All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2017 and 2016. The emoluments payable to the 5 non-director individuals for the year ended December 31, 2017 (2016: 5) are as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**14,999**	7,393
Share-based compensation expenses	**59,983**	28,845
Pension costs — defined contribution plans	**84**	—
Other social security costs, housing benefits and other employee benefits	**107**	29
	75,173	36,267

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,	
	2017	2016
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	2
HK$2,500,001 to HK$3,000,000	**2**	—
HK$3,500,001 to HK$4,000,000	**—**	1
HK$7,000,001 to HK$7,500,000	**1**	—
HK$9,500,001 to HK$10,000,000	**—**	1
HK$26,000,001 to HK$26,500,000	**—**	1
HK$37,000,001 to HK$37,500,000	**1**	—
HK$39,500,001 to HK$40,000,000	**1**	—
	5	5

10 FINANCE INCOME/(COSTS), NET

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Interest income	**84,259**	11,181
Foreign exchange gains/(losses), net	**17,464**	(11,796)
Issuance costs of convertible redeemable preferred shares	**—**	(42)
Others	**(536)**	(324)
	101,187	(981)

11 INCOME TAX EXPENSE

The income tax expense of the Group for the year ended December 31, 2017 is analyzed as follows:

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Current income tax:		
— PRC and overseas enterprise income tax	**73,352**	1,068
Deferred income tax (Note 26)	**(9,784)**	—
Income tax expense	**63,568**	1,068

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, 2017 RMB'000	2016 RMB'000
Loss before income tax:	**(133,756)**	(6,259,812)
Add back: (Profit)/loss of the Company	**(32,694)**	5,598,978
	(166,450)	(660,834)
Tax calculated at PRC statutory income tax rate of 25%	**(41,613)**	(165,209)
Tax effects of:		
— Differential income tax rates applicable to subsidiaries	**(9,979)**	60,046
— Tax losses and temporary differences for which no deferred income tax asset was recognized	**101,619**	103,156
— Utilization of previously unrecognized tax losses to reduce current tax expense	**(11,558)**	(6,093)
— Super Deduction for research and development expenses (Note (d))	**(1,030)**	—
— Expenses not deductible for income tax purposes:		
— Share-based compensation	**25,707**	7,373
— Others	**422**	1,795
Income tax expense	**63,568**	1,068

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, 2017, certain PRC subsidiaries of the Group suffered operating losses for the year. Based on management's assessment, the Group did not recognize deferred income tax assets of RMB195,023,000 (2016: RMB154,301,000) in respect of losses amounting to RMB1,159,810,000 (2016: RMB951,174,000) that can be carried forward against future taxable income. These tax losses will expire from 2018 to 2022. Losses amounting to RMB2,350,000 (2016: RMB2,350,000) and RMB47,449,000 (2016: RMB55,634,000) expire in 2018 and 2019 respectively.

11 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%. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year.

(c) Corporate income tax in other countries

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

(d) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

Meitu Networks has been qualified as a "High and New Technology Enterprise" ("**HNTE**") under the EIT Law in 2016. Accordingly, it is entitled to a preferential income tax rate of 15% for three years starting from 2016 provided that it continues to be qualified as a HNTE during such period. Based on management's assessment, Meitu Networks did not meet the qualification of HNTE so it did not apply the preferential tax rate in calculating its EIT in 2017.

Meitu Home was accredited as a "software enterprise" under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "**tax holiday**"). The tax holiday period has not yet commenced as Meitu Home was in an accumulated tax loss position as of December 31, 2017.

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 year ended December 31, 2017.

11 INCOME TAX EXPENSE (CONTINUED)

(e) PRC Withholding Tax ("WHT")

According to the New Corporate Income Tax Law, distribution of profits earned by PRC companies since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at December 31, 2017 (2016: None).

12 LOSS PER SHARE

(a) Basic

Basic loss per share for the year ended December 31, 2017 is 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,	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	**(197,324)**	(6,260,880)
Weighted average number of ordinary shares in issue (thousand)	**4,245,322**	2,065,492
Basic loss per share (expressed in RMB per share)	**(0.05)**	(3.03)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP (Note 24) and the awarded shares under the Post-IPO Share Award Scheme (Note 24). 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 27) and the shares options awarded under Pre-IPO ESOP (Note 24). As the Group incurred losses for the year ended December 31, 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the year ended December 31, 2017 is the same as basic loss per share.

13 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, 2017					
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
Year ended December 31, 2017					
Opening net book amount	4,429	54,987	2,506	17,725	79,647
Additions	2,095	40,570	3,133	6,609	52,407
Disposals	(7)	(73)	(15)	—	(95)
Depreciation charges	(1,350)	(29,336)	(1,254)	(8,121)	(40,061)
Closing net book amount	5,167	66,148	4,370	16,213	91,898
At December 31, 2017					
Cost	7,835	121,240	7,586	34,740	171,401
Accumulated depreciation	(2,668)	(55,092)	(3,216)	(18,527)	(79,503)
Net book amount	5,167	66,148	4,370	16,213	91,898
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

13 PROPERTY AND EQUIPMENT (CONTINUED)

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**19,392**	10,509
Research and development expenses	**13,134**	9,674
Administrative expenses	**6,009**	5,638
Selling and marketing expenses	**1,526**	982
	40,061	26,803

14 INTANGIBLE ASSETS

	Online video license RMB'000	Domain names RMB'000	Computer software RMB'000	Copyrights RMB'000	Total RMB'000
At January 1, 2017					
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**
Year ended December 31, 2017					
Opening net book amount	**7,000**	**10,473**	**3,999**	**233**	**21,705**
Additions	**—**	**827**	**1,109**	**450**	**2,386**
Amortization	**—**	**(1,782)**	**(929)**	**(82)**	**(2,793)**
Closing net book amount	**7,000**	**9,518**	**4,179**	**601**	**21,298**
At December 31, 2017					
Cost	**7,000**	**13,559**	**7,776**	**764**	**29,099**
Accumulated amortization	**—**	**(4,041)**	**(3,597)**	**(163)**	**(7,801)**
Net book amount	**7,000**	**9,518**	**4,179**	**601**	**21,298**
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

14 INTANGIBLE ASSETS (CONTINUED)

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Administrative expenses	**1,400**	897
Research and development expenses	**1,060**	617
Cost of sales	**333**	222
	2,793	1,736

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 15% (2016: 5%). Pre-tax discount rate of 30% (2016: 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 on the market developments of the Group by utilizing the license.

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**6,128**	3,381
Additions (Note (i))	**26,940**	3,259
Converted from an associate to a subsidiary	**(3,795)**	—
Share of profits/(losses) of the associates	**16**	(512)
Currency translation differences	**(874)**	—
At December 31	**28,415**	6,128

(i) The Group acquired interests in associates with an aggregate amount of RMB26,940,000 for the year ended December 31, 2017.

15(a) INVESTMENTS IN ASSOCIATES IN THE FORM OF ORDINARY SHARES (CONTINUED)

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Aggregate information		
Gains/(loss) for the year	**16**	(512)
Total comprehensive income/(loss)	**16**	(512)

For the year ended December 31, 2017, none of the Group's investments in associates is individually material to the Group (2016: None). Accordingly, the financial information of the Group's associates are presented on an aggregate basis.

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**300,279**	147,922
Additions (Note (i))	**104,661**	142,634
Disposals (Note (ii))	**(37,747)**	(2,000)
Changes in fair value (Note (iii))	**(77,365)**	11,212
Currency translation differences	**(8,965)**	511
At December 31	**280,863**	300,279

The Group holds a number of investments in form of convertible redeemable preferred shares and ordinary shares with preference rights ("**preferred shares**") issued by private companies. These investments contain embedded derivatives that are not closely related to the respective host contracts. 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.

In connection with the investments, the Group also holds board seats in certain investees, in which it can participate in the investees' financial and operating activities. These investee companies are associates of the Group. As detailed above, the Group does not bifurcate the embedded derivatives from the host instruments and accounts for these associates in form of preferred shares as financial assets at fair value through profit or loss as a whole.

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

(i) During the year ended December 31, 2017, the Group acquired the minority equity interests of a number of private-held investee companies in form of preferred shares. These investments are designated as financial assets at fair value through profit or loss as detailed above.

(ii) During the year ended December 31, 2017, the Group disposed of part of its minority equity interests in a few investees and recognized disposal gains of RMB32,677,000 (Note 7).

(iii) The Group performs assessments on the fair value of its financial assets at fair value through profit or loss periodically. Management reviews the investees' performance and forecasts, and applies valuation methodologies, where applicable, to determine their respective fair value. During the year ended December 31, 2017, change in fair value of approximately RMB77,365,000 was recognised as other loss in the consolidated income statement (Note 7).

15(c) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**—**	—
Additions (Note (i))	**6,534**	45,091
Provision for impairment (Note (ii))	**—**	(45,091)
At December 31	**6,534**	—

(i) In 2017, the Group acquired equity interest 4.88% of an entity with a consideration of US$1,000,000 (equivalent to approximately RMB6,534,000). The entity is principally engaged in the operations of a fashion and beauty e-commerce platform. The Group does not have control nor significant influence in the entity. The Group designated the investment as available-for-sale financial assets. There was no significant change in the fair value of the investment.

In March 2016 and June 2016, the Group entered into two subscription agreements with a third-party company listed on the Australian Stock Exchange, which provide online social entertainment services in the Southeast Asia market. According to the provisions of the above agreements, the Group subscribed an aggregate of 5.71%, on an outstanding basis, equity interests in the investee company for a total consideration of US$6,500,000 (equivalent to approximately RMB45,091,000). Since the Group does not have any board seats and could not exercise significant influence, the Group designated the financial assets as available-for-sale financial assets.

(ii) 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.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Assets as per balance sheet		
Loans and receivables:		
— Short-term bank deposits (Note 21(c))	**3,774,807**	725,229
— Cash and cash equivalents (Note 21(a))	**1,396,632**	4,508,522
— Trade and other receivables (excluding prepayments and recoverable value-added tax)	**456,995**	137,758
— Restricted cash (Note 21(b))	**1,000**	400
Financial assets at fair value through profit or loss:		
— Long-term investments (Note 15(b))	**280,863**	300,279
Available-for-sale financial assets:		
— Long-term investments (Note 15(c))	**6,534**	—
— Short-term investments placed with banks (Note 17)	**—**	280,820
	5,916,831	5,953,008

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Liabilities as per balance sheet		
Financial liabilities at amortized cost:		
— Trade and other payables (excluding advance, staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	**730,166**	433,395

17 SHORT-TERM INVESTMENTS PLACED WITH BANKS

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
At January 1	**280,820**	170,389
Additions	**3,442,260**	465,000
Disposals	**(3,722,260)**	(355,000)
Change in fair value	**20,373**	7,085
Investment income recognized in profit or loss	**(21,193)**	(6,654)
At December 31	**—**	280,820

The short-term investments placed with banks, which are denominated in RMB, are redeemable any time with expected rates of return ranging from 3.23% to 4.49% per annum for the year ended December 31, 2017. The return of these investments 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 2016 year end was the carrying value of these short-term investments. None of these short-term investments are either past due or impaired.

18 TRADE RECEIVABLES

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Trade receivables, net	**307,388**	86,138

18 TRADE RECEIVABLES (CONTINUED)

(a) The Group allows a credit period of 30 to 90 days to its customers. An aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date is as follows:

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	**287,434**	69,807
3 to 6 months	**16,056**	6,765
6 months to 1 year	**3,358**	9,566
1 to 2 years	**540**	—
	307,388	86,138

As at December 31, 2017, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

(b) As of December 31, 2017 trade receivables of RMB20,199,000 (2016: RMB13,692,000) 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,	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	**16,301**	4,126
3 to 6 months	**2,684**	9,317
Over 6 months	**1,214**	249
	20,199	13,692

19 PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Included in non-current assets		
Deposit for an acqusition (Note (a))	**50,000**	—
Rental and other deposits	**13,188**	8,945
Prepayments for software licenses	**1,117**	390
Recoverable value-added tax	**—**	40,984
	64,305	50,319
Included in current assets		
Interest receivables	**60,055**	5,787
Recoverable value-added tax	**33,796**	27,187
Prepayments to suppliers	**29,095**	48,549
Rental and other deposits	**18,288**	13,556
Prepayment for promotion and advertising	**10,719**	10,159
Loans to a third party	**3,921**	—
Loans to investee companies	**3,267**	10,406
Others	**1,041**	1,092
	160,182	116,736

Note:

(a) In December 2017, the Group provided a loan of RMB50,000,000 to a potential investee, which was subsequently acquired by the Group. The loan has been converted to be part of the consideration.

As of December 31, 2017, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at the year end. As of December 31, 2017, there were no significant balances that are past due.

20 INVENTORIES

	As at December 31, 2017 RMB'000	2016 RMB'000
Raw materials	**396,008**	337,846
Finished goods	**229,597**	23,906
Merchandise	**67,476**	13,507
	693,081	375,259
Less: Provision for impairment (Note a)	**(34,665)**	(917)
	658,416	374,342

Note:

(a) Impairment was recognized where the carrying amounts of the inventories exceed their respective recoverable amounts, and was recorded in "cost of sales" in the consolidated income statement.

Inventories consumed and recognized as "cost of sales" and "selling and marketing and other expenses" during the year ended December 31, 2017 amounted to RMB2,771,871,000 and RMB28,350,000 respectively (2016: RMB1,149,753,000 and RMB25,824,000 respectively) (Note 8).

21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31, 2017 RMB'000	2016 RMB'000
Cash at bank and in hand	**1,066,632**	4,438,973
Short-term bank deposits with initial terms within three months	**330,000**	69,549
	1,396,632	4,508,522

(b) Restricted cash

As at December 31, 2017, RMB1,000,000 (2016: RMB400,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

21 CASH AND BANK BALANCES (CONTINUED)

(c) Short-term bank deposits

As at December 31, 2017, short-term bank deposits amounting RMB3,774,807,000 (2016: RMB725,229,000) are bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated in US$ and the weighted average effective interest rate was 1.97% per annum for the year ended December 31, 2017 (2016: 1.17%).

22 SHARE CAPITAL AND PREMIUM

	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 and December 31, 2017		**6,000,000**	**60**	**—**	**—**
As at January 1, 2016		445,653	45	154,347	15
Reclassification and re-designation on issuance of Series D Preferred Shares	(d)	(14,316)	(2)	14,316	2
Cancellation and re-authorization	(e)	168,663	17	(168,663)	(17)
Effect of share subdivision	(f)	5,400,000	—	—	—
As at December 31, 2016		6,000,000	60	—	—

22 SHARE CAPITAL AND PREMIUM (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, 2017		**4,227,295**	**43**	**277**	**17,015,854**
Employee share option scheme under Pre-IPO ESOP					
— Shares issued and proceeds received	(a)	**36,258**	**—**	**3**	**7,326**
Employee Share Award Scheme:					
— Shares issued	(b)	**10,000**	**—**	**—**	**—**
Share premium set off the accumulated losses	(c)	**—**	**—**	**—**	**(9,344,043)**
As at December 31, 2017		**4,273,553**	**43**	**280**	**7,679,137**
Issued:					
As at January 1, 2016		196,667	20	121	—
Conversion of preferred shares into ordinary shares	(e)	168,663	17	117	12,804,419
Effect of share subdivision	(f)	3,287,965	—	—	—
Issuance of new shares upon IPO	(g)	574,000	6	39	4,211,435
As at December 31, 2016		4,227,295	43	277	17,015,854

Notes:

(a) During the year ended December 31, 2017, 36,258,000 pre-IPO share options with exercise price of US$0.03 were exercised.

(b) On May 19, 2017, the Company issued 10,000,000 of new shares under Post-IPO Share Award Scheme, in which all restricted shares have been granted to eligible employees.

(c) On March 24, 2017, the Directors passed a resolution that the sum of approximately of US$1,348,561,000 standing to the credit of the share premium account of the Company was applied to set off the accumulated losses of the Company. Accordingly, the balance of share premium was reduced by RMB9,344,043,000.

(d) On April 19, 2016, the Company entered into a share purchase agreement with the Series D Preferred Shareholders ("Series D Preferred Shares") 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.

22 SHARE CAPITAL AND PREMIUM (CONTINUED)

(e) 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 of the Company, respectively.

(f) 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.

(g) 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.

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, 2017	**2,000**	**1,063**	**96,425**	**(766,239)**	**(666,751)**
Value of employee services:					
— Pre-IPO ESOP Scheme (Note 24)	**—**	**—**	**41,714**	**—**	**41,714**
— Post-IPO Share Award Scheme (Note 24)	**—**	**—**	**69,381**	**—**	**69,381**
Revaluation transfer out of available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**
— short-term investments placed with banks (Note 17)	**—**	**—**	**—**	**(820)**	**(820)**
Currency translation differences (Note (a))	**—**	**—**	**—**	**(295,482)**	**(295,482)**
Appropriation to statutory reserves (Note (b))	**—**	**15,985**	**—**	**—**	**15,985**
Share premium set off the accumulated losses (Note (c))	**—**	**—**	**—**	**572,908**	**572,908**
At December 31, 2017	**2,000**	**17,048**	**207,520**	**(489,633)**	**(263,065)**
At January 1, 2016	2,000	946	55,499	(235,232)	(176,787)
Value of employee services:					
— Pre-IPO ESOP Scheme	—	—	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)
Appropriation to statutory reserves (Note (b))	—	117	—	—	117
At December 31, 2016	2,000	1,063	96,425	(766,239)	(666,751)

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.

(c) Following the board resolution on March 24, 2017 (Note 22(c)), the accumulated losses of RMB8,771,135,000 was set off and the related currency translation difference of RMB572,908,000 was released.

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 grand 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$0.03 per share. Except as provided otherwise in the grant letter or offer in any other form by the Board of Directors, 25% of the shares subject to the option shall vest on the first vesting date, and the remaining 75% shares shall 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 (after share subdivision):

	Exercise price	Number of share options Year ended December 31,	
		2017	2016
At January 1		**116,958,940**	100,758,240
Granted	US$ 0.03	**—**	16,235,000
Exercised (Note (a))	US$ 0.03	**(36,258,209)**	—
Forfeited	US$ 0.03	**(1,360,822)**	(34,300)
At December 31		**79,339,909**	116,958,940

Note:

(a) As a result of the options exercised during the year ended December 31, 2017, 36,258,209 ordinary shares were issued by the Company (Note 22). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$11.78 (equivalent to RMB9.85) per share.

As of December 31, 2017, all share options granted will expire in 2026.

24 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

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

On February 15, 2014, the Company granted 2,826,000 share options (After the effect of the share subdivision) under Pre-IPO ESOP to the non-employees of the Company.

The exercise price of the options granted to the non-employees above is US$0.03 per share, and the vesting of the options is conditional, subject to their services received by the Company.

No share options were granted under Pre-IPO ESOP to non-employees of the Company in 2017 (2016: None).

(iii) Fair value of share options granted under Pre-IPO ESOP in 2016

The directors had adopted the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimate.

Based on fair value of the underlying ordinary share, the directors had 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
Discount rate	17.5%
Risk-free interest rate	0.92%–1.54%
Volatility	47.00%–47.15%
Dividend yield	0%

For the year ended December 31, 2017, the Group recorded share based compensation of RMB41,714,000 (2016: RMB37,092,000) related to Pre-IPO ESOP granted to employees. For the year ended December 31, 2017, the Group recorded no share based compensation (2016: RMB3,834,000) related to Pre-IPO ESOP granted to non-employees.

24 SHARE-BASED PAYMENTS (CONTINUED)

(b) Post-IPO Share Award Scheme

On November 25, 2016, the Post-IPO Share Award Scheme was adopted pursuant to the written resolutions of the Shareholders. During the year ended December 31, 2017, the Company granted 25,737,000 restricted shares to certain directors and employees of the Group (collectively, the "**Grantees**") pursuant to the Post-IPO Share Award Scheme.

Movements in the number of award shares for the year ended December 31, 2017 is as follows:

	Post-IPO Share Award Scheme Number of shares Year ended December 31, 2017
At January 1	–
Granted	25,737,000
Forfeited	(1,200,000)
At December 31	24,537,000

Except as provided otherwise in the grant letter or offer in any other form by the Board, 25% of the awarded shares 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 fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The weighted average fair value of awarded shares granted during the year ended December 31, 2017 was HK$11.60 per share (equivalent to approximately RMB9.70 per share).

24 SHARE-BASED PAYMENTS (CONTINUED)

(b) Post-IPO Share Award Scheme (Continued)

During the year ended December 31, 2017, the Group recorded share based compensation of RMB69,381,000 (2016: None) related to Post-IPO Share Award Scheme.

(i) Expected Retention Rate under Post-IPO Share Award Scheme

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 awards (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. At December 31, 2017, the Expected Retention Rate was assessed to be 95%.

(c) Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was approved by the board on November 25, 2016 and adopted with effect from the completion of the IPO. As at December 31, 2017, no options had been granted by the Group under the Post-IPO Share Option Scheme.

25 TRADE AND OTHER PAYABLES

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Trade payables	**719,538**	394,820
Advance from customers	**196,254**	22,250
Payroll and welfare payables	**148,384**	57,374
Warranty provisions	**22,387**	9,040
Other tax payables	**15,044**	1,317
Government grants	**7,325**	8,790
Accrued professional fees	**4,074**	36,597
Others	**6,554**	1,978
	1,119,560	532,166

25 TRADE AND OTHER PAYABLES (CONTINUED)

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

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	**680,871**	388,173
3 to 6 months	**26,367**	3,792
6 months to 1 year	**9,716**	1,971
1 to 2 years	**2,219**	791
Over 2 years	**365**	93
	719,538	394,820

26 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017	2016
	RMB'000	RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered within 12 months	**15,097**	—
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after more than 12 months	**(5,313)**	—
Set-off of deferred tax liabilities	**(5,313)**	—
Net deferred tax assets	**9,784**	—

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences

26 DEFERRED INCOME TAX (CONTINUED)

(i) Deferred tax assets

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Movement	Inventory and other assets write-downs RMB'000	Warranty provisions RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets				
At 1 January 2017	—	—	—	—
Credit to profit or loss (Note 11)	6,672	5,597	2,828	15,097
At 31 December 2017	6,672	5,597	2,828	15,097

(ii) Deferred tax liabilities

Movement	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Deferred income tax liabilities		
At 1 January 2017	—	—
Charge to profit or loss (Note 11)	5,313	5,313
At 31 December 2017	5,313	5,313

27 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Prior to the Company's IPO, the Group has issued several series convertible redeemable preferred shares for financing. Management monitored preferred shares on a fair value basis and did not bifurcate any embedded derivatives from the host instruments and designated the entire instrument as financial liabilities at fair value recognized in the consolidated income statement. Changes in fair value of preferred shares were recorded in "fair value loss of convertible redeemable preferred shares". The fair value of the convertible redeemable preferred shares immediately before conversion into ordinary shares upon completion of the IPO was assessed at the market price in the amount of HK$8.50 (approximately RMB7.59) per share.

27 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Upon the 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.

28 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2017 (2016: None).

29 CASH USED IN OPERATIONS

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(133,756)**	(6,259,812)
Adjustments for:		
— Depreciation of property and equipment (Note 13)	**40,061**	26,803
— Amortization of intangible assets (Note 14)	**2,793**	1,736
— Loss on disposals of property and equipment (Note 7)	**18**	3,325
— Share-based compensations (Note 24)	**111,095**	40,926
— Share of losses of investments in associates in the form of ordinary shares (Note 15(a))	**(16)**	512
— Fair value loss of convertible redeemable preferred shares (Note 27)	**—**	5,606,109
— Investment income on short-term investments placed with banks (Note 6)	**(21,193)**	(6,654)
— Fair value losses/(gains) on other financial assets (Note 15(b))	**77,365**	(11,212)
— Interest income (Note 10)	**(84,259)**	(11,181)
— Foreign exchange gains/(loss), net	**15,770**	11,796
— Issuance costs of convertible redeemable preferred shares (Note 10)	**—**	42
— Impairment provision for investee companies (Note 15(c))	**—**	45,091
— Gains on disposal of investees	**(32,677)**	—
Changes in working capital:		
— Net increase in inventories	**(287,242)**	(248,441)
— Increase in trade receivables	**(265,494)**	(39,571)
— Increase in prepayments and other receivables	**(310,513)**	(78,137)
— Increase in trade and other payables	**954,154**	226,939
— (Increase)/decrease in restricted cash	**(600)**	200
Cash used in operations	**65,506**	(691,529)

29 CASH USED IN OPERATIONS (CONTINUED)

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

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Net book amount (Note 13)	**95**	7,162
Loss on disposal of property and equipment (Note 7)	**(18)**	(3,325)
Proceeds from disposal of property and equipment	**77**	3,837

There were no material non-cash investing and financing transactions for the year ended December 31, 2017 (2016: None).

30 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,	
	2017	2016
	RMB'000	RMB'000
Property and equipment	**3,214**	1,280
Long-term investments	**—**	8,591
	3,214	9,871

(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.

30 COMMITMENTS (CONTINUED)

(b) Operating Lease Commitments (Continued)

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
Not later than 1 year	**35,963**	43,660
Later than 1 year and not later than 5 years	**29,751**	66,357
	65,714	110,017

31 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,	
	2017	2016
	RMB'000	RMB'000
(i) Sales of goods and services:		
Associates	**1,461**	915
Companies significantly influenced by controlling shareholders	**—**	51
	1,461	966
(ii) Purchases of goods and services:		
An associate	**9,185**	5,114
Companies significantly influenced by controlling shareholders	**1,157**	1,484
Associates in form of preferred shares	**360**	11,778
	10,702	18,376
(iii) Loans to an associate in form of preferred shares	**7,500**	10,406
(iv) Repayments from an associate in form of preferred shares	**7,500**	8,347

31 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Year end balances with related parties

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
(i) Receivables from:		
Associates	**964**	929
	964	929
(ii) Prepayments to an associate in form of preferred shares	**214**	3,297
(ii) Payables to:		
An associate	**1,005**	46
A company significantly influenced by controlling shareholders	**14**	60
	1,019	106

(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,	
	2017	2016
	RMB'000	RMB'000
Share-based compensation expenses	**56,349**	30,820
Wages, salaries and bonuses	**12,970**	7,891
Pension costs – defined contribution plan	**133**	122
Other social security costs, housing benefits and other employee benefits	**406**	274
	69,858	39,107

32 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director for the year ended December 31, 2017 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	579	—	—	30	609
Wu Zeyuan	276	651	24	81	1,032
Independent Non-executive Directors					
Ko Chun Shun Johnson	301	—	—	—	301
Zhou Hao	301	—	—	—	301
Lo Po Man (Note (a))	301	—	—	—	301
Non-executive Directors					
Guo Yihong	301	—	—	—	301
Lee Kai-Fu	301	—	—	30	331
	2,360	651	24	141	3,176

Note:

(a) Resigned on February 22, 2018.

32 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

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.

(c) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

32 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 (2016: None).

(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 (2016: None).

(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 (2016: None).

(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 (2016: None).

(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 (2016: None).

33 CONTINGENCIES

The Group did not have any material contingent liabilities as at December 31, 2017 (2016: None).

34 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2017 to the approval date of these financial statements by the Board of Directors on 26 March 2018.

35 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at December 31,	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**115,930**	74,237
	115,930	74,237
Current assets		
Amount due from subsidiaries	**5,594,959**	2,935,280
Prepayments and other receivables	**25,780**	5,162
Short-term bank deposits	**1,633,550**	513,338
Cash and cash equivalents	**8,635**	4,238,875
	7,262,924	7,692,655
Total assets	**7,378,854**	7,766,892
EQUITY AND LIABILITIES		
Equity		
Share capital	**280**	277
Share premium	**7,679,137**	17,015,854
Reserves (Note 35(b))	**(351,757)**	(512,272)
Retained earning/(accumulated loss)	**50,166**	(8,753,663)
Total equity	**7,377,826**	7,750,196
Liabilities		
Current liabilities		
Amount due to subsidiaries	**972**	16,667
Trade and other payables	**56**	29
Total liabilities	**1,028**	16,696
Total equity and liabilities	**7,378,854**	7,766,892

The balance sheet of the Company was approved by the Board of Directors on March 26, 2018 and was signed on its behalf.

Cai Wensheng *Director*

Wu Zeyuan *Director*

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

(b) Reserves movement of the Company

	Reserves RMB'000	Retained earning/ (accumulated losses) RMB'000
At January 1, 2017	**(512,272)**	**(8,753,663)**
Profit for the year	**—**	**32,694**
Value of employee services:		
— Pre-IPO ESOP Scheme (Note 24)	**41,714**	**—**
Currency translation differences (Note (a))	**(454,107)**	**—**
Share premium set off the accumulated (Note (b))	**572,908**	**8,771,135**
At December 31, 2017	**(351,757)**	**50,166**
At January 1, 2016	(142,730)	(3,154,685)
Loss for the year	—	(5,598,978)
Value of employee services:		
— Pre-IPO ESOP Scheme (Note 24)	40,926	—
Currency translation differences (Note (a))	(410,468)	—
At December 31, 2016	(512,272)	(8,753,663)

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.

(b) Following the board resolution on March 24, 2017 (Note 22(c) and 23(c)), the balance of share premium was reduced by RMB9,344,043,000. Accumulated losses of RMB8,771,135,000 was set off and the related currency translation difference of RMB572,908,000 was released.

36 SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2017:

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/indirectly 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%

36 SUBSIDIARIES (CONTINUED)

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/ indirectly 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%*

* These companies are the Group's consolidated structured entities.

Five Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	85,877	488,049	741,813	1,578,580	**4,527,484**
Gross profit	49,605	86,673	100,490	239,160	**1,044,486**
Loss for the year	(25,813)	(1,772,336)	(2,217,557)	(6,260,880)	**(197,324)**
Adjusted Net Loss	(2,312)	(112,343)	(710,488)	(540,454)	**(45,950)**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets					
Non-current assets	7,461	40,840	261,975	458,078	**503,097**
Current assets	86,605	1,770,844	1,446,843	6,092,187	**6,298,425**
Total assets	94,066	1,811,684	1,708,818	6,550,265	**6,801,522**
Equity and liabilities					
Equity attributable to owners of the Company	(35,406)	(1,824,957)	(4,247,807)	6,017,242	**5,642,040**
Total equity	(35,406)	(1,824,957)	(4,247,807)	6,017,242	**5,642,040**
Non-current liabilities	53,885	3,592,141	5,681,892	–	**–**
Current liabilities	75,587	44,500	274,733	533,023	**1,159,482**
Total liabilities	129,472	3,636,641	5,956,625	533,023	**1,159,482**
Total equity and liabilities	94,066	1,811,684	1,708,818	6,550,265	**6,801,522**

Definitions

"AI"	artificial intelligence
"Adjusted Net (Loss)/Profit"	adjusted net (loss)/profit is calculated as the (loss)/profit for the year, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation; (ii) fair value (losses)/gains on long-term investments, net of tax; and (iii) gains on disposal of long-term investments, net of tax
"AGM"	the annual general meeting of the Company to be held on June 5, 2018
"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 is deemed interested in approximately 39.23% of the issued share capital of our Company as at the Latest Practicable Date, 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*

Definitions

"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

"IFRS"	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
"IVAS"	Internet value-added services
"Latest Practicable Date"	April 18, 2018, being the latest practicable date prior to the bulk printing and publication of this annual report
"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 is deemed interested in approximately 39.23% of the issued share capital of our Company as at the Latest Practicable Date, 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
"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 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 holders of the Series D Preferred Shares 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 is deemed interested in approximately 39.23% of the issued share capital of our Company as at the Latest Practicable Date, and one of our Controlling Shareholders
"%"	per cent

Meitu, Inc.
美图公司