Meitu, Inc.
美图公司

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

Stock Code : 1357

2018
Annual Report

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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. ZHOU Hao

Mr. LAI Xiaoling

Mr. ZHANG Ming *(also known as: Mr. WEN Chu)*

AUDIT COMMITTEE

Mr. ZHOU Hao *(Chairman)*

Dr. GUO Yihong

Mr. LAI Xiaoling

REMUNERATION COMMITTEE

Mr. LAI Xiaoling *(Chairman)*

Dr. LEE Kai-Fu

Mr. ZHANG Ming *(also known as: Mr. WEN Chu)*

NOMINATION COMMITTEE

Mr. CAI Wensheng *(Chairman)*

Mr. ZHOU Hao

Mr. ZHANG Ming *(also known as: Mr. WEN Chu)*

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

1–3/F, Block 2

Building No. 6, Wanghai Road,

Siming District

Xiamen, Fujian

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 8106B, Level 81

International Commerce Centre

1 Austin Road West

Kowloon

Hong Kong

LEGAL ADVISORS

As to Hong Kong law and United States law

Skadden, Arps, Slate, Meagher & Flom

As to PRC law (in alphabetical order)

Jingtian & Gongcheng

Tian Yuan Law Firm

As to Cayman Islands law

Conyers Dill & Pearman

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1357

COMPANY WEBSITE

corp.meitu.com

Key Financial Data of Continuing Operation

2018 Highlights

The *Meitu* app's MAU reached a historic high of 119.2 million in February 2019.

Our social strategy achieved great progress. In December 2018, approximately 51% of the *Meitu* app's MAU were social users, i.e. users who were active on the *Meitu* social platform; its photo and video content achieved approximately 8 billion page views** for the month.

The percentage of social users logged in with Meitu Accounts ("**MTid**") increased from around 17% when it was launched in late September 2018 to approximately 50% in February 2019.

Revenues from Internet business* grew by 26.3% year on year to RMB947.7 million, of which online advertising accounted for RMB620.9 million (a significant increase by 101.9% year on year).

Adjusted Net Loss* was RMB879.1 million in 2018. We have restructured our unprofitable and asset-heavy businesses, namely e-commerce and smartphone, through strategic partnerships in order to free up resources to invest in our "Beauty and Social Media" strategy.

* Financial metrics are presented to exclude discontinued operation.

** For clarity, page views mean impression (曝光量).

Key Financial Data of Continuing Operation

KEY FINANCIAL DATA

	Year ended December 31, 2018 RMB'000	2017 RMB'000 (Restated)(1)	Year on year change (%)
Revenue	**2,791,459**	4,490,376	-37.8%
— Internet Business	**947,671**	750,310	26.3%
— Smart Hardware	**1,843,788**	3,740,066	-50.7%
Gross Profit	**429,325**	1,069,121	-59.8%
— Internet Business	**492,130**	209,628	134.8%
— Smart Hardware	**(62,805)**	859,493	N/A
Gross Margin	**15.4%**	23.8%	-8.4p.p.
— Internet Business	**51.9%**	27.9%	+24.0p.p.
— Smart Hardware	**-3.4%**	23.0%	N/A
Adjusted Net (Loss)/Profit from Continuing Operations(2)	**(879,089)**	66,080	N/A

Note:

(1) The financial data is presented as excluding discontinued operation.

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

Key Financial Data of Continuing Operation

KEY OPERATIONAL DATA

	As of December 31, 2018 ’000	2017 ’000 (Restated)	Year on year change (%)
MAU	**332,214**	414,866	-19.9%
MAU[1] breakdown by product:			
Meitu	**117,444**	117,100	0.3%
BeautyCam	**79,137**	96,724	-18.2%
Meipai[2]	**38,943**	98,139	-60.3%
Others	**96,690**	102,903	-6.0%
MAU breakdown by geography:			
Mainland China	**224,757**	302,996	-25.8%
Overseas	**107,457**	111,870	-3.9%

Notes:

(1) MAU of apps other than *Meipai* include in-app users only and restated as without the data of *MeituBeauty*.

(2) As of December 31, 2018, the MAU of *Meipai* included in-app users of 13.0 million (as of December 31, 2017: 29.5 million) and mobile web users (include users from WeChat mini program of *Meipai*) of 25.9 million (as of December 31, 2017: 68.6 million). Some users from the WeChat mini program of *Meipai* may be recorded twice if they access both *Meipai* app and WeChat mini program of *Meipai*.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I hereby present the annual results of the Group for the twelve months ended December 31, 2018.

During 2018, we announced our new strategy of "Beauty and Social Media". The transformation of our *Meitu* app from a photo-editing tool into a social media platform is the centerpiece of this strategy. We are pleased to report that the transformation has been very promising since its launch in late September 2018. Only three months later, the photo and video content on our *Meitu* social platform achieved a total of approximately 8 billion page views[(1)] in December 2018, demonstrating some early success in social transformation, as well as its potential in driving advertising revenue. In addition, the percentage of social users logged in with an MTid has increased to approximately 50% in February 2019, from around 17% when the social platform was first launched. With this strong foundation, we will be creating a decentralized social platform with recommendation algorithms that accurately match content with users.

In order to focus our resources and efforts on our social transformation, we have streamlined our business through strategic cooperation with partners with deep expertise and competitive advantages in their respective fields. In particular, we have licensed our Meitu brand to Xiaomi Corporation (HKEX: 1810) ("**Xiaomi**") to launch our future lines of Meitu Smartphones, as well as licensed our *MeituBeauty* brand to Yichun Trytry Information and Technology Co., Ltd. ("**TryTry**"), an associate of Secoo Holding Limited (NASDAQ: SECO), to operate our e-commerce platform. As a result of these strategic cooperations, we have become an asset-light, Internet-focused company with less potential fluctuation in cash-flow.

Note:

(1) For clarity, page views mean impression (曝光量).

Chairman's Statement

With the aforementioned changes to our business, advertising will become an increasingly important profit driver going forward. In 2018, our total advertising revenue was RMB620.9 million, an increase of 101.9% year over year. Although display advertisement driven by salespeople accounted for the majority of advertising revenue in 2018, we have further developed and fine-tuned our programmatic advertising products such as the private marketplace platform and data management platform. As the *Meitu* social media platform continues to mature and generate feed advertising inventories, we plan to leverage these programmatic products to create a scalable advertising business going forward.

In terms of profits, 2018 was a challenging year with a RMB1.2 billion net loss; however, approximately RMB0.5 billion and RMB0.2 billion of this was contributed by the smartphone and e-commerce businesses, respectively, which we expect to completely wind down by mid-2019. In addition, in association with these structural changes, our total number of employees has reduced by approximately 30% as of December 31, 2018 as compared to June 30, 2018.

APPRECIATION

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

Mr. Cai Wensheng
Chairman

Hong Kong
March 20, 2019

Management Discussion and Analysis

YEAR ENDED 31 DECEMBER 2018 COMPARED TO YEAR ENDED 31 DECEMBER 2017

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Continuing operations		
Revenue	**2,791,459**	4,490,376
Cost of sales	**(2,362,134)**	(3,421,255)
Gross profit	**429,325**	1,069,121
Selling and marketing expenses	**(1,020,801)**	(559,197)
Administrative expenses	**(285,721)**	(210,451)
Research and development expenses	**(699,232)**	(415,803)
Other income	**40,711**	49,364
Other gains/(losses), net	**483,365**	(47,248)
Operating loss	**(1,052,353)**	(114,214)
Finance income, net	**39,656**	99,664
Shares of (losses)/profits of investments accounted for using the equity method	**(3,382)**	16
Loss before income tax	**(1,016,079)**	(14,534)
Income tax expense	**(27,234)**	(63,568)
Loss from continuing operations	**(1,043,313)**	(78,102)
Loss from discontinued operation (attributable to equity holders of the Company)	**(199,753)**	(119,222)
(Loss)/profit attributable to:		
— Owners of the Company	**(1,254,537)**	(197,324)
— Non-controlling interests	**11,471**	—
	(1,243,066)	(197,324)
Non-IFRS measure:		
Adjusted Net (Loss)/Profit from continuing operations	**(879,089)**	66,080

Management Discussion and Analysis

Revenue

Our total revenue decreased by 37.8% to RMB2,791.5 million for the year ended December 31, 2018, compared to RMB4,490.4 million for the year ended December 31, 2017. Total revenue decline was primarily attributable to the slower smartphone business, partly offset by the robust growth from the Internet business which grew by 26.3%. This also reflected our transformation into a business model that relies more on Internet services, whose revenue contribution increased to 33.9% from 16.7%.

	Year ended December 31,			
	2018		2017	
	Amount RMB'000	% of total revenue	Amount RMB'000	% of total revenue
			(Restated)	
Internet business	947,671	33.9%	750,310	16.7%
Smart hardware	1,843,788	66.1%	3,740,066	83.3%
Total	2,791,459	100.0%	4,490,376	100.0%

Internet business

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

	Year ended December 31,		Year on year change (%)
	2018 RMB'000	2017 RMB'000	
		(Restated)	
Online advertising	620,892	307,481	101.9%
Internet value-added services and others	326,779	442,829	-26.2%
Total	947,671	750,310	26.3%

Online advertising

Revenue from online advertising increased by 101.9% year on year to RMB620.9 million for the year ended December 31, 2018. This highlights the significant progress made in our endeavor to monetize our massive user base. The significant growth is driven by both brand advertising and programmatic advertising. For brand advertising, we have achieved growth in both the number of advertisers as well as the spending per advertiser during the year.

Meanwhile, *MEITUGENIUS* (also known as *Meitu Magic Mirror*), a virtual makeup solution provider, has launched in some retail stores. The device helps integrate real-time data on consumers' preference from individual location and create more accurate product recommendation for the merchants. It is representative of our online to offline new sales strategy and will bring more innovative possibilities for beauty brands and retailers.

All these efforts resulted in encouraging growth in the past year. We are continuing to build new experiences within our *Meitu* social platform on the *Meitu* app, which will further enhance user activities and enrich the advertising inventories. We aim to further grow our advertising revenue by bringing in more quality advertisers and launching new formats such as search ads or interactive ads.

Internet value-added services and others

Revenue from Internet value-added services and others decreased by 26.2% year on year to RMB326.8 million for the year ended December 31, 2018. Our Internet value-added services and others business mainly comprises sales from virtual items on *Meipai's* livestreaming. *Meipai* livestreaming revenue recorded a decline in the year 2018, primarily attributable to a decrease in the number of paying users resulting from the temporary app suspension to abide by local regulation. The number of average monthly paying users decreased to 137,393 for the year ended December 31, 2018, compared to 313,571 for the year ended December 31, 2017. The average revenue per paying user for 2018 continued to increase by 37.8% year on year, as the retained users tend to be more loyal and willing to pay.

Smart hardware

Revenue from the smart hardware segment decreased by 50.7% to RMB1,843.8 million for 2018 from RMB3,740.1 million for 2017, primarily due to a decrease in sales volume of smartphones, partially offset by higher average selling price ("**ASP**"). During the year ended December 31, 2018, we launched only one new model, *Meitu T9*, while in the year of 2017, we launched three new models. As a result, the number of smartphone units sold was 721,713 for the year ended December 31, 2018, as compared to 1,574,737 for the year ended December 31, 2017. ASP was RMB2,519 for the year ended December 31, 2018, as compared to RMB2,365 for the year ended December 31, 2017. Improving product mix is a key factor that drove ASP increase. The Meitu T series we introduced in 2018 is a premium model that carried higher suggested retail prices compared to that of M series launched in 2017.

Management Discussion and Analysis

China's smartphone market was challenging in 2018 with shipments down by 15.5% year on year, and is likely to continue to decline this year, according to the China Academy of Information and Communications Technology. With the challenging market conditions and intensified competition ahead, we reevaluated our strategy and decided that working with a partner with a scalable smartphone business can better achieve our goal to accelerate user growth of the Meitu Smartphone. Accordingly, we entered in a strategic partnership with Xiaomi, in which Xiaomi will be responsible for design, research and development, production and marketing of all future Meitu branded smartphones (other than the *Meitu V7*) for a maximum of approximately 30 years, while we remain committed to developing next-generation image technology and algorithms. We believe this cooperation is in the best interest of the Group to grow its smartphone user base by leveraging the reach and scale of Xiaomi.

The ASP of a smartphone is calculated by dividing the total revenue from smartphone sales by the number of units sold during the period. The ASP does not include applicable value-added taxes.

Cost of Sales

Our cost of sales decreased by 31.0% to RMB2,362.1 million for the year ended December 31, 2018, compared to RMB3,421.3 million for year ended December 31, 2017, which is largely in line with our revenue trend.

Internet business

Segment cost for Internet business decreased by 15.7% to RMB455.5 million in 2018, from RMB540.7 million in 2017, primarily due to: (i) a decrease in revenue-sharing with content creators on the virtual gifts sales, which is in line with *Meipai* living stream revenue; (ii) a decrease in bandwidth and storage related costs which are primarily correlated to the size and engagement level of our user base; and (iii) an increase in the costs of content monitoring which is used to make sure the user-generated submissions on the platform are appropriate.

Smart hardware

Segment cost for smart hardware decreased by 33.8% to RMB1,906.6 million in 2018, compared to RMB2,880.6 million in 2017, primarily due to the decrease in the number of smartphone units sold. The average cost per smartphone, calculated by dividing the total material cost of smartphone components by the number of units sold during the year, increased to RMB1,909 in 2018 from RMB1,743 in 2017. The increase was mainly due to the introduction of the more premium priced model *Meitu T9*, which used higher-priced key components as compared to the phone models launched in 2017.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

Our gross profit decreased by 59.8% to RMB429.3 million in 2018, from RMB1,069.1 million in 2017. Our overall gross profit margin decreased to 15.4% in 2018, from 23.8% in 2017.

	Year ended December 31,			
	2018		2017	
	Amount RMB'000	**Gross margin %**	Amount RMB'000	Gross margin %
			(Restated)	
Internet business	**492,130**	**51.9%**	209,628	27.9%
Smart hardware	**(62,805)**	**-3.4%**	859,493	23.0%
Total	**429,325**	**15.4%**	1,069,121	23.8%

Internet business

Our Internet business segment generated a gross profit of RMB492.1 million in 2018, compared to a gross profit of RMB209.6 million in 2017.

Gross profit margin was 51.9% for the year ended December 31, 2018, compared to a gross profit margin of 27.9% for the year ended December 31, 2017. The fast increase of gross profit margin was mainly driven by the rapid growth of our advertising business, which carried a substantially higher margin and made up a higher proportion in the Internet business for 2018.

Smart hardware

Our smart hardware segment recorded a gross loss of RMB62.8 million with the negative margin of 3.4% in 2018, compared to a gross profit of RMB859.5 million with the positive margin of 23.0% in 2017, primarily due to: (i) the operating deleverage of smartphone business, as lower volume of smartphone led to smaller revenue but fixed costs such as staff salaries were still incurred regardless of sales volume; and (ii) approximately RMB377.0 million of inventory impairment due to the restructuring of this business.

Research and Development Expenses

Our research and development expenses increased by 68.2% to RMB699.2 million in 2018, from RMB415.8 million in 2017, primarily due to an increase in personnel related expenses which include share-based compensation, partly attributable to the termination costs associated with the restructuring.

Management Discussion and Analysis

Selling and Marketing Expenses

Selling and marketing expenses increased by 82.5% to RMB1,020.8 million in 2018, from RMB559.2 million in 2017, primarily due to: (i) an increase in personnel related expenses which included share-based compensation, partly attributable to the termination costs associated with the restructuring; and (ii) an increase in marketing and promotional expenses that were mainly used for the brand promotion of *Meipai* and smartphone business, including a one-off sponsorship expense of certain reality-shows of approximately RMB200 million.

Administrative Expenses

Our administrative expenses increased by 35.8% to RMB285.7 million in 2018, from RMB210.5 million in 2017, primarily due to an increase in personnel related expenses, which included share-based compensation.

Other Income

Other income decreased by 17.5% to RMB40.7 million for the year ended December 31, 2018, from RMB49.4 million for the year ended December 31, 2017, with the main contributing factor being a reclassification of investment income on short-term investments to other gains/(losses), net, due to the adoption of new accounting policy of IFRS 9.

Other Gains/(Losses), Net

Other gains, net in 2018 increased to RMB483.4 million, from a net loss of RMB47.2 million in 2017, primarily due to: (i) the recognition of fair value gains of RMB85.2 million on several early-stage investments; (ii) the net gains on disposal of long-term investments of RMB353.1 million; (iii) the remeasurement gains on investment in an associate of RMB30.7 million; and (iv) the reclassification of investment income on short-term investments from other income due to the adoption of new accounting policy of IFRS 9.

Finance Income, Net

Our finance income, net mainly comprised of bank interest income and foreign exchange losses. We had a net finance income of RMB39.7 million in 2018, compared to a net finance income of RMB99.7 million in 2017, mainly due to a foreign exchange loss of RMB32.4 million in 2018, compared to a foreign exchange gain of RMB15.9 million in 2017.

Income Tax Expense

Income tax expenses for the year ended December 31, 2018 were RMB27.2 million, compared to RMB63.6 million for the year ended December 31, 2017. Although the Group was loss-making on a consolidated level for the year ended December 31, 2018, some of our entities generated positive net profits and therefore incurred some income tax expenses.

Loss from Continuing Operations and Non-IFRS Measure: Adjusted Net Profit/(Loss) from Continuing Operations

Our loss from continuing operations for the year ended December 31, 2018 increased significantly to RMB1,043.3 million, compared to RMB78.1 million in 2017, attributable to the loss-making smartphone business and non-recurring restructuring costs, partly offset by investment gains.

Management Discussion and Analysis

To supplement our consolidated financial statements which are presented in accordance with the IFRSs, we also use Adjusted Net Profit/(Loss) as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the Adjusted Net 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 IFRSs.

Our Adjusted Net Loss from continuing operations was RMB879.1 million for the year ended December 31, 2018, compared to Adjusted Net Profit of RMB66.1 million for the year ended December 31, 2017. This change was attributed to: (i) the decrease in the smart hardware segment profit, which accounted for the bulk of the Group's incremental net loss in the second half of 2018, as we sold fewer phone models in 2018 and fierce competition put pressure on both pricing and margin; and (ii) the increase in sales and marketing expense including the expense related to a one-off sponsorship of reality show that amounted to approximately RMB200 million. Along with our cooperation with Xiaomi, we are shifting to an asset-light model for the smartphone business and do not expect the majority of loss to have a lingering effect. Going forward, the Group will focus more on tapping the potential of our user base and Meitu social platform, with higher-margin businesses such as advertising which is likely to be the key profit driver.

The following table reconciles our Adjusted Net Loss from continuing operations for the years ended December 31, 2018 and 2017 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss from continuing operations for the year:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Loss from continuing operations for the year	**(1,043,313)**	(78,102)
Excluding:		
Share based compensation	**136,714**	103,903
Changes in fair value of long-term investments	**(85,174)**	72,053
Gains on disposal of long-term investments	**(353,142)**	(31,774)
Remeasurement gains on investment in an associate	**(30,739)**	—
Amortisation of intangible assets and other expenses related to acquisition[1]	**11,743**	—
Losses/expenses related to business strategy restructuring[2]	**484,822**	—
Adjusted Net (Loss)/Profit from continuing operations for the year	**(879,089)**	66,080

Management Discussion and Analysis

Note:

(1) Amortisation of intangible assets and other expenses related to acquisition are presented as net of related deferred tax.

(2) Losses/expenses related to business strategy restructuring mainly include: (i) an impairment provision related to our inventories of smartphones; and (ii) the non-recurring termination costs due to strategy reorganization and restructuring.

DISCONTINUED OPERATION

On November 30, 2018, the Group discontinued its e-commerce business. Meanwhile, we entered into a strategic partnership with TryTry, an associate of Secoo Holding Limited (NASDAQ: SECO), pursuant to which TryTry will be responsible for all the operation and business management of *MeituBeauty*. This reflects the implementation of Meitu's core strategy "Beauty and Social Media", as the Group will refocus on making the best use of its leading facial recognition technology, well-known brand and massive user base, but also leverage the partners' strength in terms of supply chain and retailing expertise to provide higher quality shopping experience for Meitu users. Loss for the year ended December 31, 2018 from the discontinued operation was RMB199.8 million compared with loss of RMB119.2 million for the year ended December 31, 2017, an increase of RMB80.6 million.

Non-controlling Interests

Non-controlling interests represent operation results that are attributable to minority shareholders of our non-wholly owned subsidiaries.

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources (comprising cash and cash equivalents and short-term bank deposits) as of December 31, 2018 and 2017 were as follows:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**531,618**	1,396,632
Short-term bank deposits	**2,161,908**	3,774,807
Cash and other liquid financial resources	**2,693,526**	5,171,439

As of December 31, 2018, we had cash and other liquid financial resources of RMB2,693.5 million. The decrease in cash and other liquid financial resources was partially due to negative cash flow generated from operations payments, partly offset by long-term investment gains.

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.

Most of our cash and cash equivalents and short-term bank deposits 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 year ended December 31, 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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Purchase of property and equipment	**143,913**	52,407
Purchase of intangible assets	**16,321**	2,386
Total	**160,234**	54,793

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

Long-term Investment Activities

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Investment in associates in the form of ordinary shares	**8,771**	23,940
Investment in financial assets at fair value through profit or loss	**384,148**	34,573
Financial assets at fair value through other comprehensive income	**433**	—
Investment in available-for-sale financial assets	**—**	6,534
Total	**393,352**	65,047

Management Discussion and Analysis

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

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to United States Dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency during the years ended December 31, 2018 and 2017.

Pledge of Assets

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

Contingent Liabilities

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

Borrowings and Gearing Ratio

As of December 31, 2018, we had bank borrowings of RMB10.0 million (as of December 31, 2017: nil). As of December 31, 2018, the gearing ratio of the Group was approximately 0.3% (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.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 2,080 full-time employees as of December 31, 2018 (2017: 2,066), a majority of whom were based in various cities in China, including Xiamen (headquarters), Beijing, Shenzhen, Hangzhou and Shanghai. Remuneration is determined with reference to market conditions and individual employees' performance, qualifications 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 Employees Share Option Plan, Post-IPO Share Option Scheme, and Post-IPO Share Award Scheme. During the year under review, the relationship between the Group and our employees has been stable. We did not experience any strikes or other labor disputes which materially affected our business activities.

SIGNIFICANT INVESTMENTS HELD

As of December 31, 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 as required under the Listing Rules.

Save as disclosed in this annual report and in the Prospectus, the Group did not have any other plans for material investments and capital assets as of December 31, 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in this annual report, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended December 31, 2018.

Directors and Senior Management

OUR DIRECTORS

The following table presents certain information in respect of the members of our Board as at the Latest Practicable Date.

Members of our Board

Name	Age	Position/Title	Date of Appointment
Mr. CAI Wensheng	49	Executive Director and Chairman	July 2013
Mr. WU Zeyuan (*also known as Mr. WU Xinhong*)	38	Executive Director and Chief Executive Officer	July 2013
Dr. GUO Yihong	55	Non-executive Director	January 2014
Dr. LEE Kai-Fu	57	Non-executive Director	August 2016
Mr. ZHOU Hao	42	Independent non-executive Director	November 2016
Mr. LAI Xiaoling	43	Independent non-executive Director	January 2019
Mr. ZHANG Ming (*also known as Mr. WEN Chu*)	41	Independent non-executive Director	January 2019

The biography of each Director is set out below:

Executive Directors

Mr. CAI Wensheng (蔡文胜), aged 49, is a founder, executive Director and the Chairman of our Group, and is the chairman of the Nomination Committee since the Listing Date. Mr. Cai also serves as a director of Meitu Holdings and Meipai Ltd. Mr. Cai is responsible for the overall strategic planning and business direction of the Group. Mr. Cai completed his junior high education from Shi Guang High School in Shishi City (石獅市石光中學), Fujian Province, China in July 1984. Mr. Cai is an entrepreneur and renowned investor in the Internet and technology industry in China. In August 2004, Mr. Cai established 265.com Inc. (北京二六五科技有限公司), a company that provides site navigation services. He was the chairman of 265.com Inc. from August 2004 to 2008, responsible for the company's overall strategic development. 265.com Inc. was sold to Google in 2007. Since then, Mr. Cai has become an influential figure in the Internet start-up community in China. Mr. Cai has invested in various technology start-ups in the PRC, including Baofeng Group Co., Ltd. (暴風集團股份有限公司) (Shenzhen Stock Exchange Stock Code: 300431), 58.com Inc., (NYSE: WUBA) and Feiyu Technology International Company Ltd. (Hong Kong Stock Exchange Stock Code: 1022). Mr. Cai is also the founder and chairman of Longling Capital Co., Ltd. From January 2009 to October 2013, Mr. Cai was the chairman of 4399 Network Co., Ltd. (四三九九網絡股份有限公司), a software enterprise that provides Internet gaming applications and information services, and was responsible for the company's overall strategic development plan. He was also appointed as a part-time professor at the School of Management, Xiamen University in September 2015.

Directors and Senior Management

From May 2011 to November 2015, Mr. Cai served as a director of 58.com Inc. Mr. Cai currently holds directorships in Xiamen Fei Bo Network Technology Co., Ltd. (廈門飛博共創網絡科技股份有限公司) (National Equities Exchange and Quotations Stock Code: 834617) between June 2015 and October 2016, and TTG Fintech Limited (Australian Securities Exchange Ticker: TUP) between September 2012 and August 2017.

Mr. WU Zeyuan (吳澤源) (also known as: Mr. Wu Xinhong (吳欣鴻)), aged 38, is a founder, executive Director and the Chief Executive Officer of our Group. Mr. Wu is responsible for the overall management of the Company. Mr. Wu is also a director of Meitu Investment, Meitu HK, Meipai Global, Meitu Mobile, Meitu Networks and Meitu Home. Mr. Wu has been involved in the Internet industry in China since 2000. Mr. Wu received his high school diploma from Quanzhou No. 1 High School (泉州第一中學) in the PRC in July 2001. From September 2000 onwards, Mr. Wu was involved in running domain-name registration businesses. Mr. Wu began developing and researching photo-editing software in 2008. Mr. Wu has created and launched one popular product after another, from 520.com to Martian Translator (*火星文輸入法*), a software program for converting ordinary language into netspeak consisting of unconventional Chinese characters.

Mr. Wu has been a director of Quanzhou Haoyi Computer Networks Company (泉州好易計算機網絡有限公司), a limited liability company established in the PRC on August 14, 2001, since its establishment until the company's voluntary deregistration in October 2017.

Non-executive Directors

Dr. GUO Yihong (過以宏), aged 55, is a non-executive Director and a member of the Audit Committee of our Company. Dr. Guo received his bachelor's degree in applied chemistry from the Shanghai Jiaotong University (上海交通大學) in July 1985, Ph.D. from the University of Massachusetts at Amherst in February1991, and a master's degree in business administration from Columbia Business School in May 1997. In 1999, Dr. Guo was employed at Soros Fund Management LLC. Since 2006, Dr. Guo has been a partner at IDG Capital Investment Consultancy (Beijing) Co., Ltd. (IDG資本投資顧問(北京)有限公司). Dr. Guo has been a director of Internet platform and app development and operating companies, such as Xiamen Gigabit Network Technology Co., Ltd. (廈門吉比特網絡技術股份有限公司), Next Games Oy, Cassia Networks Inc. and Ripple Labs, Inc. Dr. Guo has been a board observer of Farfetch.com Limited since April 2016. Since August 2014, Dr. Guo has been a director of China Quanjude (Group) Co., Ltd (中國全聚德(集團)股份有限公司) (Shenzhen Stock Exchange Stock Code: 002186), a restaurant services group.

Dr. Guo is a partner of IDG-Accel China Growth Fund III L.P., one of our pre-IPO investors and a Shareholder of our Company.

Directors and Senior Management

Dr. LEE Kai-Fu (李開復), aged 57, was appointed as a non-executive Director in August 2016 and is a member of the Remuneration Committee. Dr. Lee received his bachelor of arts degree and Ph.D. in computer science from Columbia University in May 1983 and Carnegie Mellon University in May 1988, respectively. From 1988 to 1990, Dr. Lee worked at Carnegie Mellon University, where he served as an assistant professor. Between July 1990 and April 1996, Dr. Lee worked at Apple Inc. (NASDAQ: AAPL), serving his last position as vice-president from December 1995. From July 1998 to July 2005, Dr. Lee was the vice president at Microsoft Corporation (NASDAQ: MSFT), a software products and services company, where he played a key role in establishing the Microsoft research division. From July 2005 to September 2009, Dr. Lee was the president of Google China at Google Inc. (NASDAQ: GOOGL), where he helped establish Google's operations in the market and oversaw its growth. He was responsible for launching the Google China R&D Center.

Dr. Lee has been an independent non-executive director of Shangri-La Asia Limited (Hong Kong Stock Exchange Stock Code: 0069) since November 18, 2015 and Hon Hai Precision Industry Co., Ltd. (Taiwan Stock Exchange Stock Code: 2317) since July 2016 and Fosun International Limited (Hong Kong Stock Exchange Stock Code: 656) since 28 March 2017.

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

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

Independent non-executive Directors

Mr. LAI Xiaoling (賴曉凌), aged 43, has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee on January 1, 2019. Mr. Lai has over 14 years of experience in investment and business management. Since January 2018, Mr. Lai has been a partner of Beijing Shunwei Capital Investment and Consulting Company Limited (北京順為資本投資諮詢有限公司), primarily responsible for investment strategy, team formation and management and portfolio management; from June 2013 to December 2017, he was a partner of Innovation Work (Beijing) Investment Management and Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), primarily responsible for investment strategy, personnel recruitment and training and portfolio management; from June 2012 to April 2013, he worked as the Investment Director for Chengwei Investment Advisory (Shanghai) Company Limited (成為投資諮詢(上海)有限公司); from October 2007 to February 2012, he worked as the Investment Manager and Vice President for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), primarily responsible for deal sourcing, execution and portfolio management.

Mr. Lai obtained a bachelor's degree in engineering physics from Tsinghua University (清華大學) in July 1999, and a master's degree in business administration from The Chinese University of Hong Kong (香港中文大學) in December 2007.

Directors and Senior Management

Mr. Lai has also been an independent non-executive director of Feiyu Technology International Company Ltd. (Hong Kong Stock Exchange Stock Code: 1022) since November 2014.

Mr. ZHOU Hao (周浩), aged 42, has been appointed as an independent non-executive Director of our Company, chairman of the Audit Committee and member of the Nomination Committee of our Company with effect from Listing. Mr. Zhou is our Director with appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below. Mr. Zhou received his bachelor's degree from Shanghai International Studies University (上海外國語大學) in July 1998. Mr. Zhou joined General Electric (China) Co., Ltd. (通用電氣(中國)有限公司) in January 2007 as a financial manager. From May 2009 to September 2010, Mr. Zhou was the vice president of finance and the chief financial officer at Wuxi PharmaTech (Cayman) Inc., (NYSE: WX). In September 2010, Mr. Zhou joined CITIC Pharmaceutical Co Ltd. (中信醫藥實業有限公司), a pharmaceutical service provider that supplies medicine and related consumables to hospitals as chief financial officer. Since May 2011, Mr. Zhou has served as the chief financial officer of 58.com Inc., (NYSE: WUBA), a company that operates online marketplace serving local merchants and consumers in China.

Mr. ZHANG Ming (張明) (also known as: Mr. WEN Chu (文廚)), aged 41, has been appointed as an independent non-executive Director of our Company, a member of the Remuneration Committee and a member of the Nomination Committee on January 1, 2019. Mr. Zhang is the founder, chairman and chief executive officer of Great Wall Club, a platform to provide professional services to entrepreneurs, developers and investors to strengthen their connection with other mobile Internet industry leaders and grow their businesses worldwide. He is also a prominent cross-border angel investor and the founder of GASA University, a university dedicated to becoming an elite educational program for successful entrepreneurs who seek to enhance their scientific logic and scientific literacy.

Mr. Zhang founded Clickcom in 2003, and was the chief executive officer at Clickcom from March 2003 to December 2004. Clickcom was acquired by a Nasdaq-listed company in 2004. He also founded Moabc in 2005 and was the chief executive officer at Moabc from March 2005 to October 2007, during which he led Moabc to become a leading mobile community with over 10 million users.

Mr. Zhang is the author of '*Bu Dong*' — a journal of his journey of building businesses around the world as an entrepreneur. His investment portfolio includes XPeng Motors, Lychee.FM, and Bijixia.

Mr. Zhang received a diploma in Chinese literature from Jiangsu Changzhou Normal College in July 1998.

Directors and Senior Management

OUR SENIOR MANAGEMENT

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

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. NGAN King Leung Gary (顏勁良)	35	Chief Financial Officer and joint company secretary	Overall financial strategy, investor relations and company secretarial matters	June 2015
Mr. CHENG Yu (程昱)	41	Chief Operating Officer	Monetization strategies	November 2017
Mr. ZHANG Wei (張偉)	33	Chief Technology Officer	Company's research and technology	March 2008
Ms. RUAN Yongli (阮永麗)	33	Senior Vice President of Technology	Development of web infrastructure and data analytics	April 2006

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

Mr. NGAN King Leung Gary (顏勁良), aged 35, is our Chief Financial Officer and joined our Group in June 2015. Mr. Ngan is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of the Group. Between May 2012 and June 2015, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484), a mobile games and web game company listed on the Stock Exchange. Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science degree in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited from February 2013 to November 2014.

Mr. CHENG Yu (程昱), aged 41, is our Chief Operating Officer and joined our Group in November 2017. Prior to joining the Group, Mr. Cheng has served as vice president (from 2015 to 2017) and general manager (from 2012 to 2015) of Weibo Corporation (NASDAQ: WB, "**Weibo**"), responsible for Weibo's various revenue streams (including advertising, membership services, e-commerce, internet finance, mobile payment, live streaming, mobile value-added services, etc.) as well as exploration of new revenue opportunities. Mr. Cheng has over 18 years of experience in the technology sector in both China and the United States of America with proven track record in developing successful products and implementing monetization strategies. Prior to his tenure at Weibo, Mr. Cheng has held various management, product development and engineering positions at Microsoft Corporation (NASDAQ: MSFT) and Qihoo 360 Technology Co. Ltd., among others. Mr. Cheng holds a master of science degree in computer engineering from the University of Akron in the United States of America.

Directors and Senior Management

Mr. ZHANG Wei (張偉), aged 33, is our Chief Technology Officer and joined our Group in March 2008. Mr. Zhang is primarily responsible for our research and technology. Mr. Zhang received his bachelor of engineer degree in computer science and technology from the Wuhan University of Science and Technology (武漢科技大學) in June 2008.

Ms. RUAN Yongli (阮永麗), aged 33, is our Senior Vice President of Technology and joined our Group in April 2006. Ms. Ruan is primarily responsible for the development of web infrastructure and data analytics for the Company. Ms. Ruan received her bachelor of science degree in computer science and technology from Minnan Normal University (閩南師範大學) (formerly known as Zhang Zhou Normal School (漳州師範學院)) in the PRC in July 2006.

JOINT COMPANY SECRETARIES

Mr. NGAN King Leung Gary (顏勁良) and **Ms. Lee Ka Man (李嘉文)** of Fair Wind Secretarial Services Limited were both appointed as the joint company secretaries of our Company on August 2, 2017. See disclosure in "Directors and Senior Management — Our Senior Management" for the biography of Mr. Ngan.

Ms. Lee Ka Man (李嘉文), aged 45, is an associate member of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee obtained a bachelor's degree in business administration from The Open University of Hong Kong in June 2002. She obtained a master's degree in business administration from The Open University of Hong Kong in December 2004. Ms. Lee joined Fair Wind Secretarial Services Limited in August 1999. She has more than 15 years of experience in the field of company secretarial services.

GENERAL COUNSEL

Mr. LAW Yat Yang Arthur (羅日陽), aged 35, was appointed as the General Counsel of the Group on September 18, 2017.

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

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

Report of the Directors

The Board of the Company is pleased to present this report of the Directors with the consolidated financial statements of the Group for the year ended December 31, 2018.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on July 25, 2013 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Company adopted and carries on business in Hong Kong under the name of "美圖之家", as approved by and registered with the Registrar of Companies on October 28, 2016 and November 7, 2016, respectively.

The Company's Shares were listed on the Main Board of the Stock Exchange on December 15, 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of the Company's subsidiaries and Meitu Networks and its subsidiaries are mobile Internet companies that offer a portfolio of innovative photo and community apps that enjoys popularity in the PRC and overseas, and are principally engaged in the provision of online advertising and other internet value added services.

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

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on December 15, 2016. The net proceeds from our listing amounted to approximately RMB4,211.5 million. As of December 31, 2018, the Group had used:

- approximately RMB1,221.3 million for component and raw material sourcing to produce smartphones;
- approximately RMB530.3 million to invest in or acquire businesses that are complementary to our business;
- approximately RMB831.2 million to implement sales and marketing initiatives in both China and overseas market;
- approximately RMB274.7 million to expand Internet services business;
- approximately RMB278.0 million to expand research and development capabilities;
- approximately RMB381.7 million to 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.

Report of the Directors

RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income on page 103 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended December 31, 2018 is set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” from pages 7 to 8 and pages 9 to 19 of this annual report. Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed “Report of Directors — Risks relating to the Contractual Arrangements” on page 41 of this annual report. An account of the Company’s key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the “Environmental, Social and Governance Report” on pages 69 to 95 of this annual report.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2018.

RESERVES

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

As of December 31, 2018, the Company had distributable reserves of US$789,671,000 (equivalent to RMB5,546,516,000) (2017: US$1,110,919,000 (equivalent to approximately RMB7,729,303,000)).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2018 are set out in the consolidated statement of changes in equity on pages 106 to 107 and in Note 35(b) to the consolidated financial statements, respectively.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2018 are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2018 are set out in Note 21 to the consolidated financial statements.

SUBSIDIARIES

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

Report of the Directors

DONATION

During the year ended December 31, 2018, the Group made charitable donations of approximately RMB120,000 (2017: RMB200,000).

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 202 of this annual report.

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

A general mandate to repurchase/buyback 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 mandates, during the year ended December 31, 2018, the Company repurchased/bought back an aggregate of 110,865,000 Shares on the Stock Exchange at an aggregate consideration of HK$759,361,000 (equivalent to RMB642,208,000). The repurchase/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.

The breakdown of Shares bought back by the Company during the year ended December 31, 2018 is as follows:

Month of repurchase	Number of ordinary shares	Highest price per share paid HK$	Lowest price per share paid HK$	Aggregate consideration paid HK$
May 2018	32,865,000	8.78	7.98	276,822,792.75
June 2018	38,000,000	8.52	6.28	277,935,368.22
July 2018	17,000,000	6.50	6.08	107,830,458.37
August 2018	23,000,000	4.44	3.95	96,772,616.32
	110,865,000			759,361,235.66

Save as disclosed above, during the year ended December 31, 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DEBENTURE ISSUED

The Group has not issued any debentures during the year ended December 31, 2018.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Post-IPO Share Option Scheme and the senior management personnel are eligible participants of the Pre-IPO ESOP. Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 30, Note 9(a) and Note 9(b), respectively to the consolidated financial statements.

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

For the year ended December 31, 2018, Mr. Wu was paid discretionary bonuses of a total sum of RMB60,000 (equivalent to approximately 2 months of his base salary). Save as disclosed above, none of the Directors were paid discretionary bonuses for the year ended December 31, 2018.

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.

Purpose

The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract act and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

Eligible Participants

Any employees, consultants, all members of the Board, and other individuals, as determined, authorized and approved by the Board or a committee authorized by the Board.

Maximum Number of Shares

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

Report of the Directors

As of December 31, 2018, outstanding options representing 58,903,947 underlying Shares were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 23(a) to the consolidated financial statements.

As at the Latest Practicable Date, options to subscribe for an aggregate of 55,609,950 Shares were outstanding, representing approximately 1.32% of the issued share capital of the Company as at the Latest Practicable Date.

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

Limit for Each Participant

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

Remaining Life of the Pre-IPO ESOP

The Pre-IPO ESOP is valid and effective for a period of 10 years from February 15, 2014 and up to February 15, 2024. The remaining life of the scheme is approximately 5 years. Any options that are outstanding on the expiry date of the Pre-IPO ESOP shall remain in force according to the terms of the Pre-IPO ESOP.

Consideration

No consideration is required to be paid by the grantees for the grant of options under the Pre-IPO ESOP.

Option Period

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

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

Exercise Price

The exercise price per Share under the Pre-IPO ESOP is US$0.03 as determined, authorized and approved by the Board.

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

2. Post-IPO Share Option Scheme

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

Purpose

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

Eligible Participants

Any employee, Director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Directors determine.

Maximum Number of Shares

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

As of December 31, 2018 and as at the Latest Practicable Date, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 422,729,455 Shares, representing 10.06% and 10.05% of the issued share capital of the Company respectively.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes is 422,729,455 Shares, being no more than 10% of the Shares in issue as at the Listing Date. The limit of 10% may be refreshed at any time by approval of the Shareholders in a general meeting provided that the total number of the Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Post-IPO Share Option Scheme and any other share option schemes of our Group) previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Group will not be counted.

Remaining Life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to December 15, 2026. The remaining life of the Post-IPO Share Option Scheme is approximately 7 years.

Report of the Directors

Limit of Each Participant

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

Consideration

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

Option Period

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

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

Exercise Price

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

SHARE AWARD SCHEME

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

Purpose

The purpose of the Post-IPO Share Award Scheme is to align the interests of eligible persons with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and regain eligible persons to make contributions to the long-term growth and profits of the Group.

Eligible Participants

Any employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Directors determine.

Awards

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

Granting of Awards

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

Each grant of an award to any Director or the chairman of the Company shall be subject to the prior approval of the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of the grant of an award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Shares to connected persons of the Company.

Maximum Number of Shares to be awarded

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

Any Shares granted under the Post-IPO Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any award granted by the Board, or enter into any agreement to do so.

As of December 31, 2018 and as at the Latest Practicable Date, 39,522,013 and 48,813,552 outstanding award Shares had respectively been granted or agreed to be granted under the Post-IPO Share Award Scheme (excluding Shares granted which have been forfeited in accordance with the Post-IPO Share Award Scheme).

Assuming (i) the annual limit of 3% of the total number of issued Shares is fully utilized and (ii) options granted under the Pre-IPO ESOP or Post-IPO Share Option Scheme are not exercised, our issued share capital will increase from 4,202,515,611 Shares (being the number of Shares in issue as of December 31, 2018) and 4,206,375,944 Shares (being the number of Shares in issue as at the Latest Practicable Date) to 4,328,591,079 Shares and 4,332,567,222 Shares respectively.

Limit for Each Participant

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

Report of the Directors

Termination

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

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

(b) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Post-IPO Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Shares already granted to a selected participant.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed “Share Option Schemes” and “Share Award Scheme”, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2018.

DIRECTORS

The Directors and members of senior management of the Company who held office during the year ended December 31, 2018 and up to the Latest Practicable Date were:

Executive Directors:

Mr. CAI Wensheng *(Chairman)*
Mr. WU Zeyuan *(Chief Executive Officer)*

Non-Executive Directors:

Dr. GUO Yihong
Dr. LEE Kai-Fu

Independent Non-executive Directors:

Mr. ZHOU Hao
Mr. LAI Xiaoling (appointed on January 1, 2019)
Mr. ZHANG Ming (appointed on January 1, 2019)
Mr. KO Chun Shun Johnson (resigned from the Board effective on January 1, 2019)
Ms. LO Po Man (resigned from the Board effective on February 22, 2018)
Professor ZHANG Shoucheng (appointed on February 22, 2018 and passed away on December 1, 2018)

Report of the Directors

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

Pursuant to 83(3) of the Articles of Association of the Company, Mr. LAI Xiaoling and Mr. ZHANG Ming having been appointed by the Board as independent non-executive Directors effective from January 1, 2019 and being eligible, will offer themselves for re-election at the forthcoming AGM.

Details of the Directors standing for re-election at the AGM are set out in the circular to the Shareholders together with this annual report.

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 20 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner). Mr. CAI Wensheng has also entered into a service contract with Meitu Technology (Singapore) Pte. Ltd. ("**Meitu Singapore**") for an initial term of one year with effect from January 1, 2019, subject to renewal and the re-election as and when required under the constitution of Meitu Singapore.

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

Report of the Directors

Each of Mr. LAI Xiaoling and Mr. ZHANG Ming has signed a letter of appointment with the Company commencing from January 1, 2019 until the third annual general meeting of the Company from such commencement date.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" below, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2018.

PERMITTED INDEMNITY

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

Such permitted indemnity provision has been in force for the year ended December 31, 2018. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended December 31, 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As of December 31, 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	1,694,546,670	40.32%
Mr. WU Zeyuan[(1)]	Interest of a party to an agreement regarding interest in the Company	1,694,546,670	40.32%
Dr. LEE Kai-Fu	Interest in a controlled corporation	32,994,151	0.79%

Notes:

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

(2) The percentages are calculated on the basis of 4,202,515,611 Shares in issue as of December 31, 2018.

Save as disclosed above, as of December 31, 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.

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

As of December 31, 2018, the persons other than the Directors, whose interests have been disclosed in this annual report, had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Easy Prestige(2)(3)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.32%
Xinhong Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.32%
Baolink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.32%
Longlink Limited(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.32%
Longlink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.32%
Lion Trust (Singapore) Limited(2)(3)	Trustee of a discretionary trust	1,398,366,670	33.27%
Chen Jiarong	Interest of controlled corporation/ Beneficial owner/Interest of spouse	501,800,180	11.94%
Kingkey Enterprise Holdings Limited	Interest of controlled corporation	418,324,680	9.95%
Chen Jiajun	Interest of controlled corporation	418,324,680	9.95%

Notes:

(1) Pursuant to the Concert Party Agreement.

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

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

(4) The percentages are calculated on the basis of 4,202,515,611 Shares in issue as of December 31, 2018.

Save as disclosed herein, as of December 31, 2018, no person, other than the Directors whose interests are set out in this annual report, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, its subsidiaries and Meitu Networks and its subsidiaries and branches (the "**PRC Operating Entities**"), during the year ended December 31, 2018, neither our Controlling Shareholders nor any of our Directors had any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance or contract of significance for the provision of services has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2018.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted non-exempt continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended December 31, 2018.

Non-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

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

Report of the Directors

Reasons for the Contractual Arrangements

We develop and operate mobile apps in the PRC, through which we derive income from online advertising and sales of virtual items on *Meipai*, our video community app. We also provide audio-visual program services to the public through *Meipai* and cooperate with Forgame Holdings Limited for the operation of our mobile game, *Beauty Box* through which we derive mobile game revenue. The operation of mobile apps, provision of online audio-visual program services and operation of mobile games are subject to foreign investment restrictions under PRC law.

Since certain of our businesses are subject to foreign investment restrictions, to comply with the relevant PRC laws, our mobile app, online advertising, audio-video and mobile game businesses through *Meipai* are directly operated by Meitu Networks and its subsidiaries. Meitu Networks and its subsidiaries generate online advertising, mobile game and *Meipai* IVAS revenue from our apps and mobile games. Online advertising, mobile game and *Meipai* IVAS revenue are our major revenue sources relating to the operations of our apps and mobile game and are part of the mobile app, online advertising and mobile game business we operate through Meitu Networks and its subsidiaries. Meitu Home, our indirectly wholly-owned subsidiary, in turn provides services to support the business operations of Meitu Networks and its subsidiaries and derives the economic benefits from such business operations. Meitu Networks and its subsidiaries hold the requisite PRC permits, licenses and approvals for operating mobile games, online advertising and provision of audio-visual program services through *Meipai*. Our major trademarks and domain names are held by Meitu Networks and its subsidiaries. Meitu Networks has obtained the Online Cultural Operating License for operating its online game from MOC's local counterparts. In addition, Meitu Networks and its subsidiaries hold certain licenses and permits that are essential to the operation of our business, such as the ICP License, the Online Cultural Operating License and the License for Transmission of Audio-Visual Programs through Information Network.

Our Directors, including our Independent Non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to our Group in the ordinary and usual course of our Group's business and are fair and reasonable or to the advantage of our Group and are in the interests of our Shareholders as a whole.

Our Directors also believe that our Group's structure, whereby the financial results of the PRC Operating Entities are consolidated into our Group's financial statements as if they were our Group's wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

Risks relating to the Contractual Arrangements

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

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

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

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

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

- Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income.

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

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

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

The Contractual Arrangements which were in place during the year ended December 31, 2018 and a brief description of the major terms of the structured contracts under the Contractual Arrangements are as follows:

(a) Exclusive Option Agreement

Meitu Networks, along with Mr. Wu and Ms. Cai (the "**Relevant Shareholders**"), entered into an exclusive option agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Exclusive Option Agreement**"), pursuant to which Meitu Home (or the Company or any subsidiary of the Company, the "**designee**") was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Meitu Networks all or any part of their equity interests in and/or assets of Meitu

Report of the Directors

Networks for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders and/or Meitu Networks shall return any amount of purchase price they have received to Meitu Home. At Meitu Home's request, the Relevant Shareholders and/or Meitu Networks will promptly and unconditionally transfer their respective equity interests in and/or assets of Meitu Networks to Meitu Home (or its designee) after Meitu Home exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry unless Meitu Home confirms a new renewal term in writing.

(b) Exclusive Business Cooperation Agreement

Meitu Networks entered into an exclusive business cooperation agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Meitu Networks agreed to engage Meitu Home as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to Meitu Home's adjustment, are equal to all of the net profit of Meitu Networks and its subsidiaries. Meitu Home may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Meitu Networks and its subsidiaries from previous financial periods, which will be wired to the designated account of Meitu Home upon issuance of payment notification by Meitu Home. As of December 31, 2018, the accumulated losses of Meitu Networks and its subsidiaries amounted to RMB53.6 million. Meitu Home enjoys all the economic benefits derived from the businesses of Meitu Networks and its subsidiaries and bears Meitu Networks' business risks. If Meitu Networks runs into financial deficit or suffers severe operation difficulties, Meitu Home will provide financial support to Meitu Networks.

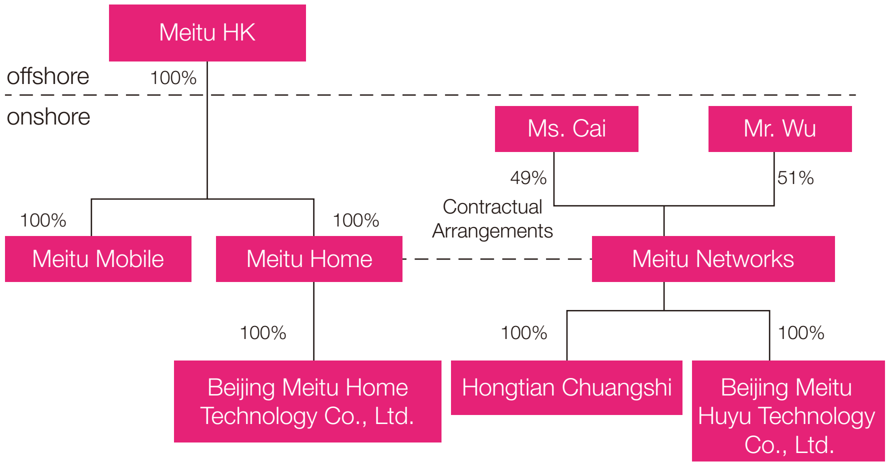
(c) Share Pledge Agreement

Meitu Networks, the Relevant Shareholders and Meitu Home entered into a share pledge agreement on December 25, 2015, which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Meitu Networks to Meitu Home as collateral security for any or all of their payments due to Meitu Home and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Powers of Attorney (as defined below).

(d) Powers of Attorney

An irrevocable power of attorney was entered into between the Relevant Shareholders, Meitu Home and Meitu Networks on December 25, 2015, which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Powers of Attorney**"), whereby the Relevant Shareholders appointed Meitu Home or a director of its offshore holding company or its/his/her successor (including a liquidator replacing Meitu Home's director) as their exclusive agent and attorney to act on their behalf on all matters concerning Meitu Networks and to exercise all of its rights as a registered shareholder of Meitu Networks.

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



Apart from the above, there are no other new contractual arrangements entered into, renewed or reproduced between the Group and the PRC Operating Entities during the financial year ended December 31, 2018. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2018.

For the year ended December 31, 2018, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements has been removed.

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

The revenue of Meitu Networks and its subsidiaries for the years ended December 31, 2018 and 2017 were RMB830.1 million and RMB755.6 million, respectively.

For the year ended December 31, 2018, the revenue of Meitu Networks and its subsidiaries amounted to approximately 27.9% (2017: 16.7%) of the revenue for the year of the Group, respectively.

Mitigation actions taken by the Company

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

Report of the Directors

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

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

Listing Rule Implications

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange and Annual Review

The Stock Exchange has granted the Company a waiver pursuant to Rule 14A.105 of the Listing Rules from (i) strict compliance with the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, under Rule 14A.53 of the Listing Rules for the fees payable to Meitu Home under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less under Rule 1 4A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject to the following conditions:

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

(b) no change without independent Shareholders' approval;

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

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

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

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended December 31, 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2018, (iii) no new contracts were entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2018, and (iv) the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the relevant agreement governing the Contractual Arrangements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2018:

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

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

During the year ended December 31, 2018, no related party transactions disclosed in Note 29 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

QUALIFICATION REQUIREMENTS

Updates in Relation to the Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including provision of Internet content services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant's annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC legal advisor has advised us that, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Meitu Networks when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We are in the process of expanding our overseas value-added telecommunications business through our overseas subsidiaries. We have taken the following measures to meet the Qualification Requirements:

(a) Meitu HK, our Hong Kong subsidiary, has registered a number of domain names outside of the PRC for display and promotion of Meitu products since July 2014;

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

(c) Meitu Technology and Meitu Technology (US), our United States subsidiaries, have operated two offices in the United States for the localization and marketing of our apps in the United States since January 2015.

Subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, our PRC legal advisor is of the view that the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements as the Company has experience in providing value added telecommunications services in overseas markets, which is in accordance with the FITE Regulations and the guidance memorandum.

Our PRC legal advisor conducted a consultation with the relevant government authority, being the MIIT, during which it confirmed that steps such as those taken by us above (e.g. establishing overseas offices, holding overseas domain names and conducting operation of websites and other businesses in relation to value-added telecommunication services) are generally deemed to prove that the Qualification Requirements are fulfilled, subject to a substantive examination by the MIIT in accordance with the approval procedures under PRC laws and regulations.

On July 13, 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business (the "**MIIT Notice**"). The MIIT Notice further strengthened regulation over foreign investment in value-added telecommunication services, including prohibiting domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or requiring domain names and trademarks used by any value-added telecommunication service providers to be held by either the holder of the ICP License or Shareholders of such ICP License holder. Furthermore, domestic telecommunication service providers are prohibited from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications businesses in China. If the ICP License holder fails to comply with the requirements in the MIIT Notice and fails to remedy its non-compliance within a specified period of time, the MIIT or its local branches may take measures against such license holder, including revoking its ICP License.

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC legal advisor, we determined that it was not viable for the Company to hold Meitu Networks and its subsidiaries directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Meitu Networks and its subsidiaries through the Contractual Arrangements between Meitu Home, the Company's wholly-owned subsidiary in the PRC, on the one hand, and Meitu Networks and its respective shareholders, on the other hand. The Contractual Arrangements allow the results of operations and assets and liabilities of Meitu Networks and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRSs as if they were wholly-owned subsidiaries of our Group.

MAJOR CUSTOMERS AND SUPPLIERS

The relationship between our Group and our customers has been stable. For the year ended December 31, 2018, the revenue amounts from the Group's five largest customers accounted for 50.0% (2017: 62.8%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 32.3% (2017: 33.6%) of the Group's total revenue.

As of December 31, 2018, the Chairman of our Board, Mr. Cai Wensheng, indirectly owned approximately 80% of the total equity of Xiamen Longling Investment Partnership (LLP) (廈門隆領投資合夥企業(有限合夥)), which owns 29.00% of the total equity of Hangzhou Wanqu Brand Management Co., Ltd. (杭州萬曲品牌管理有限公司), one of our top five customers. Other than the foregoing, during the year ended December 31, 2018, none of our Directors, their associates or any Shareholders of the Company (who or which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of our top five customers.

The relationship between the Group and our suppliers has been stable. For the year ended December 31, 2018, the purchase amounts placed with the Group's five largest suppliers accounted for 33.8% (2017: 46.7%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 15.8% (2017: 20.6%) of the Group's total purchases.

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

Report of the Directors

AUDITOR

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

IMPORTANT EVENTS AFTER REPORTING DATE

On February 19, 2019, the Group announced the acquisition (the "**Acquisition**") of 31% equity interests in Dreamscape Horizon Limited ("**Dreamscape**"), an indirect wholly-owned subsidiary of Leyou Technologies Holdings Limited (HKEX: 1089) ("**Leyou**"). Dreamscape and its subsidiaries are principally engaged in the development and publishing of online multiplayer video games for both PC and console platforms. The total consideration of approximately HK$2,686,577,000 will be satisfied by the allotment and issue of the shares ("**Consideration Share(s)**") by the Company to Leyou under a specific mandate to be obtained from the shareholders of the Company at the issue price of HK$2.71 per Consideration Share. The Consideration Shares will, upon issue, represent: (i) approximately 23.58% of the issued share capital of the Company as of February 19, 2019; and (ii) approximately 19.08% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, subject to completion of the Acquisition and assuming that there will be no change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares. The Acquisition has not been completed as at the date of this annual report.

Save as disclosed above, there were no important events affecting the Group which occurred after December 31, 2018 and up to the date of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

PUBLIC FLOAT

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

Report of the Directors

CHANGES IN INFORMATION OF DIRECTORS

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

1. Mr. LAI Xiaoling was appointed by the Board as an independent non-executive Director effective from January 1, 2019.

2. Mr. ZHANG Ming (also known as: Mr. WEN Chu) was appointed by the Board as an independent non-executive Director effective from January 1, 2019.

3. Mr. KO Chun Shun Johnson resigned as an independent non-executive Director effective from January 1, 2019.

4. Professor ZHANG Shoucheng, a former independent non-executive Director, passed away on December 1, 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 29, 2019 to June 3, 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on June 3, 2019. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on May 28, 2019.

MEITU AND THE COMMUNITY

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

By the order of the Board
Mr. CAI Wensheng
Chairman

Hong Kong
March 20, 2019

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

Save as disclosed below, during the year ended December 31, 2018, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the passing away of Professor ZHANG Shoucheng and until January 1, 2019, the Company was not in compliance with: (i) rule 3.10(1) of the Listing Rules, which stipulates that the board of directors shall comprise at least three independent non-executive directors; (ii) rule 3.25 of the Listing Rules, which stipulates that the remuneration committee shall comprise a majority of independent non-executive directors; and (iii) code provision A.5.1 of the CG Code, which stipulates that the number of independent non-executive directors shall represent the majority of the nomination committee.

Mr. LAI Xiaoling and Mr. ZHANG Ming were appointed as independent non-executive Directors on January 1, 2019, and Mr. KO Chun Shun Johnson resigned as an independent non-executive Director on the same date, after which the number of independent non-executive directors on the Board represents no less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules.

Mr. LAI Xiaoling was also appointed as a member of the Audit Committee and the chairman of the Remuneration Committee on January 1, 2019, while Mr. ZHANG Ming was also appointed as a member of the Remuneration Committee and the Nomination Committee on the same date. Accordingly, the Company is in compliance with rule 3.25 of the Listing Rules and code provision A.5.1 of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry with the Directors of the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended December 31, 2018.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the year ended December 31, 2018 after making reasonable enquiry.

BOARD OF DIRECTORS

Board Composition

As at the Latest Practicable Date, the Board comprises seven members consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors. The details of the Board composition are as follows:

Name of Director	Membership of Board Committee(s)
Executive Directors:	
Mr. CAI Wensheng *(Chairman)*	Chairman of the Nomination Committee
Mr. WU Zeyuan *(Chief Executive Officer)*	
Non-executive Directors:	
Dr. GUO Yihong	Member of the Audit Committee
Dr. LEE Kai-Fu	Member of the Remuneration Committee
Independent non-executive Directors:	
Mr. ZHOU Hao	Chairman of the Audit Committee Member of the Nomination Committee
Mr. LAI Xiaoling *(effective from January 1, 2019)*	Chairman of the Remuneration Committee Member of the Audit Committee
Mr. ZHANG Ming *(effective from January 1, 2019)*	Member of the Remuneration Committee Member of the Nomination Committee

The biographical information of the Directors and the relationships between the members of the Board are disclosed under the section headed "Directors and Senior Management" on pages 20 to 25 of this annual report.

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

Professor ZHANG Shoucheng, a former independent non-executive Director, member of the Nomination Committee and Remuneration Committee passed away on December 1, 2018.

Corporate Governance Report

Following the passing away of Professor ZHANG Shoucheng and until January 1, 2019, the Company was not in compliance with (i) rule 3.10(1) of the Listing Rules, which stipulates that the board of directors shall comprise at least three independent non-executive directors, (ii) rule 3.25 of the Listing Rules, which stipulates that the remuneration committee shall comprise a majority of independent non-executive directors and (iii) code provision A.5.1 of the CG Code which stipulates that the number of independent non-executive directors shall represent the majority of the nomination committee.

Mr. LAI Xiaoling and Mr. ZHANG Ming were appointed as independent non-executive Directors on January 1, 2019, and Mr. KO Chun Shun Johnson resigned as an independent non-executive Director on the same date.

Saved as disclosed above, during the year ended December 31, 2018 and up to the Latest Practicable Date, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Terms of Appointment of Non-executive Directors

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

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

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

Each of Mr. LAI Xiaoling and Mr. ZHANG Ming has signed a letter of appointment with the Company and was appointed as an independent non-executive Director commencing on January 1, 2019 until the third annual general meeting of the Company from such commencement date.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

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

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

Corporate Governance Report

Board Meetings, General Meetings and Committee Meetings

The Board meets 4 times during a year as a minimum and it met 7 times during the year ended December 31, 2018. The attendance of each Directors at Board and Committee meetings and general meetings is detailed in the table below.

	Attendance / No. of Meeting(s)				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. CAI Wensheng	7/7	–/–	–/–	3/3	1/1
Mr. WU Zeyuan	7/7	–/–	–/–	–/–	1/1
Dr. GUO Yihong	7/7	3/3	–/–	–/–	1/1
Dr. LEE Kai-Fu	7/7	–/–	3/3	–/–	1/1
Mr. KO Chun Shun Johnson(3)	6/7	3/3	3/3	–/–	1/1
Mr. LAI Xiaoling(4)	–/–	–/–	–/–	–/–	–/–
Ms. LO Po Man(1)	1/7	–/–	1/3	1/3	–/–
Mr. ZHANG Ming(5)	–/–	–/–	–/–	–/–	–/–
Mr. ZHOU Hao	7/7	3/3	–/–	3/3	1/1
Professor ZHANG Shoucheng(2)	6/7	–/–	1/3	1/3	1/1

Notes:

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

(2) Professor ZHANG Shoucheng was appointed to the Board on February 22, 2018 and passed away on December 1, 2018.

(3) Mr. KO Chun Shun Johnson resigned from the Board on January 1, 2019.

(4) Mr. LAI Xiaoling was appointed to the Board on January 1, 2019.

(5) Mr. ZHANG Ming was appointed to the Board on January 1, 2019.

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

Continuous Professional Development of Directors

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

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

During the year ended December 31, 2018, all Directors (save for those (i) who ceased to be a Director as of December 31, 2018 or (ii) who were appointed as Director after December 31, 2018) have participated in continuous professional training to develop and refresh their knowledge and skills in relation to their contribution to the Board.

Name of Director	Participated in continuous professional training
Executive Directors	
Mr. CAI Wensheng	✓
Mr. WU Zeyuan	✓
Non-executive Directors	
Dr. GUO Yihong	✓
Dr. LEE Kai-Fu	✓
Independent non-executive Directors	
Mr. KO Chun Shun Johnson(3)	✓
Mr. LAI Xiaoling(4)	—
Ms. LO Po Man(1)	—
Mr. ZHOU Hao	✓
Mr. ZHANG Ming(5)	—
Professor ZHANG Shoucheng(2)	—

Notes:

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

(2) Professor ZHANG Shoucheng was appointed as an independent non-executive Director on February 22, 2018 and passed away on December 1, 2018.

(3) Mr. KO Chun Shun Johnson resigned from the position of independent non-executive Director on January 1, 2019.

(4) Mr. LAI Xiaoling was appointed as an independent non-executive Director on January 1, 2019.

(5) Mr. ZHANG Ming was appointed as an independent non-executive Director on January 1, 2019.

Corporate Governance Report

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

- reviewing the interim and annual financial statements and making recommendation to the Board;

- reviewing the terms of engagement and making recommendation to the Board regarding the appointment of auditors of the Company;

- monitoring and assessing the independence of external auditors and effectiveness of the internal control systems; and

- reviewing the financial information and oversight of the Company's financial reporting, controlling, accounting policies, practices with external auditors and the management of the Company, risk management and internal control issues.

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

The Audit Committee comprises a majority of independent non-executive Directors and includes members with appropriate accounting or related financial management expertise as required under the Listing Rules. As at the Latest Practicable Date, the members of the Audit Committee are Mr. ZHOU Hao, Mr. LAI Xiaoling (appointed on January 1, 2019 following the resignation of Mr. KO Chun Shun Johnson on January 1, 2019) and Dr. GUO Yihong. Dr. GUO Yihong is a non-executive Director, and Mr. LAI Xiaoling and Mr. ZHOU Hao are independent non-executive Directors. Mr. ZHOU Hao is the chairman of the Audit Committee.

The Audit Committee held 3 meetings during the year ended December 31, 2018. Individual attendance record of each Committee member is set out on page 54 of this annual report. During the meetings, the Audit Committee reviewed the annual results announcement and the annual report of the Group for year ended December 31, 2017, the interim results announcement and interim report of the Group for the six months ended June 30, 2018, internal control and risk management systems of the Group, etc..

Remuneration Committee

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

- to assist the Board in reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

- to assist the Board in reviewing and making recommendations to the Board on the remuneration policy and structure for all directors and senior management; and

- establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

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

The Remuneration Committee comprises a majority of independent non-executive Directors. As at the Latest Practicable Date, the members of the Remuneration Committee are Dr. LEE Kai-Fu, Mr. LAI Xiaoling and Mr. ZHANG Ming (both appointed on January 1, 2019 following the resignation of Mr. KO Chun Shun Johnson on January 1, 2019 and the passing away of Professor ZHANG Shoucheng on December 1, 2018). Dr. LEE Kai-Fu is a non-executive Director, and Mr. LAI Xiaoling and Mr. ZHANG Ming are independent non-executive Directors. Mr. LAI Xiaoling is the chairman of the Remuneration Committee.

The Remuneration Committee held 3 meetings during the year ended December 31, 2018. Individual attendance record of each Committee member is set out on page 54 of this annual report. During the meetings, the Remuneration Committee reviewed the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

Corporate Governance Report

Details of the fees and other emoluments paid or payable to the Directors for the year ended December 31, 2018 are set out in Note 30 to the audited consolidated financial statements contained in this annual report.

The remuneration of the members of senior management (including the executive Directors) by band for the year ended December 31, 2018 is set out below:

	Number of members of senior management
Nil to HK$500,000	—
HK$500,001 to HK$1,500,000	6
HK$10,000,001 to HK$20,000,000	1
HK$20,000,001 to HK$40,000,000	—
HK$40,000,001 to HK$60,000,000	1
Total	8

Nomination Committee

The Company has set up the Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee include the following matters:

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

The Nomination Committee comprises a majority of independent non-executive Directors. As at the Latest Practicable Date, the members of the Nomination Committee are Mr. CAI Wensheng, Mr. ZHOU Hao and Mr. ZHANG Ming (appointed on January 1, 2019 following the passing away of Professor ZHANG Shoucheng on December 1, 2018). Mr. CAI Wensheng is an executive Director, and Mr. ZHOU Hao and Mr. ZHANG Ming are independent non-executive Directors. Mr. CAI Wensheng is the chairman of the Nomination Committee.

The Nomination Committee held 3 meetings during the year ended December 31, 2018. Individual attendance record of each Committee member is set out on page 54 of this annual report. During the meetings, the Nomination Committee reviewed the composition of the Board, the diversity of the Board, assessed the independence of independent non-executive Directors and recommended to the Board on the re-election of directors.

Board Diversity Policy

The Company adopted a board diversity policy (the "**Diversity Policy**") on November 20, 2016 and amended it on December 20, 2018, which sets out the Company's approach to achieving diversity of the Board.

Pursuant to the Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

The Diversity Policy further provides that the Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. In particular, the Nomination Committee will identify and make recommendations to the Board to implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees so that, in time, their skills will prepare them for board positions. The Nomination Committee is also committed to ensure that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Nomination Committee will review the Policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

Policy for Nomination of Directors

On December 20, 2018, the Company also adopted a nomination policy (the "**Nomination Policy**") in accordance with the CG Code, which sets out the procedure for the selection, appointment and reappointment of Directors containing the selection criteria and the Board succession planning considerations. The Nomination Policy is reproduced as follows.

1. Objective

1.1 The nomination committee of the Company (the "**Nomination Committee**") is committed to ensure that the board (the "**Board**") of directors (the "**Directors**") of the Company has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

1.2 The Nomination Committee shall identify, consider and recommend suitable individuals to the Board to consider and to make recommendations to the shareholders of the Company (the "**Shareholders**") for election of Directors at a general meeting either to fill a casual vacancy or as an addition to the Board.

Corporate Governance Report

1.3 The Nomination Committee shall make recommendations to the Board on the appointment or re-appointment of Directors and succession planning (the "**Succession Planning**") for Directors, in particular, the chairman of the Board and the chief executive officer of the Company.

1.4 The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

1.5 The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

2. Selection Criteria

2.1 The factors listed below would be used as reference by the Nomination Committee in assessing the suitability and the potential contribution to the Board of a proposed candidate:

- Reputation for integrity;
- Professional qualifications and skills;
- Accomplishment and experience in the (i) the provision of Internet services, including but not limited to, online advertising, Internet-value added services and e-commerce; and (ii) the design, development and sales of smart hardware;
- Commitment in respect of available time and relevant interest;
- Independence of proposed independent non-executive Directors; and
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

2.2 The above factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person to the Board, as it considers appropriate.

3. Nomination Procedures

3.1 Nomination by the Nomination Committee

3.1.1 The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the Board, if any, for consideration by the Nomination Committee prior to its meeting.

3.1.2 The Nomination Committee shall nominate candidates for the consideration and recommendation of the Board. The Nomination Committee may propose candidates who are not nominated by the Board. The Board shall have the final decision on all matters in relation to its nomination of any candidates to stand for election at a general meeting.

3.1.3 The candidate nominated by the Board to stand for election at a general meeting (the "**Board Candidate**", together with the Shareholder Candidate defined in Section 3.2 below, the "**Candidate**") will submit the necessary personal information, together with his/her written consent to be elected as a Director and to the publication of his/her personal information for the purpose of or in relation to his/her standing for election as a Director. The Nomination Committee may request the Board Candidate to provide additional information and documents, if considered necessary.

3.1.4 A circular will be sent to the Shareholders (the "**Shareholder Circular**") as to provide information of the Board Candidate, and to invite nominations from the Shareholders. The Shareholder Circular will include (i) the period for lodgment (the "**Lodgment Period**") of nominations by the Shareholders; (ii) the personal information of the Board Candidate as required by the applicable laws, rules and regulations, *inter alia*, name, brief biographies (including qualifications and relevant experience), independence, proposed remuneration.

3.1.5 Until the issue of the Shareholder Circular, the Board Candidate shall not assume that he/she has been nominated by the Board to stand for election at the general meeting.

3.2 Nomination by Shareholders

The Shareholders may also propose a person for election as a Director (such candidate, the "**Shareholder Candidate**") in accordance with the Memorandum and Articles of Association of the Company and the applicable law, details of which are set out in the "*Procedures for Shareholders to Propose a Person for Election as a Director of the Company*" adopted by the Company pursuant to a resolution passed at the meeting of the Board held on November 20, 2016.

3.3 The Candidate is allowed to withdraw his/her candidature at any time before the general meeting by serving a notice in writing to the company secretary of the Company ("**Company Secretary**").

3.4 The resolution for election of Directors for the Shareholder Candidate shall take the same form as for the Board Candidate.

4. **Succession planning**

4.1 The objective of the Succession Planning is to ensure an effective and orderly succession of Directors and to maintain the balance of diversity, collective knowledge and skills of the Board necessary for the effective governance of the Company.

4.2 The following considerations will be used by the Nomination Committee in making recommendations for the Succession Planning:

4.2.1 Required knowledge, skills and experience at a full Board composite level to effectively fulfill the Board's legal role and responsibilities;

4.2.2 An appropriate balance of diversity across the Board, as set out in Section 2.1 and Section 5 of the Nomination Policy;

4.2.3 Personal qualities of each candidates with reference but not limited to the factors listed in Section 2.1 of the Nomination Policy;

4.2.4 Continuity through a smooth succession of Directors; and

4.2.5 Compliance with the relevant legal and regulatory requirements.

4.3 The above considerations are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee will review the Succession Planning together with the Board periodically, and recommend revisions, if any, to the Board for consideration and approval.

5. **Board diversity**

5.1 The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

5.2 The Nomination Committee will discuss and agree periodically on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. The Nomination Committee will identify and make recommendations to the Board to implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees so that, in time, their skills will prepare them for board positions.

6. Confidentiality

6.1 Unless required by law or any regulatory authority, under no circumstances shall a member of the Nomination Committee or an employee of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the Shareholder Circular, as the case may be, is issued. Following the issue of the Shareholder Circular, the Nomination Committee or the Company Secretary or other employee of the Company approved by the Nomination Committee may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and the Candidate should not be disclosed.

7. Monitoring and reporting

7.1 The Nomination Committee will report annually a summary of the Nomination Policy including the nomination procedures, criteria for selection, the diversity policy and the progress made towards achieving these objectives in the Company's Corporate Governance Report.

8. Review of the Nomination Policy

8.1 The Nomination Committee will review the Nomination Policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

Corporate Governance Functions

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

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the directors and the senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The Board has performed the above duties during the year ended December 31, 2018.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2018.

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

The statement of the independent auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 96 to 101 of this annual report.

Corporate Governance Report

DIVIDEND POLICY

On December 20, 2018, the Company adopted a dividend policy (the "**Dividend Policy**") in accordance with the CG Code, which outlines the factors that should be taken into account in determining any dividend for distribution to the Shareholders. Under the Dividend Policy, subject to applicable laws and the Articles, the Board has absolute discretion on whether to declare and distribute dividends. In addition, the Shareholders may in a general meeting declare dividends, but no dividend may be declared in excess of the amount recommended by the Board. In either case, a dividend may be declared and paid out of the profits of the Company or from any reserve set aside from profits which the Directors determine is no longer needed. In no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. Even if the Board decides to pay dividends, the declaration, payment and amount of dividends will depend upon the Company's earnings and financial condition, operating requirements, capital requirements and any other conditions that the Board considers relevant.

Any future dividend payments to the Shareholders will also depend upon the availability of dividends received from our subsidiaries. Regulations in China may restrict the ability of our Chinese subsidiaries to pay dividends to the Company.

The Company does not have a fixed dividend payout ratio. The Company currently intends to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

If the Company pays any dividends on the Shares, unless and to the extent that the rights attached to the Shares, or the terms of issue thereof otherwise provide, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on Shares in advance of calls may for this purpose be treated as paid up on the Shares; and (ii) all dividends will be apportioned and paid pro rata according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any of the Shareholders all sums of money (if any) presently payable by such Shareholders to the Company on account of calls, installments or otherwise.

The Dividend Policy reflects the Board's current views on the Company's financial and cash flow position. It will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount, if at all, for any given period.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management process

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

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

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

The Audit Committee of the Board also reviews the Company's financial controls, risk management and internal control systems/policies on a regular basis. During the year ended December 31, 2018, the Audit Committee conducted reviews of the effectiveness of the risk management and internal control system/policies of the Group. The reviews had covered various aspects of the Group's risk management and internal control system/policies. The reviews results were reported to the Board. The Board is satisfied that such systems/policies are effective and adequate.

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

The Group has established an internal audit function which is responsible for identifying and monitoring the Group's risks and internal control issues. In 2016, the Group engaged an independent third-party external advisor to review the risk management and internal control systems of the Group. In 2017 and 2018, the Board has further strengthened the risk management and internal control systems/policies of the Group by having recruited suitable manpower and qualified personnel to cope with the present structure and scale of operations of the Group. Results of audit work together with an assessment of the overall internal control framework are reported to the Audit Committee as appropriate. The internal audit function also reviews the Company's management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issues.

Review on risk management and internal control system

The Company has conducted annual review on the effectiveness of the Group's risk management and internal control systems for the year ended December 31, 2018 and confirmed that the Group's risk management and internal control system in respect of financial, operational, compliance, risk management and adequacy of resources, are effective and adequate.

Corporate Governance Report

AUDITOR'S REMUNERATION

A breakdown of the remuneration payable to the external Auditor of the Company, PricewaterhouseCoopers, in respect of the audit services and the non-audit services for the year ended December 31, 2018 is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	6,775
Non-audit Services	420
	7,195

JOINT COMPANY SECRETARIES

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

Mr. Ngan, our Chief Financial Officer, joined our Group in June 2015. Mr. Ngan is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of the Group. Prior to joining our Group, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame Holdings Limited, a mobile games and webgames company listed on the Stock Exchange (Hong Kong Stock Exchange Stock Code: 484) where he worked from May 2012 to June 2015, and was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science degree in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484) from February 2013 to November 2014.

Ms. Lee is an associate member of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee obtained a bachelor's degree in business administration from The Open University of Hong Kong in June 2002. She obtained a master's degree in business administration from The Open University of Hong Kong in December 2004. She has more than 15 years of experience in the field of company secretarial services. As Ms. Lee is not an employee of our Group, Mr. Ngan, our Chief Financial Officer, is the person whom Ms. Lee can contact for the purpose of code provision F1.1 of the CG Code.

During the year ended December 31, 2018, Mr. Ngan and Ms. Lee have complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended December 31, 2018.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Corporate Governance Report

Contact Details

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

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

Email: ir@meitu.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

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

Reporting Period and Scope

Unless otherwise stated, the Report covers the locations where we operate our core businesses, including our headquarter in Xiamen, the People's Republic of China (the "PRC"), our offices in Beijing, Shanghai, Hangzhou, Shenzhen, Guangzhou and Hong Kong, our newly acquired 100% owned subsidiary, Ruisheng Advertising, for the period from 1 January 2018 to 31 December 2018 (the "Reporting Period").

Reporting Standards

The Report has been prepared in accordance with the disclosure requirements of the Environmental, Social and Governance ("ESG") Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") issued by the Stock Exchange of Hong Kong Limited (the "HKEX").

Access to the Report

As part of the Group's annual report, the Report has been prepared in both English and Chinese and is available on the Group's website at https://corp.Meitu.com/.

Contact Information

We highly value opinions from our stakeholders. You are encouraged to give suggestions regarding the Report or the Group's overall performance in sustainable development. Please contact us at email: ir@Meitu.com.

Environmental, Social and Governance Report

AWARDS AND INDUSTRY PARTICIPATION

Award	Organizer
Hong Kong Listed Companies Strong Development Ranking*	Securities Times
Best Innovation Breakthrough of the Year*	2018 Tmall Consumer Electronics Ecology Summit*
Most Media Value Award*	TalkingData
Top 50 Chinese Brands	Facebook and KPMG
2018 Global Excellent Mobile Phone, Best-selling Mobile Phone for the year of RMB¥3000–3999*	Mobile No.1 Research Institute*
2018 Mobile Marketing Case of the Year*	Mobile Internet Marketing Summit*
2018 Popular Mobile Phone Ranking*	Tmall Annual New Product Awards*
TOP30 Track User Size NO.1 APP*	China Mobile Internet
2018 China Mobile Internet's TOP10 APP with the Highest Commercial Value*	China Mobile Internet
2018 China Mobile Internet Panorama Ecoflow TOP Player Awards*	Quest Mobile

AI Challenger 2018

* *For identification purpose only.*

OUR APPROACH TO SUSTAINABILITY

Pursuit of beauty is an inherent nature of human being and the instinctual desire of all people. Our corporate mission:-

"to inspire more people in expressing their beauty"

is the cornerstone driving our sustainable development.

People and beauty is the core of our business. We do all our best to enable people to express their beauty in different ways and different styles, but we believe people are the core. Our sustainable value also puts our stakeholders in the core and develops the beauty of sustainability in four dimensions:

The Beauty of Healthy Social Networking

- Providing a healthy and safe social networking platform for our users to share their beautification experience.

The Beauty of Staff Caring and Support

- Offering a motivating and supporting environment to help them make their dreams come true.

The Beauty of Environmental Protection

- Minimizing the impact to the environment while promoting environmentally-friendly practices across our operation.

The Beauty of Community Contribution

- Organizing various community events to help promote harmony in our society.

We have embarked upon our sustainable beautification journey with an aim to create a better world.

ESG Risk Management

The Board oversees ESG risk as a strategic issue and has adopted a series of risk management procedures to ensure the key concerns of stakeholders and the long-term value of the Group are consistent. The Board determines and defines what is important and the long-term value to the Group. The management assesses and determines the risks and opportunities associated with ESG matters and considers their implications. Various departments of the Group continuously and comprehensively collect internal and external data and opinions of stakeholders through different channels, historical data, future forecast and cases as well as information about other relevant domestic and overseas companies. The Group formulates ESG-related controls to address significant ESG risks, and those controls are operated effectively at appropriate business levels. The Board oversees the ESG matters and ensures that long-term values could be delivered to our stakeholders.

Environmental, Social and Governance Report

Stakeholder Engagement

The views of our stakeholders lay a solid foundation for the long-term growth and success of the Group. We have been engaging various stakeholders on an ongoing basis, such as our employees, suppliers, shareholders, governments, customers and users as well as communities to understand their views and identify material aspects for our sustainable development.

Key stakeholders and regular engagement pathways

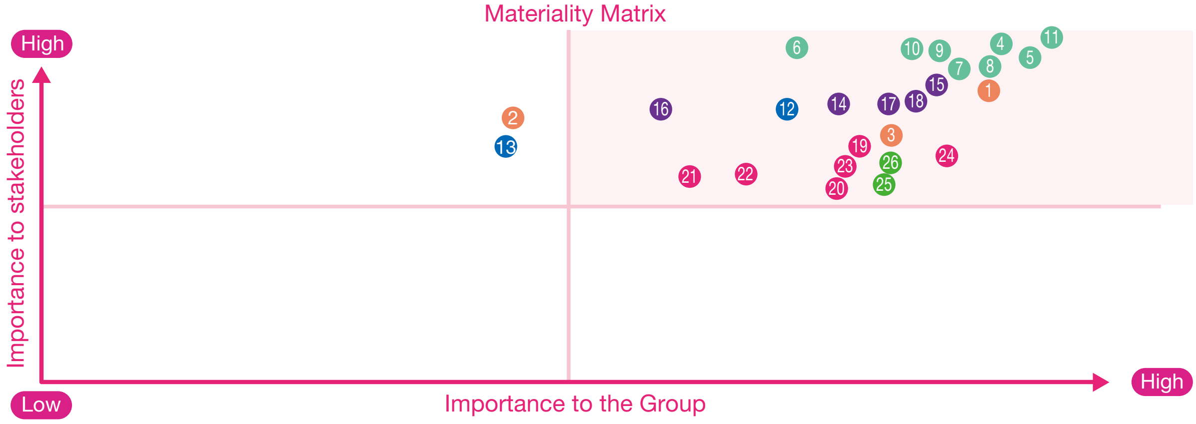
Employees	• Various MT-Club activities • Internal communication system • Annual Meeting	• Regular Meetings • Performance appraisal • Social media
Suppliers	• Field trips • Assessment	• Audit Continuous • Direct communication
Investors and Shareholders	• Meetings • Annual reports, • Investor briefings • The Group's website	• Roadshow • Investor summits • Direct communication
Government	• Direct communication • Annual meeting	• Forums • Seminars and workshops
Customers & Users	• The Group's website mass media • Direct communication • Customer satisfaction survey	• Social media • Customer service hotline • Experience store
Community	• The Group's website • Mass media	• Social media • Direct communication

Materiality Analysis

We have engaged an independent third-party consultant to conduct an online stakeholder survey in order to enable stakeholders from different sectors to share their views on our sustainable development performance. We believe this will allow us to develop appropriate strategies in response to the needs of stakeholders, and nip risks in the bud. In addition, it is vital to identify stakeholders' concerns for determining the material and relevant issues of the Report.

In order to identify and prioritize the issues that are crucial to the Group's development and most concerned by our stakeholders, as well as to understand the opinions of internal and external stakeholders, we conducted a substantive assessment. We have conducted ongoing reviews on previous and existing engagement results, local reporting standards and latest sustainability trends in the industry to identify relevant material issues. This year, 26 issues were identified. Stakeholders were invited to rank the importance of the identified ESG topics. We mapped the results of our materiality analysis onto a matrix to reflect the relative importance and impact of the 26 issues to our stakeholders and the Group. A total of 24 topics were considered as material this year. The results thereby serve as a guide for the preparation of the Report.

Materiality Matrix



Material issues considered

Operating practices

1. Anti-fraud corruption
2. Assessment of suppliers' performance in environmental protection (such as emissions) and social responsibility (such as treatment of employees and charitable activities)
3. Supply chain source traceability

Product responsibility

4. Product development
5. Product quality
6. Customer Service
7. Product Safety and Health
8. Product and Service Compliance
9. Intellectual Property Maintenance
10. Internet Information Security
11. User Data and System Security

Human rights protection

12. Diversity and equal opportunities (age, gender, disability, etc.)
13. Prevention of child labor and forced labor

Workplace practices

14. Employee benefits
15. Training and development
16. Employment relationship
17. Communicate with employees
18. Occupational Safety and Health

Environmental protection

19. Energy efficiency
20. Greenhouse gases and emissions
21. Utilization of natural resources (including water and packaging materials)
22. Waste management
23. Other impacts on the environment
24. Environmental promotion and promotion

Community involvement

25. Charitable donations
26. Organizing charity events

Environmental, Social and Governance Report

Corporate Governance

Anti-corruption

Integrity is the core value of Meitu. We require our staff to strictly abide by the relevant laws and regulations including Criminal Law of the PRC (《中華人民共和國刑法》) and the Prevention of Bribery Ordinance of Hong Kong (Cap. 201). In particular, the below measures are taken to establish a good culture with high ethical standards.

The internal control department is established to promptly identify and address the problems and deficiencies exciting in the operational management process.

The internal control department pays regular visits to suppliers to deliver our message on promoting integrity and anti-fraud as well as listening to their feedback on integrity issues found in the course of our cooperation.

Our internal documents, including the Staff Handbook, clearly stipulate the procedures for handling issues such as declaration of interests, commercial confidentiality, customer and corporate information protection, claim request and corruption.

Internal and external whistleblowing channels including hotline and e-mail box are provided and we ensure that whistle-blowers are protected when assisting in investigation.

During the Reporting Period, the Board was not aware of any lawsuits involving corruption, bribery, extortion, fraud or money laundering against the Group. For other issues related to our corporate governance practices. Please refer to our Corporate Governance Report for detail.

Supplier Management

Meitu has implemented stringent management regulations on supplier selection as well as continuous monitoring and management of suppliers. During the Reporting Period, Meitu's major suppliers included mobile accessory providers and *MeituBeauty*'s cosmetic product providers. Meitu has formulated the Management Regulations on Purchase Orders (《採購訂單管理規範》) and Meitu, Inc. Management Regulations on Fixed Assets and Other Non-Production Material Procurement (《美圖公司固定資產及其他非生產物料採購管理規範》) with an aim to enforce strict management of our internal procurement process.

We believe that our suppliers' ethics and performance may affect the quality of our services and products as well as the Group's reputation. The Group strives to adopt the best environmental and social practices. We expect that our business partners uphold the same philosophy by maintaining a high standard of integrity, treating their employees fairly, protecting the environment and observing all applicable regulations. With regard to environmental protection, occupational health and safety, conduct and morality, laws and regulations, we have formulated the Supplier Code of Practice (《供應商行為守則》), which clearly states the Group's essential requirements for business partners. All suppliers are required to sign off to show their acceptance to adhere to the Supplier Code of Practice.

Environmental, Social and Governance Report

THE BEAUTY OF HEALTHY SOCIAL NETWORKING

As of December 31, 2018, the total number of monthly active users ("MAUs") for the full suite of apps was 416 million. Our users rely on our products to take selfies, make touch-ups and connect in community. It is of paramount importance to ensure our products work well in compliance with relevant laws and regulations.

User Privacy Protection

To create a safe platform for our users to socialise, user privacy protection is our priority. To comply with the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), the following measures are taken to protect user privacy:

New users have to create a Meitu ID through which we authenticate the identity information of the registered users under the principle that mandatory real names are registered at the back-office end while voluntary user names are displayed at the front-office end.

We follow the principle of legality, rightfulness and necessity to establish and perfect the mechanism for the protection of users' information.

New users are required to indicate their acceptance to our Privacy Policy and Meitu ID Regulations where we indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users' personal information.

We safeguard users' right to know and to make choices when users are installing or using such applications. Users could cease using Meitu ID services anytime by requesting a cancellation. Once the Meitu ID has been canceled and the associated personal information would be deleted.

In response to the General Data Protection Regulation released by the European Union in May 2018, service of *BeautyCam* was temporarily terminated to update the relevant user privacy policy to meet the requirement of the regulation.

Intellectual Property Rights Protection

We respect the owners of copyrights and do all our best to protect their intellectual properties rights. We monitor to screen the content with our prescribed standard to prevent anyone from using our platform to violate the interests of copyright holders, which includes, among other things, the list of copyright-protected work products publicly available on the website of the National Copyright Administration of the PRC (中華人民共和國國家版權局). We immediately remove any content that is found to have violated any copyrights on the list. In addition, if a copyright holder asserts, with supportive evidence, his/her copyright to certain content available on *Meipai*, we will remove the disputed content within 48 hours of the claim and notify the uploading user of the reason for the removal, including the concern that the content might constitute copyright infringement.

Healthy Social Networking Platform

Environmental, Social and Governance Report

We endeavour to only provide healthy content on our social platforms. To comply with the Administrative Measures for Internet Information Services《互聯網信息服務管理辦法》, we have taken concrete measures to prohibit any content on obscenity, pornography, gambling, violence, murder or fear or any content that incites the commission of crimes to be on our social platforms. In particular, pursuant to the Administrative Regulations on Online Live-streaming Services (《互聯網直播服務管理規定》) and the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》), *Meipai* has implemented the following new measures during the Reporting Period:

Improve technology management mechanism to enhance our content management capability

- Strengthen collaboration with domestic image recognition service providers to improve the image recognition function of the platform;
- Introduce voice recognition technology and arrange reviewers to review text contents in order to prevent the use of offensive or abusive language;
- Optimize keyword recognition to hide words relating to personal information, commentary, video descriptions, private messages, etc.;
- Establish a violation reporting mechanism to identify videos for priority review;
- Conduct priority monitoring and review for contents with high hit rates and conversion rates (outside the platform).

Enhance team building to establish a sustainably effective management supervision mechanism

- Expand our content review team and comprehensively rectify the deficiencies of algorithms and device;
- Establish a content rectification committee to comprehensively optimize the system;
- Establish a blacklisting system to search and block offending users.

Meipai Supervisors Programme

In addition to our internal team, we also encourage and welcome our users to apply for becoming one of our *Meipai* supervisors, assisting us to maintain *Meipai*'s order. Applicants must meet our application requirements and follow our application procedures. We have developed work, appraisal and incentive mechanisms for successful applicants, which set out the work, performance review and rewarding procedures in details.

Quality Hardware

Meitu Smartphone

Besides the wide range of smartphone Apps, Meitu has been launching our own smartphone since 2013. Our smartphones are designed for optimizing the selfie-taking experience, and are equipped with distinctive selfie-related features such as high-quality cameras, auto-beautification, and high-quality image under low-light conditions. We design and develop Meitu smartphones in-house and source and procure a majority of the components. In terms of production, we have a set of corresponding requirements for raw material specifications, assembly process and inspection to make sure the final product is safe to be used.

We arrange our quality control team to station at the production line where our contract manufacturers assemble our phones to ensure their logistic, warehousing, production and inspection procedures are in accordance with the international ISO9001 Quality Management System standard and the final products comply with the Product Quality Law of the PRC (《中華人民共和國產品質量法》). Moreover, we have introduced different levels of requirements, including wireless communications capabilities, software and hardware reliability, security and user interface. All selected accessories are accompanied by quality certificates and are subjected to strict safety evaluation and pre-qualification trial prior to the mobile phone manufacturing process. We have also obtained the ISO9001:2008 standard certification ourselves for our research and development, production, inspection and testing as well as after-sales services.

Environmental, Social and Governance Report

Beautymore Skin Quality Analyzer

In June 2018, Meitu launched our first beauty smart hardware product, *BeautyMore*, a skin quality analyzer. Our users now are not only be able to obtain a highly accurate report of their skin condition, but 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.

In order to ensure product quality and safety, we engaged qualified third-party inspection and testing bodies to conduct comprehensive tests on *BeautyMore* before rolling out the skin quality analyzer.

Product Labelling

To safeguard our customers' rights and to comply with the Product Quality Law of the PRC (《中華人民共和國產品質量法》), our hardware products are embedded with accurate labelling. In particular, the user manual of our products includes specifications, characteristics, safety precautions and warranty card.

App Recall Procedure

As a responsible enterprise, in any case that any bug or defect is found in any of our app products that has already been launched, a special group will be formed to conduct mitigation measures. Updates will be made and our app products will be launched again after thorough inspection and testing processes have been done.

Hardware After-sales Service

We protect the rights and interests of our customers in accordance with relevant laws and regulations including the Law of the PRC on the Protection of Consumer Rights and Interests. In case there is any quality problem on our hardware product including mobile handsets and skin quality analyzer, customers are entitled to product return within seven days, exchange within 15 days and repair within one year from the date of purchase. In addition, users who have purchased Meitu mobile phones or skin quality analyzer via our official online channels can enjoy product return within seven days for undisclosed reason. Meitu has implemented a comprehensive warranty policy in accordance with the Mobile Phone Performance Failures Table (《移動電話機商品性能故障表》) stipulated by the government. Under the policy, customers can bring their mobile phones, warranty certificates, shopping lists or invoices to Meitu's authorized service outlets to run tests on their mobile devices. If Meitu's authorized service outlets detect errors and the maintenance or return condition is fulfilled, Meitu will provide corresponding warranty or return service in accordance with the Meitu Mobile Phone Repair Policy (《美圖手機維修政策》).

User Engagement

We strongly reckon that user feedbacks are our source of improvement. Therefore, we provide feedback channels across our apps and form independent user service team for each app. User feedback handling procedure is established to serve as a guideline to optimize our service to our users. We actively interact with our users to better understand their needs from where we could gain insight to enhance our products. Besides online communication, we also organize offline engagement campaigns to directly reach our target users.

Environmental, Social and Governance Report

THE BEAUTY OF ENVIRONMENTAL PROTECTION

The Group endeavours to promote environmental responsibility and to solicit employees' efforts to reduce emissions. Due to the nature of our business, the operation of Meitu is mainly office-based. However, we do not slacken our efforts in environmental protection. The Group works in strict compliance with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and other relevant laws and regulations, so as to proactively create a better environment. During the Reporting Period, Meitu did not identify any non-compliance regarding environmental issues.

Green Hardware Product

Meitu strives to provide environmentally friendly products and encourage users of our products to enjoy our products in an environmentally-friendly manner. We believe the most effective way to reduce the environmental impact of our products is to extend their product life. Therefore, we offer trade-in service and recommend users to dispose the product through electronic product waste recyclers when it is completely out of function.

Trade-in services

For Meitu smartphones, Meitu has engaged a qualified recycling company (the "Recycling Platform") to provide our customers with trade-in services at our official website. Customers can directly conduct trades with the Recycling Platform if they would like to enjoy the services, including price valuation, negotiation and mobile delivery. By implementing this measure, Meitu not only encourages and raises environmental awareness among the public, but also minimizes the impacts on the environment.

Energy Efficiency and Air Emissions

Greenhouse gases and air emissions generated by the Group are mainly from the use of electricity in our offices and petrol used by our company vehicles. To help improve the roadside air quality, we switch to use more electric vehicles rather than petrol-fuelled vehicles. We encourage emission reduction and energy saving measures, which not only bring about environmental benefits, but also reduce our operating expenses.

Offer staff shuttle bus service before and after office hours.

During summer time, set the temperature of air conditioning in our office at 24 to 26 degree Celsius to conserve electricity.

Strengthen the energy-saving management of power consumption equipment.

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

Consider the durability of office supplies during the procurement process.

Advise staff to develop the habit of turning off unnecessary lighting.

Turn off office lighting for one hour during lunch time.

Use of energy-saving lighting fixture.

Environmental, Social and Governance Report

With the above energy saving initiatives, we have managed to achieve significant results despite office expansion. Below is our emission and energy consumption performance during the Reporting Period.

Emission	Unit	2018	2017
Total Greenhouse Gas (GHG) Emissions	Tonnes of CO_2e	**1,965.29**	1,481.39
Direct Emissions (Scope 1)	Tonnes of CO_2e	**105.21**	261.47
Indirect Emissions (Scope 2)[1]	Tonnes of CO_2e	**1,860.08**	1,219.92
Intensity of Total GHG Emissions (Scope 1 and 2)	Tonnes of CO_2e/m^2	**0.06**	0.08
Nitrogen Oxides (NOx)	kg	**19.51**	7.22
Sulphur Oxides (SOx)	kg	**0.58**	0.28
Particulate Matter (PM)	kg	**1.44**	0.53

Energy	Unit	2018	2017
Total energy consumption	MWh	**2,878.78**	1,852.78
Purchased electricity[1]	MWh	**2,519.16**	1,679.79
Unleaded petrol	MWh	**359.62**	172.99
Intensity of energy consumption	MWh/m^2	**0.09**	0.10

1 Purchased electricity consumption and its corresponding indirect GHG emissions do not include some of our leased premises in Xiamen as the electricity supply is controlled by the property management and data is unavailable to individual tenants.

Water management

Water is an important and valuable natural resource. Although the Group's business does not involve intensive use of water, we still strive to promote water-saving practices in our operations. During the reporting year, water consumption is kept to a minimum despite office expansion.

Reminders in the form of "Save Water" signs are placed in the lavatories and pantries to remind our employees to save water.

Freshwater pipelines are checked regularly. Action is taken immediately if any leakage is detected to prevent wastage of freshwater.

Water[2]	Unit	2018	2017
Total water consumption	m^3	**7,2610.50**	5,936.04
Intensity of water consumption	m^3/m^2	**0.82**	0.97

2 Water consumption does not include some of our leased premises in Xiamen, Beijing and Hong Kong as the water supply is controlled by the property management and data is unavailable to individual tenants.

Waste management

Due to the nature of our office-based operation, waste generated by Meitu is not significant. No significant hazardous waste is generated, except for a small amount of waste batteries, toner and cartridges. They are collected and handled by a qualified third party. Office general refuse including waste paper is our main source of non-hazardous waste which is handled properly on a daily basis to maintain hygiene in workplace. During the reporting year, non-hazardous waste generation is maintained at a similar intensity level as the last reporting year and we have extended our disclosure to hazardous waste generation.

Waste	Unit	2018	2017
Total non-hazardous waste generated[1]	Tonnes	**508.09**	376.26
Intensity of non-hazardous waste generated	Tonnes/m^2	**0.02**	0.03
Total hazardous waste generated[2]	Tonnes	**0.46**	/
Intensity of hazardous waste generated[2]	kg/m^2	**0.01**	/

1 Figure for 2017 non-hazardous waste has been revised.

2 No reliable data on 2017 hazardous waste is available.

Since a green and comfortable working environment helps improving working efficiency, Meitu is committed to maintaining a sound order and a hygienic and neat environment in the office area. Reminders in the form of notices are placed in the common areas in the offices to remind our employees to minimize waste generation. During the Reporting Period, the Group has adopted the following measures to create a greener and better working environment.

Implementing intelligent office systems for filing and reporting to minimize the use of paper.

Reusing paper products, such as manila envelopes and envelopes for internal document transfers.

Provide reusable tableware in office to reduce the use of disposable tableware.

Reduce the use of plastic trash bags by only replacing the garbage bin liners when necessary.

Environmental, Social and Governance Report

Packaging Management

Meitu's consumption of packaging materials mainly comes from the packaging of smart phones, *Beautymore* skin Quality Analyzer and beauty products from *MeituBeauty*'s business.

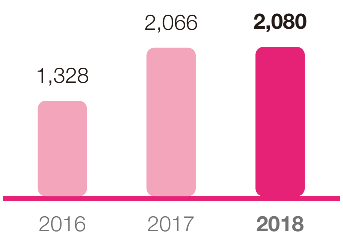
We use 100% recyclable cardboards which are up to the standard of National Forestry Union (國家林業工會) for packaging in our *MeituBeauty* business.

Packaging Materials	Unit	2018	2017
Total packaging material for finished goods	Tonnes	**570.27**	794.51
Packaging material intensity	tonnes/m^2	**0.02**	0.03

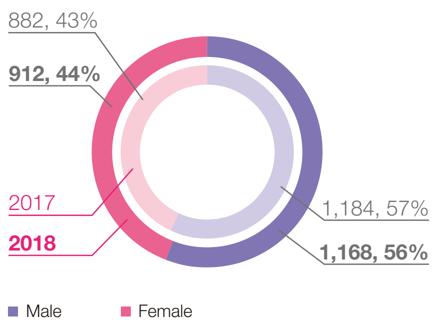
THE BEAUTY OF STAFF CARING AND SUPPORT

Workforce statistics at a glance*:

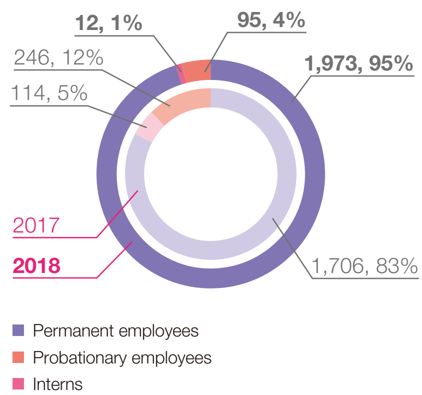
Total Headcount



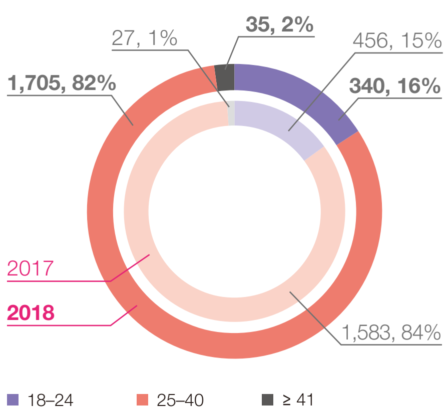
Distribution by Gender



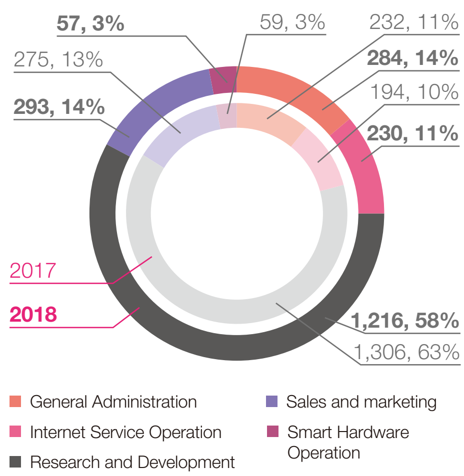
Distribution by Employment Type



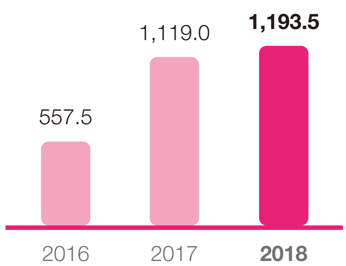
Distribution by Age Group



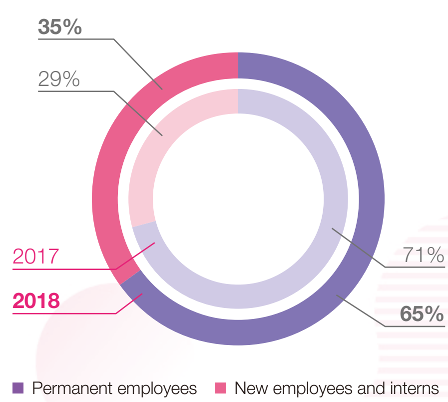
Distribution by Job Function



Total Training hours



Proportion of Training Attendees by Employment Type



* Included data of the whole Group.

Environmental, Social and Governance Report

Staff Benefits and Activities

To keep our pulse on the market and shifting consumer winds among our core customer demographics, more than 40% of our 2,000-strong workforce are women. The mean age of our workforce is 27 and more than one in five employees were born after 1995, the so-called Generation Z. We fully understand that our young population demands a working environment that is interesting and dynamic enough to unlock their potential. As such, besides the basic entitlements as required by law including the Labor Law of the PRC and the Employment Ordinance of Hong Kong (Cap. 57), we provide extra benefits with competitive remuneration packages.

Birthday Shopping Cards	Training Subsidies	Business Trip Allowances	Paid Examination Leaves
Free Shuttle Bus Services	Annual Physical Examination	Free Breakfast Supplies	External Entertainment Staff Discount

To boost employees' morale and enhance their senses of belonging, staff activities are frequently held.

Meitu offers flexible working hours of 7.5 hour a day and 5 days a week and we encourage employees to complete their work during working hours. If overtime is arranged by the Company, Meitu requires the relevant departments to submit the reasons for overtime work, a list of overtime employees and the proposed overtime hours two working days in advance, and that employees' overtime in a month cannot exceed 36 hours. We provide reimbursement of taxi fares and dinner allowance for employees working overtime.

Workplace Fairness

Meitu looks to assemble our team by recruiting individuals with different talents who share the same values as Meitu. Meitu endeavors to create synergistic workforce where different talents work collaboratively towards a common goal. We assign personnel to positions based on each individual's qualifications and needs of the Company. Every job candidate has equal chance to compete for job positions. To find the right talents, Meitu has fully utilized different recruitment channels, such as campus recruitments, job-hunting websites, headhunters, employee referrals and Meitu's official website. In addition, Meitu also prohibits the employment of child labor and forced labor. Provisions on employee turnover are detailed in our staff handbook.

Environmental, Social and Governance Report

Occupational Health and Safety

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

Training and Development

Meitu is committed to formulating a comprehensive training system to effectively promote business development. Meitu hopes to integrate the learning spirit into its corporate culture to enable employees to achieve their own values in Meitu. We planned and organized a total of 149 training courses totaling 1,177 hours during the Reporting Period, among which, 34 courses were organized in Xiamen totaling 804 hours with 2,962 attendees and 115 courses were organized in Shanghai, Beijing, Shenzhen and Hangzhou totaling 372.5 hours with 5,345 attendees.

New Employee Trainings	• Set Sail with Meitu • New Employee Mentor Program
Management Trainings	• Management Training Camp • Special Cultivation Program for Core Middle Management
Occupational Trainings	• MTC Lectures • Sharing Mechanism Among Departments • Professionals Trainings
Branding-related Trainings	• Meitu Hackday • Meitu Internet Technology Salon • Meitu Labshow • MT Utalk

Environmental, Social and Governance Report

In order to enable our newly joined employees to adapt quickly to our corporate culture and working environment, we provide them with a number of new employee trainings. During the Reporting Period, over 1,416 new employees in Xiamen, Beijing, Shenzhen Shanghai, Hangzhou and Hong Kong received trainings, details of which are set out below:

Location	Total training hours	Total number of attendees	Number of sessions held in 2018	Accumulated total number of sessions held
Xiamen	189 hours	625	13	50
Beijing	126 hours	397	17	40
Shenzhen	82.5 hours	250	11	24
Hangzhou	18.5 hours	144	6	16

During the Reporting Period, Meitu organized a total of 760.5 hours of professional training courses for management with a total attendance of 6,875, covering law knowledge and leadership for improving management capability.

2018 Set Sail with Meitu

Environmental, Social and Governance Report

THE BEAUTY OF COMMUNITY CONTRIBUTION

The year 2018 marked a milestone for Meitu's business development. In addition to our popular software and hardware products, we announced the implementation of our "Beauty & Social Media" strategy in September. With growing global influence, Meitu has always recognized our responsibility in making social contributions in various aspects.

NO COLORISM Project

BeautyCam hosted a charity event themed "NO COLORISM" during the World Cup period, launching a "NO COLORISM" named image filter with four different skin colors from fair to dark: porcelain, warm beige, honey and cinnamon. With BeautyCam, users can experience the beauty of different skin colors by pressing just one button. As soon as it was launched, the campaign received encouraging response from football fans and secured media coverage from around the world. A number of famous artists including Ivy Chen and Liu Xuan forwarded the relevant photos on Weibo to show their support for "NO COLORISM". In addition to the online campaign, BeautyCam also held a charity art exhibition at VDNKH Park Plaza in Moscow, Russia on 11 July 2018, attracting football fans of different skin colors stopped by to admire the exhibits on display.

Environmental, Social and Governance Report

Caring for Moon Bears

In July 2018, *Meitu* co-organised the “Protecting Moon Bears” charity event with the Animal Asia Foundation. Rolling out a moon bear-themed Augmented Reality (AR) filter, we encouraged users to take photos and share them on social media accounts, thereby promoting the message of protecting moon bears and animals. During the event, a number of celebrities such as Karen Mok, Jeff Chang and Jackie Lui shared their selfies taken with the moon bear-themed AR filter online, calling on society to protect moon bears.

Anti-Gambling

On 20 July 2018, *Meipai* organized an anti-gambling live promotional event themed “Observing the Law and Abstaining from Gambling”. Two police officers were invited to the live event to discuss the harms of gambling by sharing real-life cases. With over 90,000 online views, the broadcast has successfully delivered the anti-gambling message to the youth community.

Environmental, Social and Governance Report

Meet the Most Beautiful Labourers

Between July and September 2018, under the guidance of the Mobile Network Administration of Cyberspace Administration of China, *Meipai* cooperated with Xinhua New Media Culture Communication Co., Ltd. to hold an event called "Meeting the Most Beautiful Labourers" (遇見最美勞動者). We encouraged the public to take photos or videos of hard-working labourers, with an aim to share positive energy and salute people doing labour work in our society. More than 20 million of *Meipai* users took part in the event to express their gratitude to labourers for their contributions to community.

HKEX ESG REPORTING GUIDE INDEX

KPI	Chapter/Omission Reason
A. Environment	
Aspect A1: Emissions	
A1-General disclosure	The Beauty of Environmental Protection
A-1.1	The Beauty of Environmental Protection
A-1.2	The Beauty of Environmental Protection
A-1.3	The Beauty of Environmental Protection
A-1.4	The Beauty of Environmental Protection
A-1.5	The Beauty of Environmental Protection
A-1.6	The Beauty of Environmental Protection
Aspect A2: Use of Resources	
A2-General disclosure	The Beauty of Environmental Protection
A-2.1	The Beauty of Environmental Protection
A-2.2	The Beauty of Environmental Protection
A-2.3	The Beauty of Environmental Protection
A-2.4	The Beauty of Environmental Protection
A-2.5	The Beauty of Environmental Protection
Aspect A3: The Environment and Natural Resources	
A3-General disclosure	The Beauty of Environmental Protection
A-3.1	The Beauty of Environmental Protection
B. Society	
Aspect B1: Employment	
B1-General disclosure	The Beauty of Staff Care and Support
B-1.1	The Beauty of Staff Care and Support
B-1.2	The Beauty of Staff Care and Support
Aspect B2: Health and Safety	
B2-General disclosure	The Beauty of Staff Care and Support
B-2.1	No cases of death from work during the Reporting Period
B-2.2	No relevant proposed disclosure would be disclosed this year
B-2.3	The Beauty of Staff Care and Support

KPI	Chapter/Omission Reason
Aspect B3: Development and Training	
B3-General disclosure	The Beauty of Staff Care and Support
B-3.1	The Beauty of Staff Care and Support
B-3.2	No relevant disclosure would be made this year
Aspect B4: Labour standards	
B4-General disclosure	The Beauty of Staff Care and Support
B-4.1	No relevant disclosure would be made this year
B-4.2	No relevant disclosure would be made this year
Aspect B5: Supply Chain Management	
B5-General disclosure	Supplier Management
B-5.1	No relevant disclosure would be made this year
B-5.2	No relevant disclosure would be made this year
Aspect B6: Product Responsibility	
B6-General disclosure	The Beauty of Healthy Social Networking
B-6.1	No relevant disclosure would be made this year
B-6.2	No relevant disclosure would be made this year
B-6.3	The Beauty of Healthy Social Networking
B-6.4	The Beauty of Healthy Social Networking
B-6.5	The Beauty of Healthy Social Networking
Aspect B7: Anti-Corruption	
B7-General disclosure	Anti-corruption
B-7.1	No such cases during the Reporting Period
B-7.2	Anti-corruption
Aspect B8: Community Investment	
B8-General disclosure	The Beauty of Community Contribution
B-8.1	No relevant disclosure would be made this year
B-8.2	No relevant disclosure would be made this year

Independent Auditor's Report

To the Shareholders of Meitu, Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Meitu, Inc. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 102 to 201, which comprise:

- the consolidated balance sheet as of December 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

Net realizable value of inventories is identified as a key audit matter in our audit, and is summarized as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
*Net realizable value ("**NRV**") of inventories*	
Refer to Notes 2.11 "Inventories", 4 "Critical accounting estimates and assumptions" and 19 "Inventories" to the consolidated financial statements. In November 2018, the Group undertook a change in its business model for smart phone business to form a strategic cooperation with a business partner, in which the partner will be responsible for design, research and development, production and marketing of all future branded smartphones of the Group. In addition, the Group also undertook to cease its e-commerce business. These changes triggered management of the Group to assess the net realizable value ("NRV") of inventories relating to these two lines of business in order to write down their respective carrying amounts accordingly. As of December 31, 2018, the gross balances of the inventories (including raw materials, finished goods and merchandise) were RMB793,288,000 and the respective NRV were assessed to be RMB359,439,000. The write-down of the inventory balance amounting to RMB403,317,000 was expensed in the income statement.	• We interviewed with senior management of the Group and reviewed relevant business restructuring plans relating to the changes in business models of these two lines of businesses. • We evaluated and tested the key controls exercised by management of the Group over the assessment of NRV of the related inventories. • For finished goods and merchandise as of 31 December 2018, we tested the inventories relating to the two lines of businesses prepared by management, on a sample basis, by comparing the estimated selling prices with reference to the signed contractual prices, subsequent selling prices achieved and quotations provided by manufacturing subcontractors and distributors, respectively. We also evaluated the future market trends which management had considered in determining the estimated selling prices, including possible changes in the smart phone market, customer demands, technological changes and other market factors.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventories are required to be stated at the lower of cost and NRV. The NRVs of inventories are determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sales, and the related taxes. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices, impact of changes in business models and future market trends and changes. We focused on this area because of the magnitude of the amounts and the significance of management judgements involved.	• For raw materials on hand relating to smart phone handsets as at 31 December 2018, we assessed the reasonableness of the estimated costs to completion and related selling expenses by comparing with the historical manufacturing and selling and related committed processing costs, if any. • We tested the mathematical accuracy of the calculation of NRV. Based on the procedures we performed, we found the management's estimation and judgement involved in determining the provisions was supported by the evidence we gathered.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wilson W.Y. Chow.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 20, 2019

Consolidated Income Statement

	Note	Year ended December 31, 2018 RMB'000	2017* RMB'000
Continuing operations			
Revenue	5	**2,791,459**	4,490,376
Cost of sales	5, 8	**(2,362,134)**	(3,421,255)
Gross profit		**429,325**	1,069,121
Selling and marketing expenses	8	**(1,020,801)**	(559,197)
Administrative expenses	8	**(285,721)**	(210,451)
Research and development expenses	8	**(699,232)**	(415,803)
Other income	6	**40,711**	49,364
Other gains/(losses), net	7	**483,365**	(47,248)
Finance income, net	10	**39,656**	99,664
Share of (losses)/profits of investments accounted for using the equity method	15(a)	**(3,382)**	16
Loss before income tax		**(1,016,079)**	(14,534)
Income tax expense	11	**(27,234)**	(63,568)
Loss from continuing operations		**(1,043,313)**	(78,102)
Loss from discontinued operation (attributable to equity holders of the Company)	34	**(199,753)**	(119,222)
Loss for the year		**(1,243,066)**	(197,324)
(Loss)/profit attributable to:			
— Owners of the Company		**(1,254,537)**	(197,324)
— Non-controlling interests		**11,471**	—
		(1,243,066)	(197,324)
Loss per share for loss from continuing operations attributable to owners of the Company for the year (expressed in RMB per share)	12		
— Basic		**(0.25)**	(0.02)
— Diluted		**(0.25)**	(0.02)
Loss per share for loss attributable to owners of the Company for the year (expressed in RMB per share)	12		
— Basic		**(0.30)**	(0.05)
— Diluted		**(0.30)**	(0.05)

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

* The consolidated income statement for the year ended December 31, 2017 has been restated for the discontinued operation (Note 34).

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2018 RMB'000	2017* RMB'000
Loss for the year		**(1,243,066)**	(197,324)
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		**136,879**	(295,482)
Other comprehensive income/(loss) for the year, net of tax		**136,879**	(296,302)
Total comprehensive loss for the year, net of tax		**(1,106,187)**	(493,626)
Total comprehensive loss attributable to:			
— Owners of the Company		**(1,117,837)**	(493,626)
— Non-controlling interests		**11,650**	—
Total comprehensive loss for the year attributable to owners of the Company arises from:			
Continuing operation		**(918,084)**	(374,404)
Discontinued operation		**(199,753)**	(119,222)

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

* The consolidated statement of comprehensive income for the year ended December 31, 2017 has been restated for the discontinued operation (Note 34).

Consolidated Balance Sheet

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property and equipment	13	**153,061**	91,898
Intangible assets	14	**203,305**	21,298
Long-term investments			
— Investments in associates in the form of ordinary shares	15(a)	**16,540**	28,415
— Financial assets at fair value through profit or loss	15(b)	**547,178**	280,863
— Financial assets at fair value through other comprehensive income	2.1(a), 15(c)	**7,296**	—
— Available-for-sale financial assets	2.1(a), 15(c)	**—**	6,534
Prepayments and other receivables	18	**14,823**	64,305
Deferred tax assets	25	**1,203**	9,784
		943,406	503,097
Current assets			
Inventories	19	**359,439**	658,416
Trade receivables	17	**521,817**	307,388
Prepayments and other receivables	18	**569,784**	160,182
Short-term bank deposits	20	**2,161,908**	3,774,807
Cash and cash equivalents	20	**531,618**	1,396,632
Restricted cash	20	**1,000**	1,000
		4,145,566	6,298,425
Total assets		**5,088,972**	6,801,522

Consolidated Balance Sheet

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	21	**274**	280
Share premium	21	**7,040,940**	7,679,137
Reserves	22	**(168,766)**	(263,065)
Accumulated losses		**(3,031,751)**	(1,774,312)
		3,840,697	5,642,040
Non-controlling interests		**119,233**	—
Total equity		**3,959,930**	5,642,040
Liabilities			
Non-current liabilities			
Trade and other payables	24	**137,977**	—
Deferred tax liabilities	25	**12,171**	—
		150,148	—
Current liabilities			
Borrowings	33(a)	**10,000**	—
Contract liabilities	2.1(a), 5	**32,382**	—
Trade and other payables	24	**885,418**	1,119,560
Income tax liabilities		**51,094**	39,922
		978,894	1,159,482
Total liabilities		**1,129,042**	1,159,482
Total equity and liabilities		**5,088,972**	6,801,522

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

The consolidated financial statements on pages 102 to 201 were approved by the Board of Directors on March 20, 2019 and were signed on its behalf.

Cai Wensheng
Director

Wu Zeyuan
Director

Consolidated Statement of Changes in Equity

	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
		Attributable to owners of the Company						
Balance as of January 1, 2018		280	7,679,137	(263,065)	(1,774,312)	5,642,040	–	5,642,040
Comprehensive loss/(income)								
(Loss)/profit for the year		–	–	–	(1,254,537)	(1,254,537)	11,471	(1,243,066)
Other comprehensive income								
Currency translation differences	22(a)	–	–	136,700	–	136,700	179	136,879
Total comprehensive loss for the year		–	–	136,700	(1,254,537)	(1,117,837)	11,650	(1,106,187)
Transactions with owners as their capacity as owners								
Value of employee services:								
– Pre-IPO ESOP Scheme	23	–	–	8,456	–	8,456	–	8,456
– Post-IPO Share Award Scheme	23	–	–	129,945	–	129,945	–	129,945
Shares issued upon exercise of employee share options	21(a)	1	4,004	–	–	4,005	–	4,005
Appropriation to statutory reserves	22(b)	–	–	2,902	(2,902)	–	–	–
Repurchase and cancellation of ordinary shares	21(b)	(7)	(642,201)	–	–	(642,208)	–	(642,208)
A forward contract with non-controlling interests	33(a)	–	–	(183,704)	–	(183,704)	–	(183,704)
Non-controlling interests on acquisition of subsidiaries	33	–	–	–	–	–	107,583	107,583
Total transactions with owners as their capacity as owners		(6)	(638,197)	(42,401)	(2,902)	(683,506)	107,583	(575,923)
Balance as of December 31, 2018		274	7,040,940	(168,766)	(3,031,751)	3,840,697	119,233	3,959,930

Consolidated Statement of Changes in Equity

	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
		Attributable to owners of the Company						
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 year		–	–	–	(197,324)	(197,324)	–	(197,324)
Other comprehensive loss								
Available-for-sale financial assets								
– Short-term investments placed with banks		–	–	(820)	–	(820)	–	(820)
Currency translation differences	22(a)	–	–	(295,482)	–	(295,482)	–	(295,482)
Total comprehensive loss for the year		–	–	(296,302)	(197,324)	(493,626)	–	(493,626)
Transactions with owners as their capacity as owners								
Value of employee services:								
– Pre-IPO ESOP Scheme	23	–	–	41,714	–	41,714	–	41,714
– Post-IPO Share Award Scheme	23	–	–	69,381	–	69,381	–	69,381
Shares issued upon exercise of employee share options	21(a)	3	7,326	–	–	7,329	–	7,329
Appropriation to statutory reserves	22(b)	–	–	15,985	(15,985)	–	–	–
Share premium set off the accumulated losses	21(d)	–	(9,344,043)	572,908	8,771,135	–	–	–
Total transactions with owners as their capacity as owners		3	(9,336,717)	699,988	8,755,150	118,424	–	118,424
Balance as of December 31, 2017		280	7,679,137	(263,065)	(1,774,312)	5,642,040	–	5,642,040

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

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27	**(1,941,389)**	65,506
Interest received		**2,939**	4,046
Interest paid		**(2,345)**	—
Income tax paid		**(56,162)**	(34,287)
Net cash (used in)/generated from operating activities		**(1,996,957)**	35,265
Cash flows from investing activities			
Purchase of property and equipment	13	**(143,913)**	(52,407)
Purchase of intangible assets	14	**(16,321)**	(2,386)
Proceeds from disposal of property and equipment and intangible assets	27	**3,995**	77
Investments in associates in the form of ordinary shares		**(8,771)**	(23,940)
Investments in financial assets at fair value through profit or loss		**(384,148)**	(34,573)
Proceeds from disposal of financial assets at fair value through profit or loss		**618,554**	9,008
Investments in financial assets at fair value through other comprehensive income		**(433)**	—
Investments in available-for-sale financial assets		**—**	(6,534)
Proceeds from disposal of short-term investments placed with banks, net		**—**	280,000
Investment income received from short-term investments placed with banks		**16,851**	21,193
Placement of short-term bank deposits		**(2,861,784)**	(5,130,051)
Receipt from maturity of short-term bank deposits		**4,557,915**	1,867,013
Interest received from short-term bank deposits		**104,191**	24,103
Loans to an investee company	29(a)	**(5,000)**	(7,500)
Loans to third parties		**(7,000)**	(53,921)
Repayments received from an investee company	29(a)	**—**	7,500
Payment for acquisition of subsidiaries, net of cash acquired	33	**(71,977)**	—
Others		**—**	(957)
Net cash generated from/(used in) investing activities		**1,802,159**	(3,103,375)

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Payment of issuance cost of ordinary shares relating to the initial public offering		**—**	(7,201)
Payments for shares repurchase	21	**(642,208)**	—
Proceeds from shares issued under employee share option scheme		**3,541**	7,170
Net cash used in financing activities		**(638,667)**	(31)
Net decrease in cash and cash equivalents		**(833,465)**	(3,068,141)
Cash and cash equivalents at the beginning of the year		**1,396,632**	4,508,522
Effects of exchange rate changes on cash and cash equivalents		**(31,549)**	(43,749)
Cash and cash equivalents at the end of the year		**531,618**	1,396,632

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

Notes to the Consolidated Financial Statements

For The Year Ended December 31, 2018

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 the provision of online advertising and other internet value added services (such as live streaming and e-commerce), development, manufacture and sales of smart hardware and related accessories in the People's Republic of China (the "**PRC**"), Hong Kong and other countries and regions.

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

Certain of the Group's business are subject to foreign investment restrictions. To comply with the relevant PRC laws, the wholly-owned subsidiary of the Company, Xiamen Home Meitu Technology Co., Ltd. ("**Meitu Home**"), has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Meitu Networks and its equity holders, which enable Meitu Home and the Group to:

- govern the financial and operating policies of Meitu Networks;
- exercise equity holders' voting rights of Meitu Networks;
- receive substantially all of the economic interest returns generated by Meitu Networks in consideration for the business support, technical and consulting services provided by Meitu Home;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase all or part of the equity interests in Meitu Networks from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Meitu Home may exercise such options at any time until it has acquired all equity interests of Meitu Networks. The right is automatically renewable upon expiry unless it is superseded by a new term confirmed by Meitu Home; and
- obtain a pledge over the entire equity interests of Meitu Networks from its respective equity holders as collateral security for all of Meitu Networks' payments due to Meitu Home and to secure performance of Meitu Networks' obligation under the Contractual Arrangements.

1 GENERAL INFORMATION (CONTINUED)

As a result of the Contractual Arrangements, the Group is able to effectively have control over Meitu Networks and its subsidiaries, receive variable returns from its involvement with Meitu Networks and its subsidiaries, have the ability to affect those returns through its power over Meitu Networks and its subsidiaries and is considered to control Meitu Networks and its subsidiaries. Consequently, the Company regards Meitu Networks and its subsidiaries as the controlled entities and consolidates the financial position and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Meitu Networks and its subsidiaries and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Meitu Networks and its subsidiaries. The directors of the Company ("**Directors**"), based on the advice of its legal counsel, consider that the Contractual Arrangements among Meitu Home, Meitu Networks and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

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

On November 19, 2018, the Company and Xiaomi Corporation ("**Xiaomi**") entered into a strategic cooperation framework agreement (the "**Strategic Cooperation Agreement**"), in which Xiaomi undertakes to be responsible for design, research and development, production and marketing of all future Meitu branded smartphones (other than the model Meitu V7) for a maximum of approximately 30 years, while Meitu undertakes to develop the next-generation image technology and algorithm. Furthermore, the Group also discontinued its e-commerce business on November 30, 2018 in order to focus its resources in implementing the Group's new strategy surrounding "Beauty and Social Media". Accordingly, the e-commerce operations have been presented as discontinued operation in the financial statements of the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

(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 as below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Changes in accounting policies

(i) IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The adoption of IFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated. 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 except the reclassification of equity investments recognized as available-for-sale financial assets to financial assets at fair value through other comprehensive income amounting to RMB6,534,000 and the reclassification of short term investment placed with banks recognized as available-for-sale financial assets to financial assets at fair value through profit or loss (the balance as of January 1, 2018 is nil). Comparative information has not been restated and continues to be reported under IAS 39.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Changes in accounting policies (Continued)

(ii) IFRS 15 Revenue from Contracts with Customers (Continued)

The Group has elected the modified retrospective approach for transition to the new revenue standard and has assessed that there had been no material impact on revenue recognition and presentation except the reclassification of advance from customers previously included in trade and other payables to contract liabilities, amounting to RMB196,254,000. Comparative information has not been restated and continues to be reported under IAS 11 and 18.

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

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group as follows:

		Effective for accounting periods beginning on or after
Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2015–2017 Cycle	January 1, 2019
IFRS 3 (Amendment)	Definition of a Business	January 1, 2020
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	January 1, 2019
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined
IAS 1 and IAS 8 (Amendments)	Definition of Material	January 1, 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

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

The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, 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 Group had reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16 and concluded that the standard would affect primarily the accounting for the Group's operating leases.

As of the reporting date, the Group had non-cancellable operating lease commitments of RMB76,938,000 (Note 28). Out of these commitments, approximately RMB79,112,000 would expect to be recognized as right-of-use assets of on January 1, 2019; and lease liabilities of RMB73,144,000 (after adjustments for prepayments and accrued lease payments recognized as of December 31, 2018) would also be recognized. Overall net assets will be approximately RMB5,968,000 higher, and net current assets will be RMB39,556,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB1,027,000 for 2019 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows will decrease by approximately RMB45,709,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as of the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized as "other gains/(losses), net" in the consolidated income statement.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(iii) Disposal of subsidiaries

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs.

(b) Separate financial statements

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

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

2.3 Associates

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (Continued)

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

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

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of losses of investments accounted for using the equity method" in the consolidated income statement.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

(b) Investments in associates in the form of convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted for as hybrid financial instruments and designated as financial assets measured at fair value through profit or loss (Note 2.9).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollars ("**US$**"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within "finance income, net" in the consolidated income statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

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

2.6 Property and equipment

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2.7 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.2(a) (i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(b) Customer relationship and brand name

Customer relationship and brand name acquired in business combination are recognized at fair value at the acquisition date. The customer relationship and brand name have finite useful lives and are carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method over the useful lives (4 to 10 years).

(c) Domain names

Domain names are initially recognized and measured at costs incurred to acquire and bring to use these assets. The costs are amortized on a straight-line basis over the domain names' estimated useful lives of 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(d) Other intangible assets

Other intangible assets mainly include computer software and copyrights. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized over their estimated useful lives (generally 3 to 10 years), using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. There had been no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2018 (2017: Nil).

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

2.8 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets

(a) 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.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(c) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets (Continued)

(c) Measurement (Continued)

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), net together with foreign exchange gains and losses.

- 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), net. 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), net.

- 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), net in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets (Continued)

(c) Measurement (Continued)

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), net in the income statement 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.

(d) 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.

Impairment on other financial asset at amortized cost are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets (Continued)

(e) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its investments at initial recognition

(i) Reclassification

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets (Continued)

(e) Accounting policies applied until 31 December 2017 (Continued)

(ii) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above. Subsequent to the initial, recognition loans and receivables were subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss — in profit or loss within "other gains/(losses), net",
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortized cost of the security were recognized in profit or loss and other changes in the carrying amount were recognized in other comprehensive income,
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

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

(iii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment and other financial assets (Continued)

(e) Accounting policies applied until 31 December 2017 (Continued)

(iii) Impairment (Continued)

Assets carried at amortized cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss was recognized in profit or loss.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – was removed from equity and recognized in profit or loss.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Inventories

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

2.12 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 3.1 for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.15 Trade and other payables

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

2.16 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings (Continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.17 Convertible redeemable preferred shares

Convertible redeemable preferred shares issued by the Company are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of the IPO or agreed by majority of the holders.

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

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

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

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

(ii) Outside basis differences

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(c) Offsetting

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

2.19 Employee benefits

(a) Short-term obligations

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

(b) Pension obligations

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee — administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in the PRC have to make contribution to staff retirement schemes managed by local government authorities in accordance with the relevant rules and regulations. The Group's contributions to the schemes are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local government authorities. The Group's contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (Continued)

(d) Bonus plans

The expected cost of bonuses is recognized as a liability and an expense when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(e) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates the Pre-IPO ESOP and Post-IPO Share Award Scheme, which is an equity-settled shared-based compensation plan under which share option and share awards are granted to employees as part of their remuneration package.

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

— including any market performance conditions;

— excluding the impact of any service and non-market performance vesting conditions and

— including the impact of any non-vesting conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of share-based awards that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments and shares to the employees and non-employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employees and non-employees services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of the Company.

2.21 Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition

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.

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 as 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

Internet Business (Continued)

(ii) Internet value-added services and others

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

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

Sales of Smart Hardware Products

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

Sales of Smart Hardware Products (Continued)

(ii) Sales of smart hardware products — End customers

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

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

Financing components

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

<u>Accounting policies applied until 31 December 2017</u>

Revenue comprises the fair value of the consideration received and receivable for the sales of goods and service provided in the ordinary course of the Group's activities. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity.

2.23 Interest income

Interest income from financial assets at fair value through profit or loss is included in "Other gains/(losses), net", see Note 7 below. Interest income on financial assets at amortized cost and financial assets at fair value through other comprehensive income (2017: available-for-sales financial assets) calculated using the effective interest method is recognized in the statement of profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the current liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.27 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and security price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The functional currency of the Company is US\$. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to US\$. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. The Group did not hedge against any fluctuation in foreign currency.

For the Group's PRC subsidiaries whose functional currency is RMB, if US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the loss before income tax for the year ended December 31, 2018 would have been approximately RMB37,438,000 (2017: RMB29,319,000) lower/higher, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

The Group is exposed to price risk in respect of long-term investments held by the Group that are classified in the consolidated balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk (Continued)

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with the limits set by the Group. Each investment is managed by senior management on a case by case basis. If the fair value of the investments held by the Group had increased/decreased by 5% with all other variables held constant, loss before income tax for the year ended December 31, 2018 would have been approximately RMB27,359,000 (2017: RMB14,370,000) lower/higher.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term bank deposits, restricted cash, and trade and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and cash equivalents, short-term bank deposits and restricted cash

To manage this risk arising from cash and cash equivalents, short-term bank deposits and restricted cash, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. The expected credit loss of these financial assets is close to zero.

(ii) Credit risk of trade receivables

Individual balances of trade receivables exceeding 10% of the Group's total trade receivables as of December 31, 2018 accounted for approximately 55% of the Group's total trade receivables (2017: 52%). Trade receivables are mainly due from sales distributor of smart hardware and advertising customers.

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The Group is not exposed to significant credit risk arising from sales of smart hardware as advance payment are generally required from most of its customers. For advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

To measure the expected credit losses of trade receivables from third parties, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected loss rate of trade receivables is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates.

The assessed expected credit losses for the trade receivables are determined as follows:

	0–180 days	180–365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	479,743	41,254	2,550	523,547
Assessed on individual basis	(400)	(23)	(958)	(1,381)
Subtotal	479,343	41,231	1,592	522,166
Expected credit loss rate	0.0%	0.5%	10.0%	
Loss allowance (RMB'000)	—	(188)	(161)	(349)
Net carrying amount (RMB'000)	479,343	41,043	1,431	521,817

The closing loss allowances for trade receivables as of December 31, 2018 reconcile to the opening loss allowances as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**—**	—
Individually impaired receivables	**1,381**	—
Movement in loss allowance for trade receivables	**349**	—
At the end of the year	**1,730**	—

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables mainly comprise amounts due from receivables from advertising customers for advertising agency services, deposits and other receivables.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of third party;
- significant changes in the expected performance and behaviour of the third party, including changes in the payment status and changes in the operating results of the third party.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables (Continued)

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are more than 180 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than 1 years past due and there is no reasonable expectation of recovery	Asset is written off

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyzes the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
As of December 31,2018					
Borrowings	10,383	—	—	10,383	10,000
Trade and other payables (excluding staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	620,075	59,436	89,136	768,647	758,052
	630,458	59,436	89,136	779,030	768,052
As of December 31, 2017					
Trade and other payables (excluding advance, staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	730,166	—	—	730,166	730,166

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

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

The Group monitors capital (including share capital and capital reserves) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of December 31, 2018 by level of the inputs to valuation methodologies used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

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

As of December 31, 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 15(b))	**—**	**—**	**547,178**	**547,178**
— Financial assets at fair value through other comprehensive income	**—**	**—**	**7,296**	**7,296**
	—	**—**	**554,474**	**554,474**

As of December 31, 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 15(b))	—	—	280,863	280,863
— Available-for-sale financial assets	—	—	6,534	6,534
	—	—	287,397	287,397

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation methodologies which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation methodologies used to value financial instruments include:

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets and liabilities mainly include financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
As of January 1	**287,397**	300,279
Additions	**456,317**	111,195
Disposals	**(292,560)**	(37,747)
Changes in fair value	**85,174**	(77,365)
Currency translation differences	**18,146**	(8,965)
As of December 31	**554,474**	287,397
Total unrealized gains/(losses) for the year included in "other gains/(losses), net" for financial assets at fair value through profit or loss held at the end of the year	**36,813**	(77,365)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

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 15(b)). As the investments in private companies are not traded in an active market, their fair value have been determined using various applicable valuation methodologies, including discounted cash flows, equity allocation model etc.

The quantitative information about fair value measurements using significant unobservable inputs (Level 3) is presented as follows:

Description	Fair value as of December 31, 2018 (RMB'000)	Valuation methodology(s)	Unobservable input	Range (weighted average)
Financial assets at fair value through profit or loss (Note 15(b))	547,178	Discounted cash flow	Long-term revenue growth rate	2%
			Long-term pre-tax operating margin	7.1%–34.3%
			Weighted average cost of capital	14.6%
		Equity allocation model	Expected volatility of shares under liquidation and redemption scenario	34.2%–75.3%
			Marketability discount	9%–30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

The fair value of financial assets that are not traded in an active market (for example, investments in private companies) is determined by using valuation methodologies. The Group uses its judgment to select a variety of methods and make assumptions, as mentioned in Note 3.3(c), that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

(b) Net realizable value of inventories

The net realizable value of inventories is determined based on the estimated selling prices less the estimated cost to complete. If relevant, other costs necessary to make the sale, and the related tax. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend. If the actual selling prices were higher or lower by 10%, the allowance of inventories would have been RMB31,943,000 lower or higher. Management reassesses these estimates at each balance sheet date.

(c) Impairment provision for trade and other receivables

Management assesses the impairment of trade and other receivables according to the trade and other receivables' expected credit loss, management's prior experiences and customers' conditions as well as applying management's judgments and estimates when determining the impairment to be recognized. Management reassesses the provision at each balance sheet date. Where the basis of judgments and estimates is different from the initial assessment, such differences will impact the provision for impairment and the carrying values of the trade and other receivables in the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining whether goodwill is impaired requires an estimation of the recoverable amount of CGU to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The calculation requires the Group to estimate the future cash flows expected to arise from CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. Details of the key assumptions in assessment are disclosed in Note 14.

5 REVENUE AND 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 investments accounted for using the equity method, and income tax expense are also not allocated to individual operating segments.

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

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

Notes to the Consolidated Financial Statements

For The Year Ended December 31, 2018

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The revenue segment information reported to CODM for the year ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenue from continuing operation		
Internet Business:		
— Online advertising	620,892	307,481
— Internet value-added services and others	326,779	442,829
	947,671	750,310
Smart Hardware	1,843,788	3,740,066
Total revenue	2,791,459	4,490,376
Revenue from discontinued operation (Note 34)	180,635	37,108

The segment results for the year ended December 31, 2018 are as follows:

	Year ended December 31, 2018		
	Internet Business RMB'000	Smart Hardware RMB'000	Total-Continuing operations RMB'000
Segment revenue			
Timing of revenue recognition			
At a point in time	326,779	1,843,788	2,170,567
Over time	620,892	—	620,892
	947,671	1,843,788	2,791,459
Segment cost of sales	(455,541)	(1,906,593)	(2,362,134)
Gross profit/(loss)	492,130	(62,805)	429,325

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	Year ended December 31, 2017		
	Internet Business RMB'000	Smart Hardware RMB'000	Total-Continuing operations RMB'000
Segment revenue			
Timing of revenue recognition			
At a point in time	442,829	3,740,066	4,182,895
Over time	307,481	—	307,481
	750,310	3,740,066	4,490,376
Segment cost of sales	(540,682)	(2,880,573)	(3,421,255)
Gross profit	209,628	859,493	1,069,121

The major customers which contributed more than 10% of the total revenue of the Group for the year ended December 31, 2018 and 2017 are listed as below.

	Year ended December 31,	
	2018	2017
Smart Hardware		
Customer A	**32%**	34%

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

As of December 31, 2018, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

The reconciliation of segment profit to loss before income tax for the year ended December 31, 2018 are presented in the consolidated income statement of the Group.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Contract liabilities

The liabilities related to contracts with customers are listed as below.

The Group has recognized the following liabilities related to contracts with customers:

	As of December 31, 2018 RMB'000	As of January 1, 2018 RMB'000
Contract liabilities		
— Relating to sale of hardware	**13,407**	180,443
— Relating to internet business	**18,975**	15,811
	32,382	196,254

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities.

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year		
— Smart Hardware	**180,443**	20,193
— Internet Business	**15,811**	2,057
	196,254	22,250

All the revenue contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6 OTHER INCOME

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Government grants	**38,744**	23,678
Investment income on short-term investments placed with banks	**—**	21,155
Others	**1,967**	4,531
	40,711	49,364

7 OTHER GAINS/(LOSSES), NET

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Gains on disposal of long-term investments (Note 15(b))	**353,142**	32,677
Fair value changes on financial assets at fair value through profit or loss (Note 15(b))	**85,174**	(77,365)
Loss on disposals of property and equipment and intangible assets	**(3,059)**	(18)
Fair value gains on short-term investments placed with banks	**16,851**	—
Remeasurement gains on investment in an associate (Note 33)	**30,739**	—
Others	**518**	(2,542)
	483,365	(47,248)

8 EXPENSES BY NATURE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Inventories consumed and recognized as:		
— Cost of sales	**1,391,379**	2,741,647
— Selling and marketing and other expenses	**40,607**	28,018
Employee benefit expenses (Note 9)	**926,929**	582,829
Promotion and advertising expenses	**736,641**	385,926
Provision for inventory impairment (Note 19)	**376,955**	13,500
Revenue sharing fee	**236,296**	351,221
Bandwidth and storage related costs	**98,791**	113,121
Depreciation of property and equipment (Note 13)	**75,368**	39,442
Operating lease expenses	**65,431**	45,438
Travelling and entertainment expenses	**45,533**	26,510
Warranty and maintenance expenses	**56,969**	44,665
Video content monitoring fee	**34,859**	27,618
License fees	**39,897**	17,185
Tax and levies	**26,282**	17,457
Outsourced technical services	**34,758**	12,976
Developments cost related to smartphone manufacturing equipment	**17,457**	26,574
Utilities and office expenses	**16,200**	13,962
Amortization of intangible assets (Note 14)	**9,857**	2,793
Auditor's remuneration		
— Annual audit services	**6,775**	6,879
— Non-audit services	**420**	335
Impairment of property and equipment (Note 13)	**4,978**	—
Others	**125,506**	108,610
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**4,367,888**	4,606,706

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**689,252**	431,300
Pension costs — defined contribution plans	**44,174**	24,254
Other social security costs, housing benefits and other employee benefits	**116,065**	69,711
Share-based compensation expenses (Note 23)	**138,401**	111,095
	987,892	636,360
Less: Employee benefit expenses from discontinued operation	**(60,963)**	(53,531)
	926,929	582,829

(a) Senior management's emoluments

Senior management includes executive directors, the chief executive and other senior management personnel. The aggregate compensation paid or payable to senior management for employee services excluding the directors and the chief executive, whose details have been reflected in Note 30, is as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Share-based compensation expenses	**45,502**	56,349
Wages, salaries and bonuses	**9,823**	9,959
Pension costs — defined contribution plans	**129**	109
Other social security costs, housing benefits and other employee benefits	**250**	265
	55,704	66,682

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Senior management's emoluments (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2018	2017
Nil to HK$500,000	—	—
HK$500,001 to HK$1,000,000	4	4
HK$10,000,001 to HK$20,000,000	1	—
HK$20,000,001 to HK$40,000,000	—	2
HK$40,000,001 to HK$60,000,000	1	—
	6	6

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include none directors (2017: None). All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the year ended December 31, 2018 (2017: None). The emoluments payable to the 5 non-director individuals for the year ended December 31, 2018 (2017:5) are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Share-based compensation expenses	51,873	59,983
Wages, salaries and bonuses	13,647	14,999
Pension costs — defined contribution plans	186	84
Other social security costs, housing benefits and other employee benefits	245	107
	65,951	75,173

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2018	2017
Nil to HK$1,000,000	**—**	—
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**1**	—
HK$7,000,001 to HK$7,500,000	**—**	1
HK$8,000,001 to HK$8,500,000	**1**	—
HK$12,000,001 to HK$12,500,000	**1**	—
HK$37,000,001 to HK$37,500,000	**—**	1
HK$39,500,001 to HK$40,000,000	**—**	1
HK$48,500,001 to HK$49,000,000	**1**	—
	5	5

10 FINANCE INCOME, NET

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Interest income	**81,218**	84,247
Foreign exchange (losses)/gains, net	**(32,418)**	15,916
Interest expenses and others	**(9,144)**	(499)
	39,656	99,664

11 INCOME TAX EXPENSE

The income tax expense of the Group for the year ended December 31, 2018 is analyzed as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Current income tax:		
— PRC and overseas enterprise income tax	**17,129**	73,352
Deferred income tax (Note 25)	**10,105**	(9,784)
Income tax expense	**27,234**	63,568
Income tax expense is attributable to:		
Profit from continuing operations	**27,234**	63,568
Profit from discontinued operation	**—**	—
	27,234	63,568

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Loss from continuing operations before income tax:	**(1,016,079)**	(14,534)
Loss from discontinued operation before income tax:	**(199,753)**	(119,222)
	(1,215,832)	(133,756)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**(407,229)**	(51,592)
Tax effects of:		
— Preferential income tax rates applicable to subsidiaries	**(3,139)**	—
— Tax losses and temporary differences for which no deferred tax asset was recognized	**393,811**	101,619
— Write off deferred tax assets recognized in prior periods	**8,451**	—
— Utilization of previously unrecognized tax losses	**—**	(11,558)
— Super Deduction for research and development expenses (Note (d))	**(857)**	(1,030)
— Expenses not deductible for income tax purposes:		
— Share-based compensation	**33,644**	25,707
— Others	**2,553**	422
Income tax expense	**27,234**	63,568

11 INCOME TAX EXPENSE (CONTINUED)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As of December 31, 2018, certain PRC subsidiaries of the Group suffered operating losses for the year. Based on management's assessment, the Group did not recognize deferred income tax assets of RMB365,687,000 (2017: RMB195,023,000) in respect of losses amounting to RMB2,172,862,000 (2017: RMB1,159,810,000) that can be carried forward against future taxable income. Losses amounting to RMB47,449,000, RMB336,355,000, RMB531,427,000, RMB358,843,000 and RMB859,832,000 expire in 2019, 2020, 2021, 2022 and 2023 respectively.

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year.

(c) Corporate income tax in other countries

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

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

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

Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (**"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.

11 INCOME TAX EXPENSE (CONTINUED)

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

Ruisheng Advertisement (Beijing) Limited Company (**"Ruisheng"**) has been qualified as a 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. Ruisheng met the qualification of HNTE and applied the preferential tax rate in calculating its EIT for the year ended December 31, 2018.

Meitu Home was accredited as a "software enterprise" under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the **"tax holiday"**). The tax holiday period has not yet commenced as Meitu Home was in an accumulated tax loss position as of December 31, 2018.

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 to 2017, enterprises engaging in research and development activities were 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"**). From 2018 onwards, such enterprises are entitled to claim Super Deduction at the rate of 175%. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the year ended December 31, 2018.

12 LOSS PER SHARE

(a) Basic

	Year ended December 31,	
	2018	2017
Loss attributable to owners of the Company (RMB'000)		
From continuing operations	**(1,054,784)**	(78,102)
From discontinued operation	**(199,753)**	(119,222)
	(1,254,537)	(197,324)
Weighted average number of ordinary shares in issue (thousand)	**4,219,270**	4,245,322
Basic and diluted loss per share (in RMB/share)		
From continuing operations	**(0.25)**	(0.02)
From discontinued operation	**(0.05)**	(0.03)
	(0.30)	(0.05)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2018 and 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP (Note 23) and restricted stock unit under the Post-IPO Share Award Scheme (Note 23). As the Group incurred losses for the year ended December 31, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the year ended December 31, 2018 and 2017 is the same as basic loss per share.

Notes to the Consolidated Financial Statements

For The Year Ended December 31, 2018

13 PROPERTY AND EQUIPMENT

	Servers and other equipment RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
As of January 1, 2018					
Cost	**121,240**	**34,740**	**7,835**	**7,586**	**171,401**
Accumulated depreciation and impairment	**(55,092)**	**(18,527)**	**(2,668)**	**(3,216)**	**(79,503)**
Net book amount	**66,148**	**16,213**	**5,167**	**4,370**	**91,898**
Year ended December 31, 2018					
Opening net book amount	**66,148**	**16,213**	**5,167**	**4,370**	**91,898**
Additions	**121,126**	**16,515**	**5,029**	**1,243**	**143,913**
Acquisition of subsidiaries (Note 33)	**1,305**	**1,320**	**1,585**	**—**	**4,210**
Disposals	**(3,617)**	**—**	**(1,726)**	**(398)**	**(5,741)**
Depreciation charges	**(51,409)**	**(20,997)**	**(2,025)**	**(1,810)**	**(76,241)**
Impairment loss	**(3,968)**	**—**	**(1,010)**	**—**	**(4,978)**
Closing net book amount	**129,585**	**13,051**	**7,020**	**3,405**	**153,061**
As of December 31, 2018					
Cost	**235,993**	**51,288**	**11,704**	**6,717**	**305,702**
Accumulated depreciation and impairment	**(106,408)**	**(38,237)**	**(4,684)**	**(3,312)**	**(152,641)**
Net book amount	**129,585**	**13,051**	**7,020**	**3,405**	**153,061**
As of January 1, 2017					
Cost	81,669	28,143	5,781	4,602	120,195
Accumulated depreciation and impairment	(26,682)	(10,418)	(1,352)	(2,096)	(40,548)
Net book amount	54,987	17,725	4,429	2,506	79,647
Year ended December 31, 2017					
Opening net book amount	54,987	17,725	4,429	2,506	79,647
Additions	40,570	6,609	2,095	3,133	52,407
Disposals	(73)	—	(7)	(15)	(95)
Depreciation charges	(29,336)	(8,121)	(1,350)	(1,254)	(40,061)
Closing net book amount	66,148	16,213	5,167	4,370	91,898
As of December 31, 2017					
Cost	121,240	34,740	7,835	7,586	171,401
Accumulated depreciation and impairment	(55,092)	(18,527)	(2,668)	(3,216)	(79,503)
Net book amount	66,148	16,213	5,167	4,370	91,898

13 PROPERTY AND EQUIPMENT (CONTINUED)

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**36,302**	19,392
Research and development expenses	**26,384**	13,134
Administrative expenses	**10,125**	6,009
Selling and marketing expenses	**3,430**	1,526
	76,241	40,061
Less: depreciation expenses from discontinued operation	**(873)**	(619)
	75,368	39,442

14 INTANGIBLE ASSETS

	Goodwill RMB'000	Customer relationship RMB'000	Brand name RMB'000	Domain names and others RMB'000	Total RMB'000
As of January 1, 2018					
Cost	—	—	—	29,099	29,099
Accumulated amortization	—	—	—	(7,801)	(7,801)
Net book amount	—	—	—	21,298	21,298
Year ended December 31, 2018					
Opening net book amount	—	—	—	21,298	21,298
Additions	—	—	—	16,321	16,321
Acquisition of subsidiaries (Note 33)	111,656	26,420	37,389	1,391	176,856
Disposals	—	—	—	(1,313)	(1,313)
Amortization	—	(5,147)	(1,246)	(3,464)	(9,857)
Closing net book amount	111,656	21,273	36,143	34,233	203,305
As of December 31, 2018					
Cost	111,656	26,420	37,389	44,559	220,024
Accumulated amortization	—	(5,147)	(1,246)	(10,326)	(16,719)
Net book amount	111,656	21,273	36,143	34,233	203,305
As of January 1, 2017					
Cost	—	—	—	27,351	27,351
Accumulated amortization	—	—	—	(5,646)	(5,646)
Net book amount	—	—	—	21,705	21,705
Year ended December 31, 2017					
Opening net book amount	—	—	—	21,705	21,705
Additions	—	—	—	2,386	2,386
Amortization	—	—	—	(2,793)	(2,793)
Closing net book amount	—	—	—	21,298	21,298
As of December 31, 2017					
Cost	—	—	—	29,099	29,099
Accumulated amortization	—	—	—	(7,801)	(7,801)
Net book amount	—	—	—	21,298	21,298

14 INTANGIBLE ASSETS (CONTINUED)

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Continuing operation:		
Administrative expenses	**3,320**	1,400
Research and development expenses	**936**	1,060
Selling and marketing expenses	**5,147**	—
Cost of sales	**454**	333
	9,857	2,793

Impairment test for goodwill

Goodwill arises from the Group's acquisition of subsidiaries (Note 33) and was determined at the acquisition date respectively, being the difference between the purchase consideration and the fair value of net identifiable assets of acquirees. Goodwill has been assessed based on the related acquiree' CGU for impairment testing.

The recoverable amount of the CGUs are determined based on value-in-use calculations. These calculation use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined a projection period of five years based on expected development trend of the acquiree and industry experiences. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The growth rate does not exceed the long-term average growth rate for the advertising industry in which the CGUs operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant industry.

The key assumptions used for value-in-use calculations are as follows:

	Year ended December 31, 2018
Expected growth rate of revenue	13.6%–49.9%
Terminal growth rate after 5 years	3.0%
Pre-tax discount rate	16%–19.6%

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

	Year Ended December 31,	
	2018	2017
	RMB'000	RMB'000
As of January 1	**28,415**	6,128
Additions	**12,692**	26,940
Converted from an associate to a subsidiary (Note 33)	**(22,572)**	(3,795)
Share of (losses)/profits of the associates	**(3,382)**	16
Currency translation differences	**1,387**	(874)
As of December 31	**16,540**	28,415

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Aggregate information		
(Losses)/gains for the year	**(3,382)**	16
Total comprehensive (losses)/income	**(3,382)**	16

For the year ended December 31, 2018, none of the Group's investments in associates is individually material to the Group (2017: None). Accordingly, the financial information of the Group's associates are presented on an aggregate basis.

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
As of January 1	**280,863**	300,279
Additions (Note (i))	**455,884**	104,661
Disposals (Note (ii))	**(292,560)**	(37,747)
Changes in fair value	**85,174**	(77,365)
Currency translation differences	**17,817**	(8,965)
As of December 31	**547,178**	280,863

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, 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.

(i) During the year ended December 31, 2018, the Group acquired the minority stake of a number of privately-held companies in the form of preferred shares. These new investments are designated as financial assets at fair value through profit or loss as detailed above.

(ii) During the year ended December 31, 2018, the Group disposed of part of its minority stakes in a few investees and recognized disposal gains of RMB353,142,000 (2017: RMB32,677,000) (Note 7).

The Group performs assessments on the fair value of its financial assets at fair value through profit or loss periodically. Management reviews the investees' performance and forecast, and applies valuation techniques, where applicable, to determine their respective fair value. During the year ended December 31, 2018, change in fair value amounting to RMB85,174,000 was recognized as other gains in the consolidated income statement (Note 7).

15(c) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

During the years ended December 31, 2018 and 2017, the Group held minority interests in a private entity. The entity is principally engaged in the operations of a fashion and beauty e-commerce platform. The Group does not have any board seats and could not exercise significant influence in the entity. The Group designated the investment as financial assets through other comprehensive income as of December 31, 2018 (2017: available-for-sale financial assets). As of December 31, 2018, the carrying amounts of financial assets through other comprehensive income approximated their fair value.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial assets at amortized cost:		
— Short-term bank deposits (Note 20(c))	**2,161,908**	3,774,807
— Cash and cash equivalents (Note 20(a))	**531,618**	1,396,632
— Trade and other receivables (excluding prepayments and recoverable value-added tax)	**918,983**	456,995
— Restricted cash (Note 20(b))	**1,000**	1,000
Financial assets at fair value through profit or loss (Note 15(b))	**547,178**	280,863
Financial assets at fair value through other comprehensive income	**7,296**	—
Available-for-sale financial assets	**—**	6,534
	4,167,983	5,916,831

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortized cost:		
— Trade and other payables (excluding advance, staff payroll and welfare payables, government grants, other taxes payables and warranty provisions)	**758,052**	730,166
— Borrowings	**10,000**	—
	768,052	730,166

17 TRADE RECEIVABLES

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**523,547**	307,388
Loss allowance	**(1,730)**	—
	521,817	307,388

The Group grants a credit period of 30 to 120 days to its customers. As of December 31, 2018, the aging analysis of trade receivables based on transaction date were as follows:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Up to 3 months	**349,673**	287,434
3 to 6 months	**130,070**	16,056
6 months to 1 year	**41,254**	3,358
Over 1 year	**2,550**	540
	523,547	307,388

As of December 31, 2018, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

18 PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	14,430	13,188
Advance to an acquisition target (Note 33(a))	—	50,000
Others	393	1,117
	14,823	64,305
Included in current assets		
Receivables from advertising customers for advertising agency services	312,863	—
Prepayment to advertising platform for advertising agency services	28,645	—
Recoverable value-added tax	108,387	33,796
Interest receivables	37,119	60,055
Prepayments to suppliers	29,245	29,095
Rental and other deposits	19,201	18,288
Prepayment for promotion and advertising	5,339	10,719
Prepaid income tax	9,049	—
Loans to third parties	7,000	3,921
Loans to an investee company	5,000	3,267
Others	7,936	1,041
	569,784	160,182

As of December 31, 2018, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at the year end.

19 INVENTORIES

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Raw materials	**316,758**	396,008
Finished goods	**412,032**	229,597
Merchandise	**64,498**	67,476
	793,288	693,081
Provision for impairment (Note a)	**(433,849)**	(34,665)
	359,439	658,416

Note:

(a) In November 2018, the Group evaluated its business strategy and underwent a restructuring that it discontinued its e-commerce business. In addition, the Group also decided to work with Xiaomi for the operations of its smartphone business (Note 1). After the assessment of inventory held for the e-commerce business and smart phone business, an aggregate impairment charge of RMB403,317,000 had been provided for the year ended December 31, 2018. Impairment was recognized where the carrying amounts of the inventories exceed their respective recoverable amounts. RMB376,955,000 was charged as "cost of sales" in the consolidated income statement; and RMB26,362,000 was presented in "loss from discontinued operation".

20 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Cash at bank and in hand	**421,807**	1,066,632
Short-term bank deposits with initial terms within three months	**109,811**	330,000
	531,618	1,396,632

20 CASH AND BANK BALANCES (CONTINUED)

(b) Restricted cash

As of December 31, 2018, RMB1,000,000 (2017: RMB1,000,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As of December 31, 2018, short-term bank deposits amounting RMB2,161,908,000 (2017: RMB3,774,807,000) were bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated in US$ and the weighted average effective interest rate was 3.00% per annum for the year ended December 31, 2018 (2017: 1.97%).

21 SHARE CAPITAL AND PREMIUM

As of December 31, 2018 and December 31, 2017, the authorized share capital of the Company comprised 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)	19,828	—	1	4,004
Repurchase and cancellation of shares	(b)	(110,865)	(1)	(7)	(642,201)
Employee Share Award Scheme:					
— Shares issued	(c)	20,000	—	—	—
As of December 31, 2018		4,202,516	42	274	7,040,940

21 SHARE CAPITAL AND PREMIUM (CONTINUED)

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
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)	36,258	—	3	7,326
Employee Share Award Scheme:					
— Shares issued	(c)	10,000	—	—	—
Share premium set off the accumulated losses	(d)	—	—	—	(9,344,043)
As of December 31, 2017		4,273,553	43	280	7,679,137

Notes:

(a) During the year ended December 31, 2018, 19,828,000 pre-IPO share options with exercise price of US$0.03 were exercised (2017: 36,258,000).

(b) The Company's annual general meeting approved a share repurchase/buyback mandate on June 2, 2017 and renewed the mandate on June 5, 2018, pursuant to which the Company may repurchase/buyback its own issued ordinary shares, from time to time, at the discretion of the Board of Directors of the Company up to an amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company. The repurchase/buyback was effective on the date of passing the relevant shareholders' resolution up to the next annual general meeting of the Company. On May 25, 2018, the Board of the Directors of Company authorized a share buyback plan to buyback the Company's shares up to an amount of US$100,000,000 in value of shares via on-market transactions. Up to December 31, 2018, the Company had repurchased an aggregate of 110,865,000 shares at an average price of HK$6.85 for an aggregate consideration of HK$759,361,000 (equivalent to RMB642,208,000) and all the shares repurchased/boughtback were subsequently cancelled.

(c) On December 28, 2018, the Company issued 20,000,000 new shares under the Post-IPO Share Award Scheme (2017: 10,000,000).

(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 be applied to set off the accumulated losses of the Company. Accordingly, the balance of share premium was reduced by RMB9,344,043,000.

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22 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 (Note 23)	**—**	**—**	**8,456**	**—**	**—**	**8,456**
— Post-IPO Share Award Scheme (Note 23)	**—**	**—**	**129,945**	**—**	**—**	**129,945**
Currency translation differences (Note (a))	**—**	**—**	**—**	**136,700**	**—**	**136,700**
Appropriation to statutory reserves (Note (b))	**—**	**2,902**	**—**	**—**	**—**	**2,902**
A forward contract with non-controlling interests (Note 33)	**—**	**—**	**—**	**—**	**(183,704)**	**(183,704)**
As of December 31, 2018	**2,000**	**19,950**	**345,921**	**(338,286)**	**(198,351)**	**(168,766)**
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(Note 23)	—	—	41,714	—	—	41,714
— Post-IPO Share Award Scheme (Note 23)	—	—	69,381	—	—	69,381
Revaluation transfer out of available-for-sale financial assets — short-term investments placed with banks	—	—	—	—	(820)	(820)
Currency translation differences (Note (a))	—	—	—	(295,482)	—	(295,482)
Appropriation to statutory reserves (Note (b))	—	15,985	—	—	—	15,985
Share premium set off the accumulated losses (Note (c))	—	—	—	572,908	—	572,908
As of December 31, 2017	2,000	17,048	207,520	(474,986)	(14,647)	(263,065)

Notes:

(a) Currency translation differences represent the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(b) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(c) Following the board resolution on March 24, 2017 (Note 21(d)), the accumulated losses of RMB8,771,135,000 was set off and the related currency translation difference of RMB572,908,000 was released.

23 SHARE-BASED PAYMENTS

(a) Pre-IPO ESOP

On February 15, 2014, the Board of Directors of the Company approved the establishment of the Pre-IPO ESOP with the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Pre-IPO ESOP shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under the original Pre-IPO ESOP shall be 11,695,907 shares. The Pre-IPO ESOP was amended by resolution of the Board on November 18, 2015. The overall limit on the number of underlying Shares pursuant to the amended Plan is 116,959,070 shares after the share subdivision.

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

The exercise price of the granted options to employees shall be US$0.03 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 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No share options were granted under Pre-IPO ESOP to employees of the Company in 2018 (2017: Nil).

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

	Exercise price	Number of share options Year ended December 31, 2018	2017
At the beginning of the year		**79,339,909**	116,958,940
Exercised (Note (a))	US$ 0.03	**(19,827,852)**	(36,258,209)
Forfeited	US$ 0.03	**(608,110)**	(1,360,822)
At the end of the year		**58,903,947**	79,339,909

Notes:

(a) As a result of the options exercised during the year ended December 31, 2018, 19,827,852 ordinary shares were issued by the Company (Note 21). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$5.88 per share (equivalent to RMB4.97 per share).

As of December 31, 2018, all share options granted will expire in 2026.

23 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

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

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

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

No share options were granted under Pre-IPO ESOP to non-employees of the Company in 2018 (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 the Binomial option-pricing model to determine the fair value of the share option as of the grant date.

For the year ended December 31, 2018, the Group recognized share based compensation of RMB8,456,000 (2017: RMB41,714,000) related to Pre-IPO ESOP granted to employees.

23 SHARE-BASED PAYMENTS (CONTINUED)

(b) Post-IPO Share Award Scheme

On November 25, 2016, the Post-IPO Share Award Scheme was adopted pursuant to the written resolutions of the Shareholders.

Movements in the number of award shares for the year ended December 31, 2018 are as follows:

	Post-IPO Share Award Scheme Number of shares Year ended December 31,	
	2018	2017
At the beginning of the year	**24,537,000**	—
Granted	**22,780,960**	25,737,000
Exercised	**(7,118,453)**	—
Forfeited	**(7,795,947)**	(1,200,000)
At the end of the year	**32,403,560**	24,537,000

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 year ended December 31, 2018 was HK$7.92 per share (equivalent to approximately RMB6.52 per share) (2017: HK$11.60 per share (equivalent to approximately RMB9.70 per share)).

During the year ended December 31, 2018, the Group recorded share based compensation of RMB129,945,000 (2017: RMB69,381,000) related to Post-IPO Share Award Scheme.

The outstanding awarded shares as of December 31, 2018 were divided into two to four tranches on an equal basis as of their grant dates. The first tranche will be vested after a specified period ranging from three to eighteen months from the grant date, and the remaining tranches will become vested in each subsequent year.

23 SHARE-BASED PAYMENTS (CONTINUED)

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

(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 December 31, 2018, the Expected Retention Rate was assessed to be 95% (2017: 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 December 31, 2018, no options had been granted by the Group under the Post-IPO Share Option Scheme.

24 TRADE AND OTHER PAYABLES

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Included in non-current liabilities		
Payables to non-controlling shareholders of a subsidiary	**137,977**	—
Included in current liabilities		
Trade payables	**356,521**	719,538
Payroll and welfare payables	**197,598**	148,384
Payables to advertising platforms for advertising agency services	**171,865**	—
Payables to non-controlling shareholders of a subsidiary	**51,996**	—
Warranty provisions	**57,028**	22,387
Deposits payable	**23,144**	2,652
Other tax payables	**10,717**	15,044
Advance from customers	**—**	196,254
Others	**16,549**	15,301
	885,418	1,119,560

24 TRADE AND OTHER PAYABLES (CONTINUED)

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Up to 3 months	**294,160**	680,871
3 to 6 months	**33,075**	26,367
6 months to 1 year	**17,446**	9,716
1 to 2 years	**10,200**	2,219
Over 2 years	**1,640**	365
	356,521	719,538

25 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets:		
— Inventory and other assets write-downs	**1,203**	6,672
— Warranty provisions and others	**—**	8,425
Deferred tax liabilities:		
— Financial assets at fair value through profit or loss	**—**	(5,313)
Set-off of deferred tax liabilities	**—**	(5,313)
Net deferred tax assets	**1,203**	9,784

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

25 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(a) Deferred tax assets: (Continued)

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

Movement	Impairment allowance RMB'000	Warranty provisions and others RMB'000	Total RMB'000
As of January 1, 2017	—	—	—
Credited to profit or loss	6,672	8,425	15,097
As of January 1, 2018	**6,672**	**8,425**	**15,097**
Charged to profit or loss	**(5,469)**	**(8,425)**	**(13,894)**
As of December 31, 2018	**1,203**	**—**	**1,203**

(b) Deferred tax liabilities

	As of December 31, 2018 RMB'000	2017 RMB'000
Deferred tax liabilities		
— Intangible assets from business combination	**9,649**	—
— Financial assets at fair value through profit or loss	**2,522**	5,313
Set-off of deferred tax assets	**—**	(5,313)
Net deferred tax liabilities	**12,171**	—

25 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Deferred tax liabilities (continued)

	Intangible assets from business combination RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
As of January 1, 2017	—	—	—
Charged to profit or loss	—	5,313	5,313
As of January 1, 2018	**—**	**5,313**	**5,313**
Acquisition of subsidiaries (Note 33)	**10,647**	**—**	**10,647**
Credited to profit or loss	**(998)**	**(2,791)**	**(3,789)**
As of December 31, 2018	**9,649**	**2,522**	**12,171**

26 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2018 (2017: Nil).

27 CASH (USED IN)/GENERATED FROM OPERATIONS

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Loss before tax	**(1,215,832)**	(133,756)
Adjustments for:		
— Depreciation of property and equipment (Note 13)	**76,241**	40,061
— Amortization of intangible assets (Note 14)	**9,857**	2,793
— Impairment of property and equipment (Note 13)	**4,978**	—
— Loss on disposals of property and equipment and intangible assets	**3,059**	18
— Share-based compensations (Note 23)	**138,401**	111,095
— Share of losses/(gains) of investments in associates in the form of ordinary shares (Note 15(a))	**3,382**	(16)
— Investment income on short-term investments placed with banks	**(16,851)**	(21,193)
— Fair value changes on financial assets at fair value through profit or loss (Note 15(b))	**(85,174)**	77,365
— Remeasurement gains on interests in an associate (Note 7)	**(30,739)**	—
— Interest income	**(81,218)**	(84,259)
— Interest expenses	**8,601**	—
— Foreign exchange loss, net	**18,813**	15,770
— Disposal gain on long-term investments (Note 7)	**(353,142)**	(32,677)
Changes in working capital:		
— Decrease/(increase) in inventories	**300,648**	(287,242)
— Increase in trade receivables	**(102,319)**	(265,494)
— Increase in prepayments and other receivables	**(144,326)**	(310,513)
— (Decrease)/increase in trade and other payables	**(475,768)**	954,154
— Increase in restricted cash	**—**	(600)
Cash (used in)/generated from operations	**(1,941,389)**	65,506

27 CASH (USED IN)/GENERATED FROM OPERATIONS (CONTINUED)

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

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Net book amount	**7,054**	95
Loss on disposals of property and equipment and intangible assets	**(3,059)**	(18)
Proceeds	**3,995**	77

There were no material non-cash investing and financing transactions for the year ended December 31, 2018 (2017: Nil).

28 COMMITMENTS

(a) Capital Commitments

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

	As of December 31, 2018 RMB'000	2017 RMB'000
Property and equipment	**–**	3,214

(b) Operating Lease Commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

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

	As of December 31, 2018 RMB'000	2017 RMB'000
Less than 1 year	**46,070**	35,963
Between 1 and 5 years	**30,868**	29,751
	76,938	65,714

29 RELATED PARTY TRANSACTIONS

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

(a) Significant transactions with related parties

In the opinion of the executive directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
(i) Sales of goods and services:		
Associates in form of preferred shares	**30,124**	—
Associates	**1,683**	1,461
	31,807	1,461
(ii) Purchases of goods and services:		
Companies significantly influenced by controlling shareholders	**274**	1,157
Associates in form of preferred shares	**1,499**	360
An associate	**12,404**	9,185
	14,177	10,702
(iii) Loans to an associate in form of preferred shares	**5,000**	7,500
(iv) Interest of loan from the Group	**139**	—
(v) Repayments from an associate in form of preferred shares	**—**	7,500

29 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Year end balances with related parties

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
(i) Receivables from:		
Associates in form of preferred shares	**11,735**	—
Associates	**2,197**	964
	13,932	964
(ii) Payables to:		
An associate	**1,507**	1,005
A company significantly influenced by controlling shareholders	**—**	14
	1,507	1,019
(iii) Prepayments to:		
An associate in form of preferred shares	**—**	206
A company significantly influenced by controlling shareholders	**—**	8
	—	214

(c) Key management personnel compensations

Key management includes directors (executive and non-executive). The compensations paid or payable to key management for employee services are shown below:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**12,957**	12,970
Pension costs — defined contribution plan	**155**	133
Other social security costs, housing benefits and other employee benefits	**350**	406
Share-based compensation expenses	**45,502**	56,349
	58,964	69,858

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30 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director for the year ended December 31, 2018 is set out as below:

Name	Fees	Salaries	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Cai Wensheng	613	—	—	16	629
Wu Zeyuan	326	612	26	68	1,032
Independent Non-executive Directors					
Ko Chun Shun Johnson (Note (a))	315	—	—	—	315
Zhou Hao	315	—	—	—	315
Lo Po Man (Note (b))	46	—	—	—	46
Shoucheng Zhang (Note (c))	277	—	—	—	277
Non-executive Directors					
Guo Yihong	315	—	—	—	315
Lee Kai-Fu	315	—	—	16	331
	2,522	612	26	100	3,260

Notes:

(a) Appointed on November 20, 2016, resigned on January 1, 2019.

(b) Appointed on November 20, 2016, resigned on February 22, 2018.

(c) Appointed on February 22, 2018, passed away on December 1, 2018.

30 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

The remuneration of each director for the year ended December 31, 2017 is set out as below:

Name	Fees RMB'000	Salaries RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Executive Directors					
Cai Wensheng	579	–	–	30	609
Wu Zeyuan	276	651	24	81	1,032
Independent Non-executive Directors					
Ko Chun Shun Johnson	301	–	–	–	301
Zhou Hao	301	–	–	–	301
Lo Po Man	301	–	–	–	301
Non-executive Directors					
Guo Yihong	301	–	–	–	301
Lee Kai-Fu	301	–	–	30	331
	2,360	651	24	141	3,176

Notes:

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

30 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2017: Nil).

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

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2017: Nil).

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

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2017: Nil).

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

31 CONTINGENCIES

The Group did not have any material contingent liabilities as of December 31, 2018 (2017: Nil).

32 SUBSEQUENT EVENTS

On February 19, 2019, the Group announced the acquisition of 31% equity interests in Dreamscape Horizon Limited ("**Dreamscape**"), an indirect wholly-owned subsidiary of Leyou Technologies Holdings Limited ("**Leyou**"). Dreamscape and its subsidiaries are principally engaged in the development and publishing of online multiplayer video games for both PC and console platforms. The total consideration of approximately HK$2,686,577,000 will be satisfied by the allotment and issue of new shares ("**Consideration Shares**") by the Company to Leyou under a specific mandate at an issue price of HK$2.71 per Consideration Share. The Consideration Shares will, upon issue, represent (i) approximately 23.58% of the issued share capital of the Company as of February 19, 2019; and (ii) approximately 19.08% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The acquisition has not been completed as of the approval date of these financial statements.

33 BUSINESS COMBINATIONS

(a) The Acquisition A

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.

33 BUSINESS COMBINATIONS (CONTINUED)

(a) The Acquisition A (Continued)

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

	RMB'000
Purchase consideration	
Amount paid to the original shareholders of the Acquiree	63,000
Capital Injection	50,000
Total purchase consideration	113,000
Cash paid	63,000
Net of: cash and cash equivalents acquired	(5,606)
Net cash outflow for the acquisition for the year ended December 31, 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 receivables	100,420
Prepayment and other receivables	267,292
Customer relationship	20,160
Property 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 borrowings were secured by the acquiree's certain current assets. As of December 31, 2018, the borrowings were repayable within one year.

33 BUSINESS COMBINATIONS (CONTINUED)

(b) The Acquisition B

In August, 2018, the Group acquired additional 21.54% equity interest in an associate (the **"Associate"**) at cash consideration of HK$64,481,000 (equivalent to RMB56,066,000). As a result, the Group's interest in the entity increased to 51.04% and the associate became non-wholly owned subsidiary of the Group.

The Group's existing 29.50% equity interest in the Associate has remeasured to RMB53,311,000 and the fair value gains of RMB30,739,000 has been recognized in "other gains/(losses), net" in the consolidated income statement.

Details of the purchase consideration, the fair values of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	
Cash consideration	56,066
Fair value of interest in the associate	53,311
Total purchase consideration	109,377
Cash paid	56,066
Net of: cash and cash equivalents acquired	(41,483)
Net cash outflow for the acquisition for the year ended December 31, 2018	14,583

33 BUSINESS COMBINATIONS (CONTINUED)

(b) The Acquisition B (Continued)

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

	Fair value RMB'000
Cash and cash equivalents	41,483
Trade receivables	11,089
Prepayment and other receivables	1,381
Brand name	37,389
Customer relationship	6,260
Software	1,391
Property and equipment	3,624
Trade and other payables	(1,442)
Employee benefit obligations	(565)
Deferred tax liabilities	(7,623)
Net identifiable assets acquired	92,987
Less: non-controlling interest (Note(i))	(45,526)
Add: goodwill**	61,916
	109,377

** The goodwill aforementioned is attributable to the workforce and synergies expected to arise after the Group's acquisition. It is not expected to be deductible for tax purposes.

(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.

33 BUSINESS COMBINATIONS (CONTINUED)

(b) The Acquisition B (Continued)

(ii) Revenue and profit contribution

The revenue and the results contributed by these acquired entities for the period since respective acquisition dates were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on January 1, 2018.

34 DISCONTINUED OPERATION

As described in Note 1, in order to focus the resources of the Group in implementing its new strategy surrounding "Beauty and Social Media", the Group decided to exit the e-commerce business on November 30, 2018.

Financial information relating to for the year ended December 31, 2018 are set out below. The income statement and statement of cash flows distinguish discontinued operation from continuing operations and the respective comparative figures have been restated.

	2018 RMB'000	2017 RMB'000
Revenue	**180,635**	37,108
Cost of sales	**(252,655)**	(61,743)
Expenses	**(127,315)**	(96,205)
Finance income, net	**—**	1,523
Other (losses)/gains, net	**(418)**	57
Other income	**—**	38
Loss before income tax	**(199,753)**	(119,222)
Income tax expense	**—**	—
Loss from discontinued operation	**(199,753)**	(119,222)
Net cash used in operating activities	**(201,038)**	(130,301)
Cash flows of discontinued operation	**(201,038)**	(130,301)

35 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**3,518,430**	115,930
	3,518,430	115,930
Current assets		
Amount due from subsidiaries	**1,600,358**	5,594,959
Prepayments and other receivables	**7,913**	25,780
Short-term bank deposits	**754,952**	1,633,550
Cash and cash equivalents	**54,716**	8,635
	2,417,939	7,262,924
Total assets	**5,936,369**	7,378,854
EQUITY AND LIABILITIES		
Equity		
Share capital	**274**	280
Share premium	**7,040,940**	7,679,137
Reserves (Note 35(b))	**209,337**	(351,757)
Accumulated (losses)/retained earnings	**(1,494,424)**	50,166
Total equity	**5,756,127**	7,377,826
Liabilities		
Current liabilities		
Amount due to subsidiaries	**180,055**	972
Trade and other payables	**187**	56
Total liabilities	**180,242**	1,028
Total equity and liabilities	**5,936,369**	7,378,854

The balance sheet of the Company was approved by the Board of Directors on March 20, 2019 and was signed on its behalf.

Cai Wensheng	**Wu Zeyuan**
Director	*Director*

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

(b) Reserves movement of the Company

	Reserves RMB'000	Accumulated (losses)/ retained earnings RMB'000
As of January 1, 2018	**(351,757)**	**50,166**
Loss for the year	**—**	**(1,544,590)**
Value of employee services	**138,401**	**—**
Currency translation differences (Note (i))	**422,693**	**—**
As of December 31, 2018	**209,337**	**(1,494,424)**
As of January 1, 2017	(512,272)	(8,753,663)
Profit for the year	—	32,694
Value of employee services	41,714	—
Currency translation differences (Note (i))	(454,107)	—
Share premium set off the accumulated (Note (ii))	572,908	8,771,135
As of December 31, 2017	(351,757)	50,166

Note:

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

(ii) Following the board resolution on March 24, 2017 (Note 21(d) and 22), the balance of share premium was reduced by RMB9,344,043,000. The accumulated losses of RMB8,771,135,000 was set off and the related currency translation difference of RMB572,908,000 was released.

Notes to the Consolidated Financial Statements

For The Year Ended December 31, 2018

36 SUBSIDIARIES

The following is a list of the principal subsidiaries as of December 31, 2018:

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/ indirectly held by the Group (%)
Meitu Technology, Inc.	The US/ Limited liability company	Development and operation of apps, the US	US$16,280,050	100%
Meitu Technology (US), LLC	The US/ Limited liability company	Development and operation of apps, the US	US$16,070,000	100%
Meitu Technology (Singapore) Pte. Ltd.	Singapore/ Limited liability company	Development and operation of apps, Singapore	US$100,000	100%
Xiamen Home Meitu Technology Co., Ltd.	The PRC/ Limited liability company	Provision of information technology services, the PRC	US$280,000,000	100%
Beijing Meitu Home Technology Co., Ltd.	The PRC/ Limited liability company	Provision of information technology services, the PRC	RMB10,000,000	100%
Xiamen Meitu Mobile Technology Co., Ltd.	The PRC/ Limited liability company	Development, manufacturing and sales of smartphones, the PRC	RMB1,300,000,000	100%
Xiamen Meitu Networks Technology Co., Ltd.	The PRC/ Limited liability company	Development and operation of apps, the PRC	RMB32,000,000	100%*
Beijing Meitu Huyu Technology Co., Ltd.	The PRC/ Limited liability company	Development and research of apps, the PRC	RMB10,000,000	100%*
Xiamen Hongtian Chuangshi Technology Co., Ltd.	The PRC/ Limited liability company	Development and operation of apps, the PRC	RMB10,000,000	100%*

36 SUBSIDIARIES (CONTINUED)

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/ indirectly held by the Group (%)
Ruisheng Advertisement (Beijing) Limited Company	The PRC/ Limited liability company	Advertising agency the PRC	RMB17,000,000	50.48%
Taiwan Meitu Home Technology Co., Ltd.	The PRC/ Limited liability company	Development and operation of apps, the PRC	NTW15,000,000	100%
Shenzhen Meitu Creative Technology Co.,Ltd	The PRC/ Limited liability company	Development and operation of apps, the PRC	RMB13,257,600	100%
Meitu Technology (Japan) Limited	The Japan/ Limited liability company	Development and operation of apps, the JPN	JPY 10,000	100%
PressLogic Holdings Limited	The BVI/ Limited liability company	Advertising content services the PRC	US$50,000	51.04%

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

Five Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
				(Restated)	
Revenue	488,049	741,813	1,578,580	4,490,376	**2,791,459**
Gross profit	86,673	100,490	239,160	2,792,353	**467,803**
Loss for the year from the continuing operations	(1,772,336)	(2,217,557)	(6,260,880)	(78,102)	**(996,782)**
Adjusted Net Loss from the continuing operations	(112,343)	(710,488)	(540,454)	73,272	**(857,946)**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets					
Non-current assets	40,840	261,975	458,078	503,097	**943,650**
Current assets	1,770,844	1,446,843	6,092,187	6,298,425	**4,181,380**
Total assets	1,811,684	1,708,818	6,550,265	6,801,522	**5,124,786**
Equity and liabilities					
Equity attributable to owners of the Company	(1,824,957)	(4,247,807)	6,017,242	5,642,040	**3,887,228**
Total equity	(1,824,957)	(4,247,807)	6,017,242	5,642,040	**4,006,461**
Non-current liabilities	3,592,141	5,681,892	—	—	**150,148**
Current liabilities	44,500	274,733	533,023	1,159,482	**968,177**
Total liabilities	3,636,641	5,956,625	533,023	1,159,482	**1,118,325**
Total equity and liabilities	1,811,684	1,708,818	6,550,265	6,801,522	**5,124,786**

Definitions

"AI"	artificial intelligence
"Adjusted Net (Loss)/Profit from continuing operations"	adjusted net (loss)/profit from continuing operations is calculated as the (loss)/profit for the year from continuing operations, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation; (ii) fair value (losses)/gain on long-term investments, net of tax; and (iii) gains on disposal of long-term investments, net of tax
"AGM"	the annual general meeting of the Company to be held on June 3, 2019
"Articles" or "Articles of Association"	the amended articles of association of the Company adopted on November 25, 2016 and effected on December 15, 2016 (the Listing Date), as amended from time to time
"ASP"	average selling price
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Baolink Capital"	Baolink Capital Ltd, a company incorporated under the laws of the BVI on June 29, 2007, which is wholly-owned by Mr. Cai and is deemed interested in approximately 40.29% of the issued share capital of our Company as at the Latest Practicable Date, and one of our Controlling Shareholders
"Board of Directors" or "Board"	our Board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. "Chinese" shall be construed accordingly
"Company", "our Company", "the Company", "Meitu", "we" or "us"	Meitu, Inc. 美图公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on July 25, 2013 and carries on business in Hong Kong as "美圖之家" (in Chinese) as approved and registered with the Registrar of companies in Hong Kong on October 28 and November 7, 2016, respectively. "Meitu" may also refer to the Company's brand if the context so requires. "Meitu", when italicized, refers to the Company's first product, *Meitu*

Definitions

"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Concert Party"	Mr. Wu, Mr. Cai and Ms. Wang (including, where applicable, any entity directly or indirectly controlled by them that directly holds the Shares)
"Concert Party Agreement"	the agreement entered into among the Concert Group on August 17, 2016, pursuant to which the Concert Group has undertaken to, among other things, vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and has confirmed that its members have acted in concert since the incorporation of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group
"Contractual Arrangements"	the series of contractual arrangements entered into between Mr. Wu, Ms. Cai, Meitu Home and Meitu Networks (as applicable), details of which are described in the section headed "Contractual Arrangements" in this annual report
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, means Mr. Wu, Mr. Cai, Xinhong Capital, Longlink Capital and Baolink Capital
"Director(s)"	the director(s) of our Company
"Dreamscape Horizon Limited"	a company incorporated under the laws of the BVI, and an indirect wholly-owned subsidiary of Leyou
"Group", "our Group", or "the Group"	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the contractual arrangements) from time to time
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"ICP"	Internet content provider

Definitions

"ICP License"	Value-added Telecommunications Service Operating Permit for Internet information service
"IFRS"	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
"IVAS"	Internet value-added services
"Latest Practicable Date"	April 16, 2019, being the latest practicable date prior to the bulk printing and publication of this annual report
"Leyou"	Leyou Technologies Holdings Limited, a company listed on the Stock Exchange (stock code: 1089) and an independent third party
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Listing Date"	December 15, 2016, the date on which the Shares were listed on the Stock Exchange
"Longlink Capital"	Longlink Capital Ltd, a company incorporated under the laws of the BVI on January 11, 2007, which is wholly-owned by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Cai and is deemed interested in approximately 40.29% of the issued share capital of our Company as at the Latest Practicable Date, and one of our Controlling Shareholders
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"MAUs"	monthly active users
"Meipai Global"	Meipai Global Limited (美拍網絡有限公司), a limited liability company incorporated under the laws of Hong Kong on June 19, 2015, and our indirectly wholly-owned subsidiary

Definitions

"Meitu HK"	Meitu (China) Limited (美圖(中國)有限公司), a limited liability company incorporated in Hong Kong on August 12, 2013, and our directly wholly-owned subsidiary
"Meitu Holdings"	Meitu Holdings Ltd, an exempted company with limited liability incorporated under the laws of Cayman Islands on June 2, 2015, and our directly wholly-owned subsidiary
"Meitu Home"	Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司), a company established in the PRC on October 14, 2013, and our indirectly wholly-owned subsidiary
"Meitu Investment"	Meitu Investment Ltd, a BVI business company incorporated under the laws of the BVI on January 30, 2015, and our directly wholly-owned subsidiary
"Meitu Mobile"	Xiamen Meitu Mobile Technology Co., Ltd. (廈門美圖移動科技有限公司), a company established in the PRC on March 1, 2013 and our indirectly wholly-owned subsidiary
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co. Ltd. (廈門數字情緣網科技有限公司) and Xiamen Networks Zhiyuan Xinxi Technology Co. Ltd (廈門網之源信息科技有限公司)), a company established in the PRC on June 18, 2003, owned by Mr. Wu and Ms. Cai as 51% and 49%, respectively, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
"Meitu Technology"	Meitu Technology, Inc., formerly known as MagicV, Inc., and MIXVID, Inc., a limited liability company incorporated under the laws of the State of Delaware, on August 29, 2014, and our indirectly wholly-owned subsidiary
"Meitu Technology (US)"	Meitu Technology (US), LLC, formerly known as Commsource, LLC, a limited liability company incorporated under the laws of the State of California, on April 1, 2015, and our indirectly wholly-owned subsidiary
"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
"MOC"	the Ministry of Culture of the PRC (中華人民共和國文化部)

Definitions

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Mr. Cai"	Mr. CAI Wensheng (蔡文胜), our founder, chairman, executive Director, one of our Controlling Shareholders and an authorized representative
"Mr. Wu"	Mr. WU Zeyuan (吳澤源), also known as Mr. WU Xinhong (吳欣鴻), our founder, Chief Executive Officer, executive Director and one of our Controlling Shareholders
"Mr. Ngan"	Mr. NGAN King Leung Gary, our Chief Financial Officer, one of our joint company secretaries and an authorized representative
"Ms. Cai"	Ms. CAI Shuting, the daughter of Mr. Cai and Ms. Wang
"Ms. Wang"	Ms. WANG Baoshan, the spouse of Mr. Cai
"NASDAQ"	the National Association of Securities Dealers Automated Quotations
"Nomination Committee"	the nomination committee of the Company
"NYSE"	the New York Stock Exchange
"Post-IPO Share Award Scheme"	the share award scheme adopted by the Company on November 25, 2016 which is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules
"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on November 25, 2016 which complies with the provisions of Chapter 17 of the Listing Rules
"Pre-IPO ESOP"	the employees' share option plan of the Company as approved by the Board on February 15, 2014 and amended by the Board on November 18, 2015
"PRC Operational Entities"	Meitu Networks and its subsidiaries and branches, the financial results of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
"Prospectus"	the prospectus of the Company dated December 5, 2016
"Remuneration Committee"	the remuneration committee of the Company

Definitions

"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 the BVI on June 13, 2013, which is wholly-owned by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Wu and is deemed interested in approximately 40.29% of the issued share capital of our Company as at the Latest Practicable Date, and one of our Controlling Shareholders
"%"	per cent

meitu Meitu, Inc.
美图公司