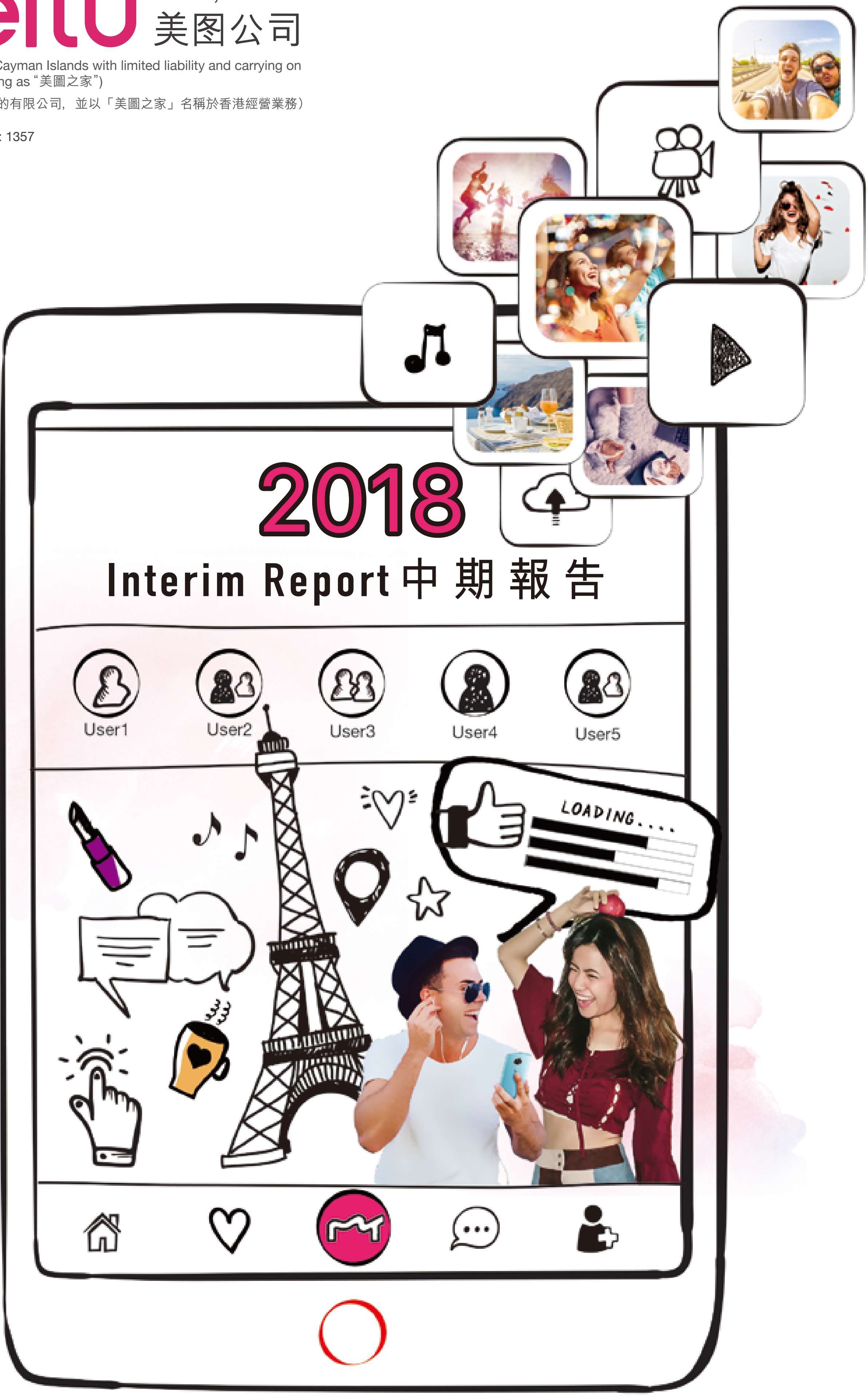
Meitu, Inc.
美图公司

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

（於開曼群島註冊成立的有限公司，並以「美圖之家」名稱於香港經營業務）

Stock Code 股份代號：1357

2018 Interim Report 中期報告



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Wensheng *(Chairman of the Board)*
Mr. Wu Zeyuan *(also known as: Mr. Wu Xinhong)*

Non-Executive Directors

Dr. Guo Yihong
Dr. Lee Kai-Fu

Independent Non-Executive Directors

Mr. Ko Chun Shun Johnson
Mr. Zhou Hao
Professor Zhang Shoucheng

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Ko Chun Shun Johnson *(Chairman)*
Dr. Lee Kai-Fu
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

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

HEADQUARTERS

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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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

KEY FINANCIAL DATA

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

KEY OPERATIONAL DATA

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

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

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

Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I hereby present the interim results of the Group for the six months ended June 30, 2018.

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

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

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

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

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

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

APPRECIATION

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

Cai Wensheng
Chairman

Hong Kong
August 21, 2018

SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO SIX MONTHS ENDED JUNE 30, 2017

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

Revenue

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

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

Internet business

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

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

Online advertising

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

Internet value-added services and others

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

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

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

Smart hardware

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

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

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

Cost of Sales

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

Internet business

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

Smart hardware

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

Gross Profit and Margin

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

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

Internet business

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

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

Smart hardware

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

Selling and Marketing Expenses

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

Research and Development Expenses

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

Administrative Expenses

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

Other Income

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

Other Gains/(Losses), Net

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

Finance Income, Net

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

Income Tax Expense

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

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

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

To supplement our interim consolidated financial information which are presented in accordance with the IFRS, we also use a non-IFRS financial measure, "Adjusted Net Profit/(Loss)", as an additional financial measure, which is not required by, or presented in accordance with, IFRS. For the purpose of this and future interim reports, "Adjusted Net Profit/(Loss)" will be used interchangeably with "Non-GAAP Net Profit/(Loss)". We believe that this additional financial measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the "Adjusted Net Profit/(Loss)" may not be comparable to a similarly titled measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

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

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

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

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

Non-controlling Interests

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

Liquidity, Financial Resources

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

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

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity. Short-term investments placed with banks are redeemable at anytime and held with the primary objective to generate income at a yield higher than current deposit bank interest rates.

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

Treasury Policy

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

Capital Expenditure

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

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

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

Long-term Investment Activities

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

Foreign Exchange Risk

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

Pledge of Assets

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

Contingent Liabilities

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

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2018.

Borrowings and Gearing Ratio

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

SIGNIFICANT INVESTMENTS HELD

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

Save as disclosed in this interim report, the Company's 2017 annual report published on April 26, 2018 and the Prospectus, the Group did not have any other plans for material investments and capital assets as of June 30, 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 2,978 full-time employees as of June 30, 2018, majority of whom were based in various cities in China, including Xiamen (headquarter), Beijing, Shenzhen, Hangzhou and Shanghai. Remuneration is determined with reference to market conditions and individual employees' performance, qualification and experience.

In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions). Employees of the Group are the eligible participants of the Pre-IPO ESOP, Post-IPO Share Option Scheme, and Post-IPO Share Award Scheme. During the six months ended June 30, 2018, the relationship between the Group and our employees has been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities.

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

As of June 30, 2018, 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	1,689,546,670	39.91%
Mr. Wu Zeyuan[1]	Interest of a party to an agreement regarding interest in the Company	1,689,546,670	39.91%
Dr. Lee Kai-Fu	Interest in a controlled corporation	32,994,151	0.78%

Notes:

(1) Pursuant to the a concert party agreement entered into among Mr. Wu, Mr. Cai and Ms. Wang (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 calculation is based on the total number of Shares in issue as of June 30, 2018.

Save as disclosed above, as of June 30, 2018, 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.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2018, the persons other than the Directors, whose interests have been disclosed in this interim 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)]	1,689,546,670	39.91%
Xinhong Capital Limited[(2)]	Interest of a party to an agreement regarding interest in the Company[(1)]	1,689,546,670	39.91%
Baolink Capital[(2)]	Interest of a party to an agreement regarding interest in the Company[(1)]	1,689,546,670	39.91%
Longlink Limited[(2)]	Interest of a party to an agreement regarding interest in the Company[(1)]	1,689,546,670	39.91%
Longlink Capital[(2)]	Interest of a party to an agreement regarding interest in the Company[(1)]	1,689,546,670	39.91%
Lion Trust (Singapore) Limited[(2)(3)]	Trustee of a discretionary trust	1,398,366,670	33.03%
Chen Jiarong	Interest of controlled corporation/Beneficial owner/ Interest of spouse	477,493,180	11.28%
Kingkey Enterprise Holdings Limited	Beneficial Interest	418,324,680	9.88%
Chen Jiajun	Interest of controlled corporation	418,324,680	9.88%

Notes:

(1) Pursuant to the Concert Party Agreement.

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

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

(4) The calculation is based on the total number of Shares in issue as of June 30, 2018.

Save as disclosed herein, as of June 30, 2018, no person (other than the Directors whose interests are set out in this interim 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.

SHARE OPTION SCHEMES

1. 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. 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 Pre-IPO 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.

As of June 30, 2018, outstanding options representing 73,358,078 underlying Shares were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 20(a) to the interim consolidated financial information.

2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted pursuant to the written resolutions of the Shareholders passed on November 25, 2016.

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

As of June 30, 2018, 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 9.98% of the issued share capital of the Company.

SHARE AWARD SCHEME

The Company has also adopted the Post-IPO Share Award Scheme pursuant to the written resolutions of the Shareholders passed on November 25, 2016.

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.

As of June 30, 2018, 35,209,165 outstanding award Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme. Details of the Post-IPO Share Award Scheme are set out in Note 20(b) to the interim consolidated financial information.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During the six months ended June 30, 2018, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

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

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares for the six months ended June 30, 2018.

USE OF NET PROCEEDS FROM LISTING

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

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

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

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

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

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 interim 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 IFRS as if they were wholly-owned subsidiaries of our Group.

Further details of the Contractual Arrangements are set out in the Prospectus and the Company's 2017 annual report published on April 26, 2018.

IMPORTANT EVENTS AFTER THE REPORTING DATE

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

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

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

Report on Review of Interim Financial Information

To the Board of Directors of Meitu, Inc.

(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 25 to 64, which comprises the interim condensed consolidated balance sheet of Meitu, Inc. (the "**Company**") and its subsidiaries (together, the "**Group**") as of June 30, 2018 and the interim condensed consolidated statements of income, the interim condensed consolidated statements of comprehensive income, the interim condensed consolidated statements of changes in equity and the interim condensed consolidated statements of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 21, 2018

Interim Condensed Consolidated Statement of Income

	Note	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Revenue	6	**2,052,010**	2,179,791
Cost of sales	7	**(1,425,980)**	(1,744,539)
Gross profit		**626,030**	435,252
Selling and marketing expenses	7	**(446,236)**	(240,398)
Administrative expenses	7	**(136,312)**	(95,175)
Research and development expenses	7	**(350,683)**	(199,133)
Other income		**12,998**	18,322
Other gains/(losses), net	8	**162,632**	(65,122)
Finance income, net	9	**35,777**	47,811
Share of (losses)/profits of associates accounted for using the equity method	10(a)	**(1,698)**	302
Loss before income tax		**(97,492)**	(98,141)
Income tax expense	11	**(29,873)**	(33,640)
Loss for the period		**(127,365)**	(131,781)
(Loss)/profit attributable to:			
— Owners of the Company		**(130,365)**	(131,781)
— Non-controlling interests		**3,000**	—
		(127,365)	(131,781)
Loss per share attributable to owners of the Company for the period (expressed in RMB per share)	12		
— Basic		**(0.03)**	(0.03)
— Diluted		**(0.03)**	(0.03)

The notes on pages 33 to 64 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

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

The notes on pages 33 to 64 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited June 30, 2018 RMB'000	Audited December 31, 2017 RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**138,661**	91,898
Intangible assets	14	**102,764**	21,298
Long-term investments			
— Investments in associates in the form of ordinary shares	10(a)	**27,018**	28,415
— Financial assets at fair value through profit or loss	10(b)	**433,820**	280,863
— Financial assets at fair value through other comprehensive income		**6,617**	6,534
Prepayments and other receivables	16	**20,052**	64,305
Deferred tax assets		**5,780**	9,784
		734,712	503,097
Current assets			
Inventories		**646,440**	658,416
Trade receivables	15	**683,018**	307,388
Prepayments and other receivables	16	**512,014**	160,182
Short-term investments placed with banks		**3,002**	—
Short-term bank deposits	17	**2,543,027**	3,774,807
Restricted cash		**1,000**	1,000
Cash and cash equivalents		**1,268,498**	1,396,632
		5,656,999	6,298,425
Total assets		**6,391,711**	6,801,522

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited June 30, 2018 RMB'000	Audited December 31, 2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	18	**277**	280
Share premium	18	**7,220,252**	7,679,137
Reserves	19	**(343,889)**	(263,065)
Accumulated losses		**(1,904,677)**	(1,774,312)
		4,971,963	5,642,040
Non-controlling interests		**65,057**	—
Total equity		**5,037,020**	5,642,040
Liabilities			
Non-current liabilities			
Trade and other payables	21	**134,800**	—
Deferred tax liabilities		**2,705**	—
		137,505	—
Current liabilities			
Borrowings		**10,000**	—
Contract liabilities	3(c)	**125,846**	196,254
Trade and other payables	21	**1,062,876**	923,306
Income tax liabilities		**18,464**	39,922
		1,217,186	1,159,482
Total liabilities		**1,354,691**	1,159,482
Total equity and liabilities		**6,391,711**	6,801,522

The notes on pages 33 to 64 form an integral part of this interim consolidated financial information.

On behalf of the Board

Cai Wensheng
Director

Wu Zeyuan
Director

Interim Condensed Consolidated Statement of Changes in Equity

	Note	Unaudited Attributable to owners of the Company						
		Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2018		280	7,679,137	(263,065)	(1,774,312)	5,642,040	–	5,642,040
Comprehensive loss								
Loss for the period		–	–	–	(130,365)	(130,365)	3,000	(127,365)
Other comprehensive income								
Currency translation differences		–	–	11,773	–	11,773	–	11,773
Total comprehensive loss for the six months ended June 30, 2018		–	–	11,773	(130,365)	(118,592)	3,000	(115,592)
Total transactions with owners, recognized directly in equity								
Value of employee services:								
– Pre-IPO ESOP Scheme	20(a)	–	–	6,602	–	6,602	–	6,602
– Post-IPO Share Award Scheme	20(b)	–	–	84,505	–	84,505	–	84,505
Shares issued upon exercise of employee share options	18	–	1,150	–	–	1,150	–	1,150
Repurchase and cancellation of shares	18	(3)	(460,035)	–	–	(460,038)	–	(460,038)
A forward contract with non-controlling interests	25	–	–	(183,704)	–	(183,704)	–	(183,704)
Non-controlling interests on acquisition of a subsidiary	25	–	–	–	–	–	62,057	62,057
Total transactions with owners as their capacity as owners		(3)	(458,885)	(92,597)	–	(551,485)	62,057	(489,428)
Balance at June 30, 2018		277	7,220,252	(343,889)	(1,904,677)	4,971,963	65,057	5,037,020

Interim Condensed Consolidated Statement of Changes in Equity

		Unaudited Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2017		277	17,015,854	(666,751)	(10,332,138)	6,017,242	—	6,017,242
Comprehensive loss								
Loss for the period		—	—	—	(131,781)	(131,781)	—	(131,781)
Other comprehensive loss								
Available-for-sale financial assets								
— Short-term investments		—	—	(820)	—	(820)	—	(820)
Currency translation differences		—	—	(121,352)	—	(121,352)	—	(121,352)
Total comprehensive loss for the six months ended June 30, 2017		—	—	(122,172)	(131,781)	(253,953)	—	(253,953)
Total transactions with owners, recognized directly in equity								
Value of employee services:								
— Pre-IPO ESOP Scheme	20(a)	—	—	24,432	—	24,432	—	24,432
— Post-IPO Share Award Scheme	20(b)	—	—	9,219	—	9,219	—	9,219
Shares issued upon exercise of employee share options	18	1	4,167	—	—	4,168	—	4,168
Share premium set off the accumulated losses	18,19	—	(9,344,043)	572,908	8,771,135	—	—	—
Total transactions with owners as their capacity as owners		1	(9,339,876)	606,559	8,771,135	37,819	—	37,819
Balance at June 30, 2017		278	7,675,978	(182,364)	(1,692,784)	5,801,108	—	5,801,108

Interim Condensed Consolidated Statement of Cash Flows

	Note	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Cash flows from operating activities			
Cash used in operations		**(781,835)**	(53,784)
Interest received		**1,395**	3,433
Income tax paid		**(47,646)**	(8,021)
Net cash outflow from operating activities		**(828,086)**	(58,372)
Cash flows from investing activities			
Purchase of property and equipment	14	**(76,806)**	(24,163)
Purchase of intangible assets	14	**(15,041)**	(650)
Proceeds from disposal of property and equipment		**269**	349
Investments in associates in the form of ordinary shares		**—**	(23,940)
Payment for restricted cash		**—**	(1,000)
Investments in financial assets at fair value through profit or loss		**(76,046)**	(8,772)
Proceeds from disposal of financial assets at fair value through profit or loss		**89,778**	5,008
(Purchase)/proceeds from disposal of short-term investments placed with banks, net		**(3,000)**	280,000
Investment income received from short-term investments placed with banks	5	**6,434**	11,630
Placement of short-term bank deposits		**(2,171,441)**	(4,146,799)
Receipt from maturity of short-term bank deposits		**3,419,043**	789,080
Interest received		**84,035**	9,540
Loans to an investee company		**(5,000)**	(7,500)
Loans to a third party		**—**	(6,774)
Acquisition of a subsidiary, net of cash acquired	25	**(57,394)**	(956)
Net cash inflow/(outflow) from investing activities		**1,194,831**	(3,124,947)

Interim Condensed Consolidated Statement of Cash Flows

	Note	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Cash flows from financing activities			
Payments for shares repurchase		**(460,038)**	—
Payment of issuance cost of ordinary shares relating to the initial public offering		**—**	(7,201)
Proceeds from shares issued under employee share option scheme		**1,063**	1,945
Net cash outflow from financing activities		**(458,975)**	(5,256)
Net decrease in cash and cash equivalents		**(92,230)**	(3,188,575)
Cash and cash equivalents at the beginning of the period		**1,396,632**	4,508,522
Effects of exchange rate changes on cash and cash equivalents		**(35,904)**	(35,387)
Cash and cash equivalents at the end of the period		**1,268,498**	1,284,560

The notes on pages 33 to 64 form an integral part of this interim consolidated financial information

Notes to the Interim Condensed Consolidated Financial Information

1 GENERAL INFORMATION

Meitu, Inc. (the "**Company**"), was incorporated in the Cayman Islands under the name of "Meitu, Inc. 美图公司" on July 25, 2013 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and carries on a business in Hong Kong as "美圖之家" as approved by and registered with the Registrar of Companies in Hong Kong on October 28, 2016 and November 7, 2016, respectively. The address of the Company's registered office is the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

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

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

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

The Interim Financial Information is presented in RMB, unless otherwise stated.

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

2 BASIS OF PREPARATION

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

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

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

2 BASIS OF PREPARATION (CONTINUED)

(a) New and amended standards adopted by the Group

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

- IFRS 9 *Financial Instruments*, and
- IFRS 15 *Revenue from Contracts with Customers*.

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

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

(i) IFRS 16 Leases

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

The accounting for lessors will not significantly change.

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

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

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

3 CHANGES IN ACCOUNTING POLICY

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

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

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

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

(i) Classification

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

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

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

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

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

(ii) Measurement

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

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

Debt instruments

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

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

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

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

(ii) Measurement (Continued)

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

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

Equity instruments

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

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

(iii) Impairment

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

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

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

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

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

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

Internet Business

(i) Online advertising

– Online advertising placement income

The Group provides advertising placements to advertisers through the Group's platforms and apps. Online advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from displaying advertisements to the users of online and mobile platforms operated by the Group is recognized ratably over the contracted period in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of pay-per-click or pay-per- display advertisements for advertisers to users of the Group based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to the users.

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

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

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

(i) Online advertising (Continued)

– Online advertising agency income

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

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

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

(ii) Internet value-added services and others

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

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

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

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

Sales of Smart Hardware Products

(i) Sales of smart hardware products — Distributors and retailers

The Group manufactures and sells a range of smart hardware products to distributors and retailers. Sales of smart hardware products are recognized when control of the products have transferred, being when the products are delivered and accepted by the distributors and retailers. The distributors and retailers have certain discretion over the sales channels and prices to sell the products to end customers, and there is no unfulfilled obligation that could affect the distributors' and retailers' acceptance of the products. The Group does not allow distributors and retailers to return products to the Group except when the products have certain specified defects.

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

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

(ii) Sales smart hardware of products — End customers

Revenue from the sales of goods directly to end customers is recognized when control of the products have transferred, which is upon acceptance of the delivery of the products by the customers. The Group collects cash from end customers before or upon deliveries of products mainly through banks or third party online payment platforms. Cash collected from end customers before product delivery is recognized as contract liabilities.

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

Financing components

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

4 ESTIMATES

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2017.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Interim Financial Information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2017.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. 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.

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value as of June 30, 2018 and December 31, 2017.

As of June 30, 2018	Unaudited 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 10(b))	—	—	433,820	433,820
— Financial assets at fair value through other comprehensive income	—	—	6,617	6,617
Short-term investments placed with banks	—	—	3,002	3,002
	—	—	443,439	443,439

As of December 31, 2017	Audited 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	—	—	280,863	280,863
— Financial assets at fair value through other comprehensive income	—	—	6,534	6,534
	—	—	287,397	287,397

There were no transfers among Levels 1, 2 and 3 during the period.

There were no other changes in valuation techniques during the period.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.4 Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instruments for the six months ended June 30, 2018.

	Unaudited			
	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Short-term investments placed with banks RMB'000	Total RMB'000
Opening balance as of December 31, 2017	280,863	6,534	—	287,397
Additions	144,351	—	2,272,450	2,416,801
Disposals	(80,855)	—	(2,269,450)	(2,350,305)
Changes in fair value	85,278	—	6,436	91,714
Investment income recognized in profit or loss	—	—	(6,434)	(6,434)
Currency translation differences	4,183	83	—	4,266
Closing balance as of June 30, 2018	**433,820**	**6,617**	**3,002**	**443,439**
Total unrealized gains and change in fair value for the period included in "other gains/(losses), net" (Note 8)	**85,278**	**—**	**2**	**85,280**

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.5 Group's valuation processes

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.

The valuation of the level 3 instruments mainly included investments in private companies (Note 10(b)) and short-term investments placed with banks. As the investments in private companies are not traded in an active market, their fair value have been determined using various applicable valuation methodologies, including discounted cash flows, equity allocation model etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of weighted average cost of capital (WACC), recent market transactions, marketability discount, expected volatility of shares under liquidation and redemption scenario and other exposure etc.

Except for the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, the carrying amounts of financial assets including cash and cash equivalents, short-term bank deposits, restricted cash, trade receivables and other receivables; and financial liabilities including trade and other payables, approximate their respective fair values due to their short maturity at the reporting date.

6 SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

— Internet Business

— Smart Hardware

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other gains/ (losses), net, finance income, net, share of (losses)/profits of associates accounted for using the equity method, and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of sales primarily comprises cost of inventories consumed, employee benefit expenses, promotion and advertising expenses, revenue sharing fee, bandwidth and storage related costs, warranty and maintenance expenses and others.

6 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 six months ended June 30, 2018 and 2017 are as follows:

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

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

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

6 SEGMENT INFORMATION (CONTINUED)

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

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

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

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

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

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

7 EXPENSES BY NATURE

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

8 OTHER GAINS/(LOSSES), NET

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Gains on disposal of property and equipment	**36**	—
Changes in fair value on long-term investments (Note 5)	**85,278**	(97,631)
Gains on disposal of long-term investments (Note 10(b))	**77,227**	32,677
Others	**91**	(168)
	162,632	(65,122)

9 FINANCE INCOME, NET

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Interest income	**49,660**	38,076
Interest expenses	**(1,761)**	—
Foreign exchange (losses)/gains, net	**(11,722)**	10,003
Others	**(400)**	(268)
	35,777	47,811

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

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
At the beginning of the period	**28,415**	6,128
Additions	**—**	26,940
Share of (losses)/profits of the associates	**(1,698)**	302
Converted from an associate to a subsidiary	**—**	(3,795)
Currency translation differences	**301**	—
At the end of the period	**27,018**	29,575

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

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
At the beginning of the period	**280,863**	300,279
Additions (Note(i))	**144,351**	78,860
Disposals (Note(ii))	**(80,855)**	(37,747)
Changes in fair value	**85,278**	(97,631)
Currency translation differences	**4,183**	(3,959)
At the end of the period	**433,820**	239,802

The Group made investments in some redeemable convertible preferred shares and ordinary shares with preferred rights ("**preferred shares**") of certain private companies, and these investments held by the Company contain embedded derivatives. Additionally, in connection with certain investments in the preferred shares, 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. After assessment on the Group's business model for managing financial assets and contractual cash flow test where those cash flows represent solely payments of principal and interest ("SPPI"), the Group recognized these investments as financial assets at fair value through profit or loss.

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

(i) During the six months ended June 30, 2018, the Group acquired the minority equity interests of a number of private-held 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 six months ended June 30, 2018, the Group disposed of part of its minority equity interests held in a few investees and recognized disposal gains of RMB77,227,000 (six months ended June 30, 2017: RMB32,677,000) (Note 8).

11 INCOME TAX EXPENSE

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

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

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%.

11 INCOME TAX EXPENSE (CONTINUED)

(c) Corporate income tax in other countries

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

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

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

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

Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司) ("**Meitu Home**") was accredited as a "software enterprise" under the relevant PRC laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "**tax holiday**"). The tax holiday period has not yet commenced as Meitu Home was in an accumulated tax loss position as of June 30, 2018.

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the six months ended June 30, 2018.

(e) PRC Withholding Tax ("WHT")

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

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of June 30, 2018 (December 31, 2017: nil).

12 LOSS PER SHARE

(a) Basic

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

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

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2018 and 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP (Note 20) and restricted stock unit under the Post-IPO Share Award Scheme (Note 20). As the Group incurred losses for the six months ended June 30, 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2018 is the same as basic loss per share.

13 DIVIDENDS

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

14 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and Equipment RMB'000	Intangible Assets RMB'000
As of December 31, 2017		
Cost	171,401	29,055
Accumulated depreciation/amortization	(79,503)	(7,757)
Net book amount	91,898	21,298
Unaudited		
Six months ended June 30, 2018		
Opening net book amount	**91,898**	**21,298**
Acquisition of a subsidiary (Note 25)		
— Property and equipment	**586**	**—**
— Customer relationship	**—**	**20,160**
— Goodwill	**—**	**49,740**
Additions	**76,806**	**15,041**
Disposals	**(233)**	**—**
Depreciation/amortization charges	**(30,396)**	**(3,475)**
Closing net book amount	**138,661**	**102,764**
As of June 30, 2018		
Cost	**248,169**	**114,061**
Accumulated depreciation/amortization	**(109,508)**	**(11,297)**
Net book amount	**138,661**	**102,764**

15 TRADE RECEIVABLES

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

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

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

16 PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Included in non-current assets		
Rental and other deposits	**19,346**	13,188
Advance to an acquisition target (Note 25)	**—**	50,000
Others	**706**	1,117
	20,052	64,305
Included in current assets		
Receivables from advertising customers for advertising agency services	**299,172**	—
Prepayment for promotion and advertising	**77,986**	10,719
Recoverable value-added tax	**25,803**	33,796
Interest receivables	**24,777**	60,055
Others	**84,276**	55,612
	512,014	160,182

17 SHORT-TERM BANK DEPOSITS

	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Short-term bank deposits with initial terms over three months	**2,543,027**	3,774,807

As of June 30, 2018, short-term bank deposits amounting to RMB2,543,027,000 (December 31, 2017: RMB3,774,807,000) are bank deposits with original maturities over three months but less than one year and redeemable on maturity. The short-term bank deposits are primarily denominated in US$ and the weighted average effective interest rate was 2.88% per annum for the six months ended June 30, 2018 (six months ended June 30, 2017: 1.88%).

18 SHARE CAPITAL

As of June 30, 2018 and December 31, 2017, the authorized share capital of the Company comprises 6,000,000,000 ordinary shares with par value of US$0.00001 per share.

	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 of January 1, 2018		**4,273,553**	**43**	**280**	**7,679,137**
Employee share option scheme under Pre-IPO ESOP — shares issued and proceeds received	(a)	**5,965**	**—**	**—**	**1,150**
Repurchase and cancellation of shares	(b)	**(70,865)**	**(1)**	**(3)**	**(460,035)**
As of June 30, 2018		**4,208,653**	**42**	**277**	**7,220,252**

18 SHARE CAPITAL (CONTINUED)

	Note	Number of ordinary shares '000	Nominal value of ordinary Shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of 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)	20,394	—	1	4,167
Employee Share Award Scheme:					
— shares issued	(c)	10,000	—	—	—
Share premium set off the accumulated losses	(d)	—	—	—	(9,344,043)
As of June 30, 2017		4,257,689	43	278	7,675,978

(a) During the six months ended June 30, 2018, 5,965,000 pre-IPO share options with exercise price of US$0.03 were exercised (six months ended June 30, 2017: 20,394,000 pre-IPO share options).

(b) The Company's annual general meeting approved a share repurchase plan on June 2, 2017 and renewed the plan on June 5, 2018, pursuant to which the Company might repurchase its own issued ordinary shares, from time to time, at the discretion of the Board of Directors of the Company but the amount should not exceed 10% of the aggregate nominal amount of the issued share capital of the Company. The repurchase was effective on the date of passing the relevant shareholder's resolution up to the next annual general meeting of the Company. On May 25, 2018, the board of the Company authorized a repurchase of the Company's shares up to an amount of US$100,000,000 in value of shares via on-market transaction. Up to June 30, 2018, the Company had repurchased an aggregate of 70,865,000 shares at an average price of HK$7.83 for an aggregate consideration of HK$554,758,000 (equivalent to RMB460,038,000) under this share repurchase plan, among which 45,865,000 shares were cancelled on June 19, 2018 and 25,000,000 shares were cancelled on July 30, 2018.

(c) On May 19, 2017, the Company issued 10,000,000 of new shares under Post-IPO Share Award Scheme (Note 20).

(d) 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.

19 RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Other reserves RMB'000	Total RMB'000
As of January 1, 2018	**2,000**	**17,048**	**207,520**	**(474,986)**	**(14,647)**	**(263,065)**
Value of employee services:						
— Pre-IPO ESOP Scheme	**—**	**—**	**6,602**	**—**	**—**	**6,602**
— Post-IPO Share Award Scheme	**—**	**—**	**84,505**	**—**	**—**	**84,505**
Currency translation differences (Note (a))	**—**	**—**	**—**	**11,773**	**—**	**11,773**
A forward contract with non-controlling interests (Note 25)	**—**	**—**	**—**	**—**	**(183,704)**	**(183,704)**
As of June 30, 2018	**2,000**	**17,048**	**298,627**	**(463,213)**	**(198,351)**	**(343,889)**
As of January 1, 2017	2,000	1,063	96,425	(752,412)	(13,827)	(666,751)
Value of employee services:						
— Pre-IPO ESOP Scheme	—	—	24,432	—	—	24,432
— Post-IPO Share Award Scheme	—	—	9,219	—	—	9,219
Revaluation transfer out of available-for-sale financial assets						
— Short-term investments placed with banks	—	—	—	—	(820)	(820)
Currency translation differences (Note (a))	—	—	—	(121,352)	—	(121,352)
Share premium set off accumulated losses (Note (b))	—	—	—	572,908	—	572,908
As of June 30, 2017	2,000	1,063	130,076	(300,856)	(14,647)	(182,364)

(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) Following the board resolution passed on March 24, 2017 (Note 18(d)), the accumulated losses of USD1,348,561,000 was set off with share premium. Accordingly, the corresponding currency translation difference decreased by RMB572,908,000.

20 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 ten years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under the original Pre-IPO ESOP shall be 11,695,907 shares. The Pre-IPO ESOP was amended by resolution of the Board on November 18, 2015. The overall limit on the number of underlying Shares pursuant to the amended Plan is 116,959,070 shares after the share subdivision.

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

The exercise price of the granted options to employees shall be US$0.03 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 Six months ended June 30, 2018	2017
At the beginning of the period		**79,339,909**	116,958,940
Exercised (Note (i))	US$ 0.03	**(5,965,581)**	(20,394,370)
Forfeited	US$ 0.03	**(16,250)**	(890,000)
At the end of the period		**73,358,078**	95,674,570

(i) As a result of the options exercised during the six months ended June 30, 2018, 5,965,581 ordinary shares (six months ended June 30, 2017: 20,394,370 ordinary shares) were issued by the Company (Note 18). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$9.03 per share (equivalent to RMB7.41 per share) (six months ended June 30, 2017: HK$11.97 per share (equivalent to RMB10.39 per share)).

As of June 30, 2018, all share options granted will expire in 2026.

20 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

(ii) Shares options granted to non-employees under the 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 during six months ended June 30, 2018 (six months ended June 30, 2017: Nil).

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

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 have used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

Discount rate	17.5%
Risk-free interest rate	0.92%–1.54%
Volatility	47.00%–47.15%
Dividend yield	0%

For six months ended June 30, 2018, the Group recorded share based compensation of RMB6,602,000 (six months ended June 30, 2017: RMB24,432,000) related to Pre-IPO ESOP.

(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.

20 SHARE-BASED PAYMENTS (CONTINUED)

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

Movements in the number of award shares for the six months ended June 30, 2018 and 2017 are as follows:

	Post-IPO Share Award Scheme Number of shares Six months ended June 30,	
	2018	2017
At the beginning of the period	**24,537,000**	—
Granted	**15,722,960**	9,571,000
Exercised	**(3,608,345)**	—
Forfeited	**(1,442,450)**	(20,000)
At the end of the period	**35,209,165**	9,551,000

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 six months ended June 30, 2018 was HK$9.39 per share (equivalent to approximately RMB7.62 per share) (six months ended June 30, 2017: HK$11.7 per share (equivalent to approximately RMB10.15 per share)).

During the six months ended June 30, 2018, the Group recorded share based compensation of RMB84,505,000 (six months ended June 30, 2017: RMB9,219,000) related to Post-IPO Share Award Scheme.

The outstanding awarded shares as of June 30, 2018 were divided into two to four tranches on an equal basis as of their grant dates. The first tranche can be exercised after a specified period ranging from three to eighteen months from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(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 options (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As of June 30, 2018, 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 of June 30, 2018, no options have been granted by the Group under the Post-IPO Share Option Scheme.

21 TRADE AND OTHER PAYABLES

	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Included in non-current liabilities		
Payables to non-controlling shareholders of a subsidiary (Note 25)	**134,800**	—
Included in current liabilities		
Trade payables	**570,537**	719,538
Payables to advertising platforms for advertising agency services	**195,308**	—
Payables to non-controlling shareholders of a subsidiary (Note 25)	**51,996**	—
Payroll and welfare payables	**136,443**	148,384
Others	**108,592**	55,384
	1,062,876	923,306

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

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

22 COMMITMENTS

(a) Capital Commitments

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Property and equipment	**26,910**	3,214

23 CONTINGENCIES

The Group did not have any significant contingent liabilities as of June 30, 2018.

24 SUBSEQUENT EVENT

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

25 BUSINESS COMBINATION

On January 8, 2018, the Group entered into a sales and purchase agreement ("**SPA**") with an advertising agency company ("**the Acquiree**") and its selling shareholders. Pursuant to the SPA, the Group acquired an aggregate 50.48% equity interests of the Acquiree for a total consideration of RMB113,000,000, out of which RMB50,000,000 was loaned to the Acquiree in 2017 and it was subsequently utilized in 2018 to increase the equity interests of the Acquiree ("**Capital Injection**") upon the completion of the acquisition. The remaining RMB63,000,000 was settled by cash by the Group and paid to the selling shareholders in 2018. The acquisition was completed on January 25, 2018 ("**Acquisition Date**").

The Group can appoint the majority of directors to obtain the control in the Acquiree. Therefore, the Acquiree is accounted for as a subsidiary of the Group.

There was a contractual undertaking in the SPA where the Group is obliged to acquire the remaining 49.52% equity interests in the Acquiree by the year ending December 31, 2021. The purchase price is determined at the time of the future acquisition dates, through different stages within four years, with a formula based on future performance of the Acquiree which reflect the respective fair values of the interests. Accordingly, the risk and awards associated with the 49.52% interests of the Acquiree were assessed to be retained by the non-controlling interests. Management of the Group recognized a financial liability of RMB183,704,000 associated with such an obligation based on the estimated outcome of the performance of the Acquiree, with a corresponding debit recorded in the reserve of the Group under such a forward contract arrangement.

25 BUSINESS COMBINATION (CONTINUED)

Details of the purchase consideration paid, the fair values of net assets acquired and goodwill (provisionally determined) are as follows:

	RMB'000
Purchase consideration	
Capital Injection	50,000
Amount paid to the original shareholders of the Acquiree	63,000
Total purchase consideration	113,000
Cash paid to the original shareholders of the Acquiree	63,000
Net of: cash and cash equivalents acquired from the Acquiree	(5,606)
Net cash outflow for the acquisition for the six months ended June 30, 2018	57,394

The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair value RMB'000
Cash and cash equivalents	5,606
Trade and other receivables	367,712
Customer relationship	20,160
Property, plant and equipment	586
Trade and other payables	(251,769)
Borrowings	(10,000)
Employee benefit obligations	(3,954)
Deferred tax liabilities	(3,024)
Net identifiable assets acquired	125,317
Less: non-controlling interest (Note (i))	(62,057)
Add: goodwill	49,740
	113,000

The goodwill is attributable to the workforce and the high profitability of the acquired business and synergies expected to arise after the Group's acquisition. It is not expected to be deductible for tax purposes.

25 BUSINESS COMBINATION (CONTINUED)

(i) Non-controlling interest

The Group recognizes non-controlling interests in acquired business either at fair value or at the non-controlling interest's proportionate share of the acquired business net identifiable assets. The decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in the Acquiree the Group elected to recognize the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(ii) Revenue and profit contribution

The acquired business contributed revenues of RMB30,911,000 and net profit of RMB6,058,000 to the Group for the period from January 25, 2018 to June 30, 2018.

If the acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and net loss for the six months ended June 30, 2018 would have been RMB2,062,307,000 and RMB120,585,000, respectively. These amounts have been calculated using the Acquiree's results and adjusting them for:

- differences in the accounting policies between the Group and the Acquiree and
- the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had applied from January 1, 2018, together with the consequential tax effects.

26 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 six months ended June 30, 2018 and 2017.

(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.

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
(i) Sales of goods and services:		
Associates	**835**	—
(ii) Purchases of goods and services:		
An associate	**5,608**	3,991
Companies significantly influenced by controlling shareholders	**195**	60
An associate in form of preferred shares	**206**	77
	6,009	4,128
(iii) Loans to an associate in form of preferred shares	**5,000**	7,500

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Period/Year end balances with related parties

	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
(i) Receivables from:		
An associate in form of preferred shares	**5,021**	—
Associates	**1,596**	964
	6,617	964
(ii) Payables to:		
An associate	**1,685**	1,005
A company significantly influenced by controlling shareholders	**—**	14
	1,685	1,019
(iii) Prepayments to		
An associate in form of preferred shares	**648**	214
	648	214

Balances with other related parties were all unsecured, interest-free and repayable on demand.

(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:

	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Wages, salaries and bonuses	**4,827**	4,988
Pension costs — defined contribution plan	**100**	80
Other social security costs, housing benefits and other employee benefits	**238**	204
Share-based compensation expenses	**27,013**	13,017
	32,178	18,289

Definitions

"AI"	artificial intelligence
"AR"	augmented reality
"Adjusted Net Loss"	adjusted net loss is calculated as the loss for the year, excluding the impact from certain non-cash or non-recurring expenses including: (i) fair value loss of convertible redeemable preferred shares; (ii) share-based compensation; (iii) fair value gain and impairment loss of long-term investments; and (iv) one-off listing expenses incurred in connection with the initial public offering and Listing in December 2016
"ASP"	average selling price
"Baolink Capital"	Baolink Capital Ltd, a company incorporated under the laws of BVI on June 29, 2007, which is wholly-owned by Mr. Cai and holds approximately 39.91% of the issued share capital of our Company, and one of our Controlling Shareholders
"Board of Directors" or "Board"	our Board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. "Chinese" shall be construed accordingly
"Company", "our Company", "the Company", "Meitu", "we" or "us"	Meitu, Inc. 美图公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on July 25, 2013 and carries on business in Hong Kong as "美圖之家" (in Chinese) as approved and registered with the Registrar of companies in Hong Kong on October 28 and November 7, 2016, respectively. "Meitu" may also refer to the Company's brand if the context so requires. "Meitu", when italicized, refers to the Company's first product, *Meitu*
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Contractual Arrangements"	the series of contractual arrangements entered into between Mr. Wu, Mr. Cai, Meitu Home and Meitu Networks (as applicable), details of which are set out in the Prospectus and the 2017 annual report of the Company dated April 26, 2018
"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
"Gengmei"	Wanmei Interactive Inc., an exempted company with limited liability organized and existing under the laws of the Cayman Islands
"Group", "our Group", or "the Group"	the Company and its subsidiaries, together with Meitu Networks and its subsidiaries (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 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
"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
"Longlink Capital"	Longlink Capital Ltd, a company incorporated under the laws of the BVI on January 11, 2007, which is wholly-owned by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Cai and holds approximately 39.91% of the issued share capital of our Company, and one of our Controlling Shareholders

"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"MAU"	monthly active users
"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 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 to 51% and 49%, respectively, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
"Meitu Technology"	Meitu Technology, Inc., formerly known as MagicV, Inc., and MIXVID, Inc., a limited liability company incorporated under the laws of the State of Delaware, on August 29, 2014, and our indirectly wholly-owned subsidiary
"Meitu Technology (US)"	Meitu Technology (US), LLC, formerly known as Commsource, LLC, a limited liability company incorporated under the laws of the State of California, on April 1, 2015, and our indirectly wholly-owned subsidiary
"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)
"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
"Ms. Cai"	Ms. Cai Shuting, the daughter of Mr. Cai and Ms. Wang

"Ms. Wang"	Ms. Wang Baoshan, the spouse of Mr. Cai
"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
"Prospectus"	the prospectus of the Company dated December 5, 2016
"RMB" or "Renminbi"	Renminbi, the lawful currency of PRC
"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 BVI on June 13, 2013, which is wholly-owned by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Wu and holds approximately 39.91% of the issued share capital of our Company, and one of our Controlling Shareholders
"%"	per cent

meitu

Meitu, Inc.
美图公司