2019 INTERIM REPORT
中 期 報 告

Stock Code 股份代號：1357

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

（於開曼群島註冊成立的有限公司，並以「美圖之家」名稱於香港經營業務）

meitu Meitu, Inc. 美图公司

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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

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PRC

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Kowloon, Hong Kong

LEGAL ADVISORS

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

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

As to Cayman Islands law
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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
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Wanchai
Hong Kong

PRINCIPAL BANKERS

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

STOCK CODE

1357

COMPANY WEBSITE

corp.meitu.com

2019 Highlights

Active user growth resumed, led by *Meitu* app's social strategy and *BeautyPlus*' increasing international popularity. MAU reached 308.1 million in June 2019, 0.6% higher than that of December 2018.

Revenues from online advertising grew strongly by 27.2% to RMB362.3 million. A new business model, "premium subscription", has emerged as the fastest growing sub-segment within Internet value-added services and others, as its revenues grew more than 6 times year on year during the first half of 2019.

Adjusted Net Loss attributable to owners of the Company* was RMB171.7 million for the first half of 2019, decreasing significantly by 41.4% year over year, due to strong advertising revenue growth and effective execution of a corporate restructuring.

Meitu app's user engagement has been increasing. In June 2019, *Meitu* app's social user on average spent over 12 minutes per day, this compared to daily user time spent of 5-6 minutes before its social transformation. The amount of photos and videos uploaded per day in June 2019 grew more than 5.5 times compared to that of December 2018.

* Financial metrics are presented to exclude discontinued operations.

Key Financial and Operational Data

KEY FINANCIAL DATA

	Six months ended June 30, 2019 RMB'000	2018 RMB'000 (Restated)[1]	Year on year change (%)
Revenue	**464,024**	486,776	-4.7%
— Internet Business	**462,483**	486,776	-5.0%
— Smart Hardware	**1,541**	—	N.A
Gross Profit	**308,070**	240,018	28.4%
— Internet Business	**310,350**	240,018	29.3%
— Smart Hardware	**(2,280)**	—	N.A
Gross Margin	**66.4%**	49.3%	+17.1p.p.
— Internet Business	**67.1%**	49.3%	+17.8p.p.
— Smart Hardware	**-148.0%**	N.A	N.A
Adjusted Net Loss from Continuing Operations attributable to Owners of the Company[2]	**(171,676)**	(292,988)	-41.4%

Note:

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

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

KEY OPERATIONAL DATA

	As of June 30, 2019 '000	As of December 31, 2018 '000 (Restated)	Change (%)
Total Monthly Active Users ("**MAUs**")	**308,127**	306,282	0.6%
MAU[1] breakdown by product:			
Meitu	**123,403**	117,444	5.1%
BeautyCam	**77,202**	79,137	-2.4%
BeautyPlus	**66,819**	59,674	12.0%
Meipai	**9,772**	13,011	-24.9%
Others	**30,931**	37,016	-16.4%
MAU breakdown by geography:			
Mainland China	**196,102**	198,825	-1.4%
Overseas	**112,025**	107,457	4.3%

Note:

(1) Restated to: (i) include in-app users only; and (ii) exclude discontinued business "*MeituBeauty*", which better represents the monetization potential of our user base.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of the Company, I hereby present the interim results of the Group for the six months ended June 30, 2019.

In the first half of 2019, we focused on executing a few key objectives: (i) drive user engagement through the *Meitu* app's social transformation; (ii) restore overall active user growth; (iii) grow our existing advertising business through innovative campaigns and explore a new monetization model; and (iv) restructure unprofitable business units and focus our resources on areas where we have a competitive advantage. So far, we are pleased to report good progress on all fronts.

In the first half of 2019, we have continued to execute our social strategy. In particular, we have increased the social engagement of the *Meitu* app significantly, increasing the daily time spent of the social users to over 12 minutes per day. Before its social transformation, the *Meitu* app's daily user time spent had often been approximately 5 to 6 minutes. The amount of content, i.e. videos and photos, uploaded increased substantially by 5.5 times in June 2019 compared to that of December 2018. As our pool of quality content continues to increase, our recommendation algorithms have been able to perform better, hence driving a substantial increase in click-through rates. Recently we have launched the Private Album functionality with the aim of further enhancing our user engagement. The Private Album not only allows users to store their photos securely on the cloud, but also enable one to invite a group of close friends to manage an album together, each having the ability to upload, comment and interact with one another. On the other hand, as video is continuing to be more important as a form of content, we are going to launch more video editing functionalities on the *Meitu* app to help our users to produce even higher quality content on our social platform.

We have successfully restored active user growth in the first half of 2019 as we saw monthly active users in June 2019 of 308.1 million, 0.6% higher than that of December 2018. Compared to December 2018, *Meitu* app's MAU grew by a solid 5.1% and our overseas products, *BeautyPlus and Airbrush*, grew 12.0% and 13.4%, respectively.

In conjunction with such strong growth of our overseas products, we have also started to explore a new monetization model, namely premium subscriptions, for our international apps. With a small monthly subscription fee, users can access our premium services such as IP branded AR filters and special effects. Revenues from premium subscriptions grew more than 6 times year over year in the first half of 2019, representing a meaningful contribution to the Internet value-added services and others.

Our global advertising revenues grew 27.2% year over year in the first half of 2019. Despite the uncertainty in the general economic conditions, our advertising revenues in the second quarter of 2019 grew quarter over quarter, driven mainly by programmatic advertising. As we continue to execute our social strategy on the *Meitu* app, we will generate more impressions from the feeds of the app and grow our advertising inventories and hence increasing our advertising revenues over the course of next few years.

Our smartphone business that previously represented a significant sub-segment under the smart hardware segment was classified as discontinued operations during the six months ended June 30, 2019, following the strategic cooperation with Xiaomi Corporation (Stock Code: 1810) ("**Xiaomi**"). In July 2019, Xiaomi launched the first product powered by Meitu's image technology, "*Xiaomi CC9 Meitu Edition*". Both user and professional reviews for the product have been very positive. We believe this encouraging result serves as a strong foundation for both companies to cooperate on future products.

Although our adjusted net losses narrowed significantly in the first half of 2019, given the uncertain outlook of the global economy, we will continue to be very vigilant in our cost management, spending resources only on areas that generate long term value for our shareholders. We continue to expect a net loss for the full year of 2019, although such loss is likely to be significantly less than that for the full year of 2018.

APPRECIATION

Finally, on behalf of the Company, I would like to express our sincere gratitude to all of our users. I would also like to thank all our employees and management team for demonstrating the Company'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.

Cai Wensheng
Chairman

Hong Kong
August 26, 2019

SIX MONTHS ENDED JUNE 30, 2019 COMPARED TO SIX MONTHS ENDED JUNE 30, 2018

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000 (Restated)
Continuing operations		
Revenue	464,024	486,776
Cost of sales	(155,954)	(246,758)
Gross profit	308,070	240,018
Selling and marketing expenses	(170,785)	(276,062)
Administrative expenses	(130,153)	(126,714)
Research and development expenses	(252,383)	(248,666)
Other income	7,920	12,051
Other (losses)/gains, net	(34,724)	162,355
Finance income, net	22,736	35,777
Share of losses of investments accounted for using the equity method	(950)	(1,698)
Loss before income tax	(250,269)	(202,939)
Income tax expense	(8,589)	(8,872)
Loss from continuing operations	(258,858)	(211,811)
(Loss)/Profit from discontinued operations (attributable to equity holders of the Company)	(119,221)	84,446
(Loss)/Profit attributable to:		
— Owners of the Company	(371,231)	(130,365)
— Non-controlling interests	(6,848)	3,000
	(378,079)	(127,365)
Adjusted Net (Loss)/Profit from continuing operations attributable to:		
— Owners of the Company	(171,676)	(292,988)
— Non-controlling interests	(6,848)	3,000
	(178,524)	(289,988)

Revenue

As a key strategy shift to an asset-light business model, we discontinued our smartphone business. As a result, the smart hardware segment no longer includes the smartphone business and only consists of the newly-developed skin-related smart hardware business. For the six months ended June 30, 2019, the advertising revenue increased remarkably by 27.2% and became the largest revenue contributor with 78.1% of our total revenue. However, due to the live streaming business slowdown, our total revenue decreased slightly by 4.7% year on year to RMB464.0 million for the six months ended June 30, 2019, compared to RMB486.8 million for the six months ended June 30, 2018.

	Six months ended June 30,			
	2019		2018	
	Amount RMB'000	% of total revenues	Amount RMB'000 (Restated)	% of total revenues
Internet business	462,483	99.7%	486,776	100.0%
Smart hardware	1,541	0.3%	—	N.A
Total	464,024	100%	486,776	100%

Internet business

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

	Six months ended June 30,		Year on year
	2019	2018 (Restated)	change (%)
Online advertising	362,264	284,908	27.2%
Internet value-added services and others	100,219	201,868	-50.4%
Total	462,483	486,776	-5.0%

Online advertising

Revenue from online advertising revenue increased remarkably by 27.2% to RMB362.3 million for the six months ended June 30, 2019, compared to RMB284.9 million for the six months ended June 30, 2018. Due to macroeconomic weaknesses, the domestic advertising market of the first half of 2019 declined by 8.8% year over year, according to CTR media intelligence data. In spite of this, our online advertising business still achieved healthy and solid growth as a result of a higher ads fill rate and new client acquisition. We also created some innovative advertising strategies and products to better serve our clients' needs. For example, we combined all kinds of advertising products, such as loading screen, banner display, in-feed ads, AR filter, influencer posts and promoted hashtag challenges in social communities, into a whole package with massive ads impression to increase brand awareness. It is worth noting that our domestic programmatic advertising (mainly including Demand-Side Platform advertising) achieved robust growth of 98.5% year on year. Our advertising revenue from overseas market also recorded an encouraging growth rate of 67.4% compared to the same period last year, which demonstrated our progress in exploring the potential of online advertising business.

Internet value-added services and others

Revenue from internet value-added services and others decreased by 50.4% year on year to RMB100.2 million for the six months ended June 30, 2019, mainly due to a decrease in the *Meipai* live streaming business.

Meipai live streaming revenue recorded a decline of 71.1% in the first half of 2019, attributable to a decrease in the number of paying users, partly offset by an increase in the average revenue per paying user. The amount of monthly paying users declined by approximately 85.8% due to the decrease in both *Meipai* MAU and monthly payment ratio. As we witnessed abated viewer interest and intensified competition in the live streaming arena, we were actively exploring new Internet value-added services, such as premium subscription, *MEITUGENIUS* (also known as *Meitu Magic Mirror*), audio streaming and other interactive services. With respect to the premium subscription model we launched in overseas apps, the product and service are provided free of charge, but money is charged for additional premium virtual products such as IP branded AR filters and special effects. Revenues from premium subscriptions have grown more than 6 times year over year in the first half of 2019, representing a meaningful contribution to the Internet value-added services and others. In particular, its second quarter revenue increased by over 1.6 times sequentially from the first quarter, making up one third of the Internet value-added services and others business. We see room for further growth in this area as the penetration of our overseas products continues to increase and the monetization effort in developed markets such as Japan and Korea bears fruit.

Smart hardware

Our smartphone business that previously represented a significant sub-segment under the smart hardware segment was classified as discontinued operations during the six months ended June 30, 2019, following our strategic cooperation with Xiaomi. We launched our first skin-related smart hardware product in January 2019 as our first attempt of tapping into the massive skin-care market. We also showcased our professional-grade skin analyzer "MeituEve" in the China Beauty Expo in May 2019, which generated a lot of interest from various skin-care industry participants. With our proprietary image technology, we are confident that we will be able to empower both the skin-care industry and consumers to better understand their skin condition, ultimately making skin-care more scientific and measurable. We are currently testing a number of different business models and therefore the revenue contribution from this segment is likely to remain small compared to the Internet business segment.

Cost of Sales

Our cost of sales decreased by 36.8% to RMB156.0 million for the six months ended June 30, 2019, compared to RMB246.8 million for the six months ended June 30, 2018.

Internet business

Segment cost for Internet business decreased by 38.3% to RMB152.1 million for the six months ended June 30, 2019, from RMB246.8 million for the six months ended June 30, 2018, primarily due to: (i) less revenue sharing fee in conjunction with our live streaming business decline; (ii) lower sales from advertising products like *M plan* that requires high costs of sales as revenue sharing with influencer; and (iii) more stringent cost control such as savings in bandwidth costs.

Smart hardware

Segment cost for smart hardware was RMB3.8 million for the six months ended June 30, 2019. This business was started in January 2019 and thus there is no comparison with the same period in 2018.

Gross Profit and Margin

Our gross profit increased by 28.4% to RMB308.1 million for the six months ended June 30, 2019, from RMB240.0 million for the six months ended June 30, 2018. Our gross margin increased to 66.4% for the six months ended June 30, 2019, from 49.3% for the six months ended June 30, 2018.

	Six months ended June 30,			
	2019		2018	
	Amount RMB'000	**Gross margin %**	Amount RMB'000 (Restated)	Gross margin %
Internet business	**310,350**	**67.1%**	240,018	49.3%
Smart hardware	**(2,280)**	**-148.0%**	—	N.A
Total	**308,070**	**66.4%**	240,018	49.3%

Internet business

Our Internet business segment generated a gross profit of RMB310.4 million for the six months ended June 30, 2019, compared to a gross profit of RMB240.0 million for the six months ended June 30, 2018.

Our gross profit margin was at 67.1% for the six months ended June 30, 2019, compared to the gross profit margin of 49.3% for the six months ended June 30, 2018. The margin expansion in the six months ended June 30, 2019 was primarily due to the increased contribution from the online advertising sub-segment that generates a higher margin compared to the Internet value-added services and others.

Smart hardware

Our smart hardware segment recorded a gross loss of RMB2.3 million with a negative margin of 148.0% in the six months ended June 30, 2019, as the business is still at its early stage and lacks economies of scale to generate a positive gross profit.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 38.1% to RMB170.8 million for the six months ended June 30, 2019, from RMB276.1 million for the six months ended June 30, 2018, primarily due to a decrease in promotional expenses resulting from more cautious brand advertising spending due to macro headwinds.

Research and Development Expenses

Research and development expenses remained stable with a slight increase of 1.5% to RMB252.4 million for the six months ended June 30, 2019, from RMB248.7 million for the six months ended June 30, 2018. We will continue to invest in Artificial Intelligence-based image technology.

Administrative Expenses

Administrative expenses increased by 2.7% to RMB130.2 million for the six months ended June 30, 2019, from RMB126.7 million for the six months ended June 30, 2018, primarily due to an increase in personnel-related expenses.

Other Income

Other income for the six months ended June 30, 2019 decreased to RMB7.9 million, from RMB12.1 million for the six months ended June 30, 2018, due to a reclassification of investment income from short-term investments to other gains/(losses), net offset by an increase in government grants.

Other (Losses)/Gains, Net

Other loss was RMB34.7 million for the six months ended June 30, 2019, compared to a net gain of RMB162.4 million for the six months ended June 30, 2018, primarily attributable to: (i) a decrease in the net gains on disposal of long-term investment; and (ii) the net loss from the change in the fair value of long-term investments of RMB43.6 million, compared to a net gain of RMB85.3 million at the same period of 2018.

Finance Income, Net

Our net finance income mainly comprised of bank interest income and foreign exchange losses. Our net finance income decreased by 36.5% to RMB22.7 million for the six months ended June 30, 2019, from RMB35.8 million for the six months ended June 30, 2018, primarily due to a decrease in interest income.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2019 were RMB9.0 million, compared to RMB8.9 million for the six months ended June 30, 2018. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2019, some of our entities generated net profits.

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

Net loss for the six months ended June 30, 2019 increased to RMB378.1 million from RMB127.4 million for the six months ended June 30, 2018, primarily due to a decrease in net gains on investment disposal and an increase in fair value loss of long-term investment.

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

Adjusted Net Loss from continuing operations attributable to Owners of the Company narrowed significantly to RMB171.7 million for the six months ended June 30, 2019, compared to RMB293.0 million for the six months ended June 30, 2018, mainly due to: (i) an increase of 28.4% in total gross profit which was mainly driven by the growth of online advertising; and (ii) effective cost control on promotional expense.

Given the uncertain outlook of the global economy, we will continue to be very vigilant in our cost management, spending resources only on areas that generate long term value for our shareholders. We continue to expect a net loss for the full year of 2019, although such loss is likely to be significantly less than that of the full year of 2018.

The following table reconciles our Adjusted Net (Loss)/Profit for the six months ended June 30, 2019 and 2018 to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the period:

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
		(Restated)
Loss from continuing operations	**(258,858)**	(211,811)
Excluding:		
Share-based compensation	**23,864**	81,458
Changes on fair value of long-term investments	**43,603**	(85,278)
Net effect of goodwill impairment and remeasurement gain on consideration to non-controlling shareholders of a subsidiary	**2,759**	—
Gains on disposal of long-term investments	**(5,171)**	(77,227)
Amortisation of intangible assets and other expenses related to acquisition	**7,530**	2,129
Other one-off expenses	**5,104**	1,060
Tax effects	**2,645**	(319)
Adjusted Net (Loss)/Profit from continuing operations attribute to:	**(178,524)**	(289,988)
— Owners of the Company	**(171,676)**	(292,988)
— Non-controlling interests	**(6,848)**	3,000

DISCONTINUED OPERATIONS

In the six months ended June 30, 2019, the Group discontinued its smartphone business as a result of the strategic cooperation agreement entered into between the Company and Xiaomi, pursuant to which Xiaomi is fully responsible for design, research and development, production, business operation, sales and marketing of the cooperation smartphones. Meitu has licensed its brand and certain technologies to Xiaomi and is entitled to a share of the gross profits for each cooperation smartphone sold once the quantity of cooperation smartphones sold reaches a specified quantity. In July 2019, Xiaomi released its first cooperation smartphone "*Xiaomi CC9 Meitu Edition*", which used Meitu's image technology and pre-installed certain Meitu apps.

Non-controlling Interests

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

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources as of June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019 RMB'000	December 31, 2018 RMB'000
Cash and cash equivalents	**1,036,153**	531,618
Short-term bank deposits	**1,402,838**	2,161,908
Long-term bank deposits	**110,000**	—
Short-term investments placed with banks	**20,129**	—
Cash and other liquid financial resources	**2,569,120**	2,693,526

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

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

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the six months ended June 30, 2019. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Expenditure

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
Purchase of property and equipment	**6,264**	76,806
Purchase of intangible assets	**–**	15,041
Total	**6,264**	91,847

Our capital expenditures primarily included expenditures for purchases of property and equipment such as computers and servers.

The decrease in capital expenditure was mainly due to our vigilant cost management strategy.

Long-term Investment Activities

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 revenues and profits. It is therefore difficult to determine the success of these investments at such early stage, and while successful investments could generate substantial financial returns, unsuccessful ones may need to be impaired or written-off.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency for the six months ended June 30, 2019 and 2018.

Pledge of Assets

As of June 30, 2019, we pledged a restricted deposit of RMB1,000,000 (as of December 31, 2018: RMB1,000,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As of June 30, 2019, we did not have any material contingent liabilities (as of December 31, 2018: nil).

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2019.

BORROWINGS AND GEARING RATIO AND BORROWINGS

As of June 30, 2019, we pledged a bank borrowing of RMB10.0 million (as of December 31, 2018: RMB10.0 million). As of June 30, 2019, the gearing ratio of the Group was approximately 0.3% (as of December 31, 2018: 0.3%). The gearing ratio is calculated as the total borrowings divided by the total equity on the reporting date. For this purpose, total debt is defined as bank loan as shown in the consolidated balance sheet. The Group's gearing ratio remained at a relatively low level as the Group did not place material reliance on borrowings to finance the Group's operation.

SIGNIFICANT INVESTMENTS HELD

As of June 30, 2019, we did not hold any significant investments in the equity interests of any other companies. During the six months ended June 30, 2019, we did not conduct any acquisitions or disposals that constituted notifiable transactions for the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

We are contemplating an investment opportunity in the Internet industry, the details of which would be announced as soon as reasonably practicable after definitive transaction agreements are entered into. Save as disclosed in this interim report, the Group did not have any other plans for material investments and capital assets as of June 30, 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended June 30, 2019, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,884 full-time employees as of June 30, 2019 (as of December 31, 2018: 2,080), 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.

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

As of June 30, 2019, 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	40.15%
Mr. Wu Zeyuan(1)	Interest of a party to an agreement regarding interest in the Company	1,694,546,670	40.15%
Dr. Lee Kai-Fu	Interest in a controlled corporation	32,994,151	0.78%

Notes:

(1) Pursuant to the a concert party agreement entered into among Mr. Wu, Mr. Cai and Ms. Wang (including, where applicable, any entities directly or indirectly controlled by them that directly holds the Shares) (the "**Concert Group**") on August 17, 2016 (the "**Concert Party Agreement**"), the entire interest of Xinhong Capital is held by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Wu. The entire interest of Baolink Capital is held by Mr. Cai and the entire interest of Longlink Capital is held by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as the trustee for the benefit of Mr. Cai.

(2) The calculation is based on the total number of Shares in issue as of June 30, 2019.

Save as disclosed above, as of June 30, 2019, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2019, the persons other than the Directors, whose interests are disclosed in this interim report, had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Easy Prestige Limited(2)(3)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.15%
Xinhong Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.15%
Baolink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.15%
Longlink Limited(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.15%
Longlink Capital(2)	Interest of a party to an agreement regarding interest in the Company(1)	1,694,546,670	40.15%
Lion Trust (Singapore) Limited(2)(3)	Trustee of a discretionary trust	1,398,366,670	33.13%
Chen Jiarong	Interest of controlled corporation/Beneficial owner/ Interest of spouse	501,800,180	11.89%
Kingkey Enterprise Holdings Limited	Beneficial Interest	418,324,680	9.91%
Chen Jiajun	Interest of controlled corporation	418,324,680	9.91%

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, which is deemed to be interested in these Shares.

(4) The calculation is based on the total number of Shares in issue as of June 30, 2019.

Save as disclosed herein, as of June 30, 2019, no person (other than the Directors whose interests are set out in this interim report) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

1. Employee Share Option Plan

The Pre-IPO ESOP was approved and adopted by the Company on February 15, 2014 and amended by resolution of the Board on November 18, 2015. The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

As of June 30, 2019, outstanding options representing 41,060,614 shares were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 20 to the interim consolidated financial information.

2. Post-IPO Share Option Scheme

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

The purpose of the Post-IPO Share Option Scheme is to enable the Company to grant options to the eligible participants including any employee, Director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Directors determine, as an incentive or a reward for their contribution to the Group.

As of June 30, 2019, 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 10.02% of the issued share capital of the Company.

SHARE AWARD SCHEME

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

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

As of June 30, 2019, 52,763,334 outstanding award Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme (excluding Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme). Details of the Post-IPO Share Award Scheme are set out in Note 20 to the consolidated financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During the six months ended June 30, 2019, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' dealings in the securities of the Company. Having made specific enquiries with all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended June 30, 2019.

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

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

During the six months ended June 30, 2019, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's Shares.

USE OF NET PROCEEDS FROM LISTING

Our Shares were listed on the Stock Exchange on December 15, 2016. The net proceeds from the Listing amounted to approximately RMB4,211.5 million. As of June 30, 2019, the Group had used:

- approximately RMB1,221.3 million for component and raw material sourcing to produce smartphones;
- approximately RMB594.9 million to invest in or acquire businesses that are complementary to our business;
- approximately RMB850.3 million to implement sales and marketing initiatives in both China and overseas market;
- approximately RMB331.1 million to expand Internet services business;
- approximately RMB283.1 million to expand research and development capabilities;
- approximately RMB390.5 million as general working capital.

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

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. As of the Latest Practicable Date, the Audit Committee comprises three members, namely Mr. Zhou Hao, Dr. Guo Yihong and Mr. Lai Xiaoling. Mr. Zhou Hao is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended June 30, 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position and results for the six months ended June 30, 2019.

QUALIFICATION REQUIREMENTS

Updates in Relation to the Qualification Requirements

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

Efforts and Actions Undertaken to Comply with the Qualification Requirements

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

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

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

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

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

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

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

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

Further details of the Contractual Arrangements are set out in the Prospectus and the Company's 2018 annual report published on April 26, 2019.

IMPORTANT EVENTS AFTER THE REPORTING DATE

On August 28, 2019, the Company and Meitu Networks entered into a transaction framework agreement to acquire an approximately 57.09% effective equity interest in Dajie Net (the "**Acquisition**"), which operates an online recruitment business in the PRC. The total consideration for the Acquisition was approximately HK$395,486,084, out of which out of which HK$342,956,420 will be satisfied by the allotment and issue of 85,739,105 consideration Shares and the remaining balance of approximately HK$52,529,664 will be satisfied in cash.

Further details of the Acquisition can be found on the announcement of the Company published on August 28, 2019.

The Acquisition has not been completed as at the Latest Practicable Date.

Save as disclosed above, there were no important events affecting the Group which occurred after June 30, 2019 and up to the Latest Practicable Date.

Report on Review of Interim Financial Information

To the Board of Directors of Meitu, Inc.

(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 27 to 66, which comprises the interim condensed consolidated balance sheet of Meitu, Inc. (the "**Company**") and its subsidiaries (together, the "**Group**") as of June 30, 2019 and the interim condensed consolidated statement of income, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and *International Accounting Standard 34 "Interim Financial Reporting"*. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with *International Accounting Standard 34 "Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 26, 2019

Interim Condensed Consolidated Statement of Income

	Note	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018* RMB'000
Continuing operations			
Revenue	6	**464,024**	486,776
Cost of sales	7	**(155,954)**	(246,758)
Gross profit		**308,070**	240,018
Selling and marketing expenses	7	**(170,785)**	(276,062)
Administrative expenses	7	**(130,153)**	(126,714)
Research and development expenses	7	**(252,383)**	(248,666)
Other income		**7,920**	12,051
Other (losses)/gains, net	8	**(34,724)**	162,355
Finance income, net	9	**22,736**	35,777
Share of losses of investments accounted for using the equity method	10(a)	**(950)**	(1,698)
Loss before income tax		**(250,269)**	(202,939)
Income tax expense	11	**(8,589)**	(8,872)
Loss from continuing operations		**(258,858)**	(211,811)
(Loss)/profit from discontinued operations (attributable to equity holders of the Company)	25	**(119,221)**	84,446
Loss for the period		**(378,079)**	(127,365)
(Loss)/profit attributable to:			
— Owners of the Company		**(371,231)**	(130,365)
— Non-controlling interests		**(6,848)**	3,000
		(378,079)	(127,365)

Interim Condensed Consolidated Statement of Income

	Note	**Unaudited Six months ended June 30, 2019 RMB'000**	Unaudited Six months ended June 30, 2018* RMB'000
Loss per share for loss from continuing operations attributable to owners of the Company for the period (expressed in RMB per share)	12		
— Basic		**(0.06)**	(0.05)
— Diluted		**(0.06)**	(0.05)
Loss per share for loss attributable to owners of the Company for the period (expressed in RMB per share)	12		
— Basic		**(0.09)**	(0.03)
— Diluted		**(0.09)**	(0.03)

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

* The condensed consolidated statement of income for the six months ended June 30, 2018 has been restated for the discontinued operations (Note 25).

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	**Unaudited Six months ended June 30, 2019 RMB'000**	Unaudited Six months ended June 30, 2018* RMB'000
Loss for the period		**(378,079)**	(127,365)
Other comprehensive (loss)/income, net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**(13,215)**	11,773
Other comprehensive (loss)/income for the period, net of tax		**(13,215)**	11,773
Total comprehensive loss for the period, net of tax		**(391,294)**	(115,592)
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(384,279)**	(118,592)
— Non-controlling interests		**(7,015)**	3,000
		(391,294)	(115,592)
Total comprehensive (loss)/income for the period attributable to owners of the Company arises from:			
Continuing operations		**(265,058)**	(203,038)
Discontinued operations		**(119,221)**	84,446
		(384,279)	(118,592)

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

* The condensed consolidated statement of comprehensive income for the six months ended June 30, 2018 has been restated for the discontinued operations (Note 25).

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited June 30, 2019 RMB'000	Audited December 31, 2018 RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	**110,348**	153,061
Right-of-use assets	3	**51,457**	—
Intangible assets	14	**163,756**	203,305
Long-term bank deposits		**110,000**	—
Long-term investments			
— Investments in associates in the form of ordinary shares	10(a)	**15,611**	16,540
— Financial assets at fair value through profit or loss	10(b)	**509,255**	547,178
— Financial assets at fair value through other comprehensive income		**7,309**	7,296
Prepayments and other receivables	16	**11,843**	14,823
Deferred tax assets		**4,915**	1,203
		984,494	943,406
Current assets			
Inventories		**142,872**	359,439
Trade receivables	15	**427,170**	521,817
Prepayments and other receivables	16	**403,238**	569,784
Short-term investments placed with banks		**20,129**	—
Short-term bank deposits	17	**1,402,838**	2,161,908
Restricted cash		**1,000**	1,000
Cash and cash equivalents		**1,036,153**	531,618
		3,433,400	4,145,566
Total assets		**4,417,894**	5,088,972

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited June 30, 2019 RMB'000	Audited December 31, 2018 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	18	**275**	274
Share premium	18	**7,044,576**	7,040,940
Reserves	19	**(139,498)**	(168,766)
Accumulated losses		**(3,404,493)**	(3,031,751)
		3,500,860	3,840,697
Non-controlling interests		**89,691**	119,233
Total equity		**3,590,551**	3,959,930
Liabilities			
Non-current liabilities			
Trade and other payables	21	**83,142**	137,977
Lease liabilities	3	**20,050**	—
Deferred tax liabilities		**14,724**	12,171
		117,916	150,148
Current liabilities			
Borrowings		**10,000**	10,000
Contract liabilities		**43,438**	32,382
Trade and other payables	21	**581,663**	885,418
Lease liabilities	3	**29,445**	—
Income tax liabilities		**44,881**	51,094
		709,427	978,894
Total liabilities		**827,343**	1,129,042
Total equity and liabilities		**4,417,894**	5,088,972

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

On behalf of the Board

Cai Wensheng
Director

Wu Zeyuan
Director

Interim Condensed Consolidated Statement of Changes in Equity

	Note	Unaudited Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at December 31, 2018		274	7,040,940	(168,766)	(3,031,751)	3,840,697	119,233	3,959,930
Change in accounting policy	3	–	–	–	(1,511)	(1,511)	(62)	(1,573)
Restated total equity at January 1, 2019		274	7,040,940	(168,766)	(3,033,262)	3,839,186	119,171	3,958,357
Comprehensive loss								
Loss for the period		–	–	–	(371,231)	(371,231)	(6,848)	(378,079)
Other comprehensive income								
Currency translation differences		–	–	(13,048)	–	(13,048)	(167)	(13,215)
Total comprehensive loss for the six months ended June 30, 2019		–	–	(13,048)	(371,231)	(384,279)	(7,015)	(391,294)
Total transactions with owners, recognized directly in equity								
Value of employee services:								
— Pre-IPO ESOP Scheme	20(a)	–	–	2,078	–	2,078	–	2,078
— Post-IPO Share Award Scheme	20(b)	–	–	17,773	–	17,773	–	17,773
Shares issued upon exercise of employee share options	18	1	3,636	–	–	3,637	–	3,637
Acquisition of additional equity interests in non-wholly owned subsidiaries	19	–	–	22,465	–	22,465	(22,465)	–
Total transactions with owners as their capacity as owners		1	3,636	42,316	–	45,953	(22,465)	23,488
Balance at June 30, 2019		275	7,044,576	(139,498)	(3,404,493)	3,500,860	89,691	3,590,551

Interim Condensed Consolidated Statement of Changes in Equity

		Unaudited Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2018		280	7,679,137	(263,065)	(1,774,312)	5,642,040	–	5,642,040
Comprehensive loss								
Loss for the period		–	–	–	(130,365)	(130,365)	3,000	(127,365)
Other comprehensive income								
Currency translation differences		–	–	11,773	–	11,773	–	11,773
Total comprehensive loss for the six months ended June 30, 2018		–	–	11,773	(130,365)	(118,592)	3,000	(115,592)
Total transactions with owners, recognized directly in equity								
Value of employee services:								
– Pre-IPO ESOP Scheme	20(a)	–	–	6,602	–	6,602	–	6,602
– Post-IPO Share Award Scheme	20(b)	–	–	84,505	–	84,505	–	84,505
Shares issued upon exercise of employee share options	18	–	1,150	–	–	1,150	–	1,150
Repurchase and cancellation of shares	18	(3)	(460,035)	–	–	(460,038)	–	(460,038)
A forward contract with non-controlling interests	19	–	–	(183,704)	–	(183,704)	–	(183,704)
Non-controlling interests on acquisition of a subsidiary		–	–	–	–	–	62,057	62,057
Total transactions with owners as their capacity as owners		(3)	(458,885)	(92,597)	–	(551,485)	62,057	(489,428)
Balance at June 30, 2018		277	7,220,252	(343,889)	(1,904,677)	4,971,963	65,057	5,037,020

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

Interim Condensed Consolidated Statement of Cash Flows

	Note	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Cash flows from operating activities			
Cash used in operations		**(59,790)**	(781,835)
Interest received		**1,955**	1,395
Income tax paid		**(6,912)**	(47,646)
Net cash used in operating activities		**(64,747)**	(828,086)
Cash flows from investing activities			
Purchase of property and equipment	14	**(6,264)**	(76,806)
Purchase of intangible assets	14	**—**	(15,041)
Proceeds from disposal of property and equipment and intangible assets		**13,060**	269
Investments in financial assets at fair value through profit or loss	10(b)	**(5,250)**	(76,046)
Proceeds from disposal of financial assets at fair value through profit or loss	8	**5,171**	89,778
Purchase of short-term investments placed with banks, net		**(20,000)**	(3,000)
Investment income received from short-term investments placed with banks		**6,597**	6,434
Placement of term bank deposits		**(1,144,938)**	(2,171,441)
Receipt from maturity of term bank deposits		**1,782,810**	3,419,043
Interest received from short-term bank deposits		**47,175**	84,035
Loans to an investee company		**—**	(5,000)
Loans to a third party		**(30,000)**	—
Repayments received from an investee company		**5,000**	—
Payment for acquisition of subsidiaries, net of cash acquired	19	**—**	(57,394)
Net cash generated from investing activities		**653,361**	1,194,831

Interim Condensed Consolidated Statement of Cash Flows

	Note	**Unaudited Six months ended June 30, 2019 RMB'000**	Unaudited Six months ended June 30, 2018 RMB'000
Cash flows from financing activities			
Payments for lease liabilities		**(28,529)**	—
Payments for shares repurchase		**—**	(460,038)
Proceeds from shares issued under employee share option scheme		**2,623**	1,063
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	19	**(59,356)**	—
Net cash used in financing activities		**(85,262)**	(458,975)
Net increase/(decrease) in cash and cash equivalents		**503,352**	(92,230)
Cash and cash equivalents at the beginning of the period		**531,618**	1,396,632
Effects of exchange rate changes on cash and cash equivalents		**1,183**	(35,904)
Cash and cash equivalents at the end of the period		**1,036,153**	1,268,498

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

Notes to the Interim Condensed Consolidated Financial Information

1 GENERAL INFORMATION

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

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

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

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

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, business operation, sales and marketing of all future Meitu branded smartphones (other than the model Meitu V7) for a maximum of approximately 30 years, while the Group remains committed 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".

On April 30, 2019, the Group discontinued the production of smartphone. Accordingly, the smartphone and e-commerce operations have been presented as discontinued operations in the financial statements of the Group.

The interim condensed consolidated balance sheet as of June 30, 2019, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "**Interim Financial Information**") of the Group have been approved for issue by the Board of Directors ("**Board**") on August 26, 2019.

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

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

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2018, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

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

(a) New and amended standards and interpretation adopted by the Group

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28 (Amendment)	Long-term investment in an Associate or Joint Venture
IFRS 9 (Amendment)	Prepayment Features with Negative Compensation
IAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
Annual Improvements to IFRSs 2015–2017 cycle	

Except for the impact of adoption of IFRS 16 set out in Note 3 below, the adoption of other applicable new and amended standards and interpretations did not have any material impact on the Interim Financial Information of the Group.

3 CHANGES IN ACCOUNTING POLICY

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in Note 3(b) below.

The Group has adopted IFRS 16 from its mandatory adoption date of January 1, 2019, but has not restated comparatives for the 2018 reporting period, the reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

3(a) Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

	RMB'000
Operating lease commitments disclosed as of December 31, 2018	76,938
Discounted using the lessee's incremental borrowing rate of at the date of initial application	75,832
Less: short-term leases recognised on a straight-line basis as expense	(361)
Lease liability recognized as of January 1, 2019	**75,471**
Of which are:	
Current lease liabilities	43,752
Non-current lease liabilities	31,719
	75,471

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as of December 31, 2018. The recognized right-of-use assets of the Group all relate to properties.

The change in accounting policy increase right-of-use assets by RMB73,898,000 and lease liabilities by RMB75,471,000 on January 1, 2019.

No significant impact on the Group's loss per share for the six months ended June 30, 2019 as a result of the adoption of IFRS 16.

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

3(a) Adjustments recognized on adoption of IFRS 16 (Continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

3(b) The Group's leasing activities and how these are accounted for

The Group leases only offices for long-term contracts. Rental contracts are typically made for fixed periods of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3 CHANGES IN ACCOUNTING POLICY (CONTINUED)

3(b) The Group's leasing activities and how these are accounted for (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 ESTIMATES

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

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The Interim Financial Information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2018.

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

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

5.3 Fair value estimation

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value as of June 30, 2019 and December 31, 2018.

	Unaudited			
	Level 1	Level 2	Level 3	Total
As of June 30, 2019	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 10(b))	—	—	509,255	509,255
— Financial assets at fair value through other comprehensive income	—	—	7,309	7,309
Short-term investments placed with banks	—	—	20,129	20,129
	—	—	536,693	536,693

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

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

The following table presents the changes in level 3 instruments for the six months ended June 30, 2019.

	Unaudited			
	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Short-term investments placed with banks RMB'000	Total RMB'000
Opening balance as of December 31, 2018	547,178	7,296	—	554,474
Additions	5,250	—	1,887,580	1,892,830
Disposals	—	—	(1,867,580)	(1,867,580)
Changes in fair value	(43,603)	—	6,726	(36,877)
Investment income recognized in profit or loss	—	—	(6,597)	(6,597)
Currency translation differences	430	13	—	443
Closing balance as of June 30, 2019	**509,255**	**7,309**	**20,129**	**536,693**
Total unrealized gains and change in fair value for the period included in "other (losses)/gains, net" (Note 8)	**(43,603)**	**—**	**129**	**(43,474)**

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.5 Group's valuation processes

The Group has a team of personnel with valuation experience that manages the evaluation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation methodologies to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

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

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

6 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 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.

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

As disclosed in Note 25, the Group discontinued the operation of its smartphone and e-commerce businesses. Therefore, the segment information have been presented as continuing and discontinued operations as follows:

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Revenue from continuing operations		
Internet business:		
— Online advertising	**362,264**	284,908
— Internet value-added services and others	**100,219**	201,868
	462,483	486,776
Smart hardware:		
— Skin-related smart hardware product	**1,541**	—
Total revenue	**464,024**	486,776
Revenue from discontinued operations (Note 25)	**203,704**	1,565,234

The segment results for the six months ended June 30, 2019 are as follows:

	Internet business RMB'000	**Smart hardware RMB'000**	**Total continuing operations RMB'000**
Segment revenue			
Timing of revenue recognition			
At a point in time	**100,219**	**1,541**	**101,760**
Over time	**362,264**	**—**	**362,264**
	462,483	**1,541**	**464,024**
Segment cost of sales	**(152,133)**	**(3,821)**	**(155,954)**
Gross profit/(loss)	**310,350**	**(2,280)**	**308,070**

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	Internet business RMB'000	Smart hardware RMB'000	Total continuing operations RMB'000
Segment revenue			
Timing of revenue recognition			
At a point in time	201,868	—	201,868
Over time	284,908	—	284,908
	486,776	—	486,776
Segment cost of sales	(246,758)	—	(246,758)
Gross profit	240,018	—	240,018

The major customers which contributed more than 10% of the revenue from continuing operations of the Company for the six months ended June 30, 2019 and 2018 are listed as below.

	Unaudited Six months ended June 30, 2019 %	Unaudited Six months ended June 30, 2018 %
Customer A	**16%**	10%

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

As of June 30, 2019, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

The reconciliation of segment gross profit/(loss) to loss before income tax for the six months ended June 30, 2019, is presented in the interim condensed consolidated statement of income of the Group.

7 EXPENSES BY NATURE

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Employee benefit expenses	**363,656**	369,656
Promotion and advertising expenses	**64,062**	177,964
Revenue sharing fee	**49,988**	141,179
Bandwidth and storage related costs	**44,736**	49,301
Depreciation of property and equipment	**33,762**	25,763
Impairment of trade receivables, prepayments and other receivables	**32,388**	—
Depreciation of right-of-use assets	**23,417**	—
Video content monitoring fee	**11,552**	15,812
Travelling and entertainment expenses	**11,087**	15,651
Tax and levies	**10,597**	11,734
Amortization of intangible assets	**6,954**	3,433
Auditors' remuneration	**3,187**	3,510
Impairment of property and equipment	**1,224**	—
Operating lease expenses	**1,217**	26,354
Others	**51,448**	57,843
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**709,275**	898,200

8 OTHER (LOSSES)/GAINS, NET

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Remeasurement gains on consideration to non-controlling shareholders of a subsidiary (Note 21)	**30,577**	—
Fair value changes on short-term investments placed with banks (Note 5)	**6,726**	—
Gains on disposal of long-term investments	**5,171**	77,227
(Losses)/gains on disposal of property and equipment	**(422)**	36
Goodwill impairment (Note 14)	**(33,336)**	—
Fair value changes on financial assets at fair value through profit or loss (Note 10(b))	**(43,603)**	85,278
Others	**163**	(186)
	(34,724)	162,355

9 FINANCE INCOME, NET

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Interest income	**29,386**	49,660
Interest expenses	**(264)**	(1,761)
Foreign exchange losses, net	**(2,229)**	(11,722)
Others	**(4,157)**	(400)
	22,736	35,777

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

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
At the beginning of the period	**16,540**	28,415
Share of losses of the associates	**(950)**	(1,698)
Currency translation differences	**21**	301
At the end of the period	**15,611**	27,018

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

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
At the beginning of the period	**547,178**	280,863
Additions (Note(i))	**5,250**	144,351
Disposals	**—**	(80,855)
Changes in fair value	**(43,603)**	85,278
Currency translation differences	**430**	4,183
At the end of the period	**509,255**	433,820

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

(i) During the six months ended June 30, 2019, the Group acquired the minority equity interests of a private-held company in form of preferred shares.

11 INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended June 30, 2019 and 2018 are analyzed as follows:

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Current income tax:		
— PRC and overseas enterprise income tax	**9,748**	8,997
Deferred income tax	**(1,159)**	(125)
	8,589	8,872
Income tax expense is attributable to:		
Profit from continuing operations	**8,589**	8,872
Profit from discontinued operations	**—**	21,001

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%.

(c) Corporate income tax in other countries

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

11 INCOME TAX EXPENSE (CONTINUED)

(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.

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 six months ended June 30, 2019.

12 LOSS PER SHARE

(a) Basic

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

	Unaudited Six months ended June 30, 2019	Unaudited Six months ended June 30, 2018
Loss attributable to owners of the Company (RMB'000)		
From continuing operations	**(252,010)**	(214,811)
From discontinued operations	**(119,221)**	84,446
	(371,231)	(130,365)
Weighted average number of ordinary shares in issue (thousand)	**4,189,638**	4,259,315
Basic and diluted (loss)/earnings per share (in RMB/share)		
From continuing operations	**(0.06)**	(0.05)
From discontinuing operations	**(0.03)**	0.02
	(0.09)	(0.03)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2019 and 2018, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and share awards under the Post-IPO Share Award Scheme (Note 20). As the Group incurred losses for the six months ended June 30, 2019, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2019 is the same as basic loss per share.

13 DIVIDENDS

No dividends had been paid or declared by the Company during the six months ended June 30, 2019 (six months ended June 30, 2018: nil).

14 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Property and Equipment RMB'000	Intangible Assets RMB'000
As of December 31, 2018		
Cost	305,702	220,024
Accumulated depreciation/amortization and impairment	(152,641)	(16,719)
Net book amount	153,061	203,305
Unaudited		
Six months ended June 30, 2019		
Opening net book amount	**153,061**	**203,305**
Currency translation differences	**—**	**765**
Additions	**6,264**	**—**
Disposals	**(12,254)**	**—**
Depreciation/amortization charges	**(35,497)**	**(6,978)**
Goodwill impairment (Note (a))	**—**	**(33,336)**
Other impairment	**(1,226)**	**—**
Closing net book amount	**110,348**	**163,756**
As of June 30, 2019		
Cost	**275,640**	**220,921**
Accumulated depreciation/amortization and impairment	**(165,292)**	**(57,165)**
Net book amount	**110,348**	**163,756**

(a) Impairment tests for goodwill

Goodwill arises from the Group's acquisition of subsidiaries 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 acquirees' CGU for impairment testing. The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts.

Goodwill was allocated to one advertising agency CGU with RMB49,740,000 and other CGUs with RMB62,643,000.

Due to the sharp competition in the advertising agency business, the Group's advertising agency CGU did not meet the performance target. Management has reassessed the recoverable amount of the CGU based on the revised forecast with applicable discount rate and recognized an impairment loss of RMB33,336,000.

There were no indicators for impairment of other CGUs, management has not updated any of the other impairment calculations.

15 TRADE RECEIVABLES

The Group grants a credit period of 30 to 120 days to its customers. As of June 30, 2019 and December 31, 2018, the aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date were as follows:

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Trade receivables		
Up to 3 months	**287,949**	349,673
3 to 6 months	**93,583**	130,070
6 months to 1 year	**43,443**	41,254
1 to 2 years	**2,195**	820
	427,170	521,817

As of June 30, 2019 and December 31, 2018, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates.

16 PREPAYMENTS AND OTHER RECEIVABLES

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Included in non-current assets		
Rental and other deposits	**11,557**	14,430
Others	**286**	393
	11,843	14,823
Included in current assets		
Receivables from advertising customers for advertising agency services	**178,882**	312,863
Recoverable value-added tax	**97,349**	108,387
Rental and other deposits	**34,940**	19,201
Loans to third parties	**32,000**	7,000
Prepayment to advertising platform for advertising agency services	**25,677**	28,645
Interest receivables	**17,421**	37,119
Prepayments to suppliers	**5,819**	29,245
Prepaid income tax	**—**	9,049
Loans to an investee company	**—**	5,000
Others	**11,150**	13,275
	403,238	569,784

17 SHORT-TERM BANK DEPOSITS

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Short-term bank deposits with initial terms over three months	**1,402,838**	2,161,908

As of June 30, 2019, short-term bank deposits amounting to RMB1,402,838,000 (December 31, 2018: RMB2,161,908,000) were bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are primarily denominated in US$ and the weighted average effective interest rate was 3.16% per annum for the six months ended June 30, 2019 (six months ended June 30, 2018: 2.88%).

18 SHARE CAPITAL

As of June 30, 2019 and December 31, 2018, the authorized share capital of the Company comprises 6,000,000,000 ordinary shares with par value of US$0.00001 per share.

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued:					
As of January 1, 2019		**4,202,516**	**42**	**274**	**7,040,940**
Employee share option scheme under Pre-IPO ESOP — shares issued and proceeds received	(a)	**17,780**	**—**	**1**	**3,636**
As of June 30, 2019		**4,220,296**	**42**	**275**	**7,044,576**
As of January 1, 2018		4,273,553	43	280	7,679,137
Employee share option scheme under Pre-IPO ESOP — shares issued and proceeds received	(a)	5,965	—	—	1,150
Repurchase and cancellation of shares	(b)	(70,865)	(1)	(3)	(460,035)
As of June 30, 2018		4,208,653	42	277	7,220,252

(a) During the six months ended June 30, 2019, 17,780,000 pre-IPO share options with exercise price of US$0.03 were exercised (six months ended June 30, 2018: 5,965,000 pre-IPO share options).

(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 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 Directors of the 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 June 30, 2018, the Company had repurchased an aggregate of 70,865,000 shares at an average price of HK$7.83 for an aggregate consideration of HK$554,758,000 (equivalent to RMB460,035,000) and all the shares repurchased/boughtback were subsequently cancelled.

19 RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Other reserves RMB'000	Total RMB'000
As of January 1, 2019	**2,000**	**19,950**	**345,921**	**(338,286)**	**(198,351)**	**(168,766)**
Value of employee services:						
— Pre-IPO ESOP Scheme	**—**	**—**	**2,078**	**—**	**—**	**2,078**
— Post-IPO Share Award Scheme	**—**	**—**	**17,773**	**—**	**—**	**17,773**
Currency translation differences (Note (a))	**—**	**—**	**—**	**(13,048)**	**—**	**(13,048)**
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note (b))	**—**	**—**	**—**	**—**	**22,465**	**22,465**
As of June 30, 2019	**2,000**	**19,950**	**365,772**	**(351,334)**	**(175,886)**	**(139,498)**
As of January 1, 2018	2,000	17,048	207,520	(474,986)	(14,647)	(263,065)
Value of employee services:						
— Pre-IPO ESOP Scheme	—	—	6,602	—	—	6,602
— Post-IPO Share Award Scheme	—	—	84,505	—	—	84,505
Currency translation differences (Note (a))	—	—	—	11,773	—	11,773
A forward contract with non-controlling interests (Note (b))	—	—	—	—	(183,704)	(183,704)
As of June 30, 2018	2,000	17,048	298,627	(463,213)	(198,351)	(343,889)

(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) As detailed in Note 21, the Group recognized a financial liability of RMB183,704,000 associated with an obligation to acquire the remaining non-controlling equity interest. A corresponding debit was recorded in the reserve of the Group under such arrangement. In May 2019, the Group acquired additional 14.86% equity interests pursuant to the sales and purchase agreement ("**SPA**"). Accordingly, the non-controlling interest was reduced by RMB22,465,000 and the other reserves was credited by the same amount, which is the net assets value of the 14.86% equity interest.

20 SHARE-BASED PAYMENTS

(a) Pre-IPO ESOP

On February 15, 2014, the Board of Directors of the Company approved the establishment of the Pre-IPO ESOP with the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Pre-IPO ESOP shall be valid and effective for 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 ten 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 for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

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

	Exercise price	Number of share options Six months ended June 30,	
		2019	2018
At the beginning of the period		**58,903,947**	79,339,909
Exercised (Note (i))	US$ 0.03	**(17,780,833)**	(5,965,581)
Forfeited	US$ 0.03	**(62,500)**	(16,250)
At the end of the period		**41,060,614**	73,358,078

(i) As a result of the options exercised during the six months ended June 30, 2019, 17,780,833 ordinary shares (six months ended June 30, 2018: 5,965,581 ordinary shares) were issued by the Company (Note 18). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$2.81 per share (equivalent to RMB2.44 per share) (six months ended June 30, 2018: HK$9.03 per share (equivalent to RMB7.41 per share)).

As of June 30, 2019, all share options granted will expire in 2026.

20 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

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

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

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

No share options were granted under Pre-IPO ESOP to non-employees of the Company during six months ended June 30, 2019 (six months ended June 30, 2018: 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 six months ended June 30, 2019, the Group recorded share based compensation of RMB2,078,000 (six months ended June 30, 2018: RMB6,602,000) related to Pre-IPO ESOP.

(b) Post-IPO Share Award Scheme

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

20 SHARE-BASED PAYMENTS (CONTINUED)

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

Movements in the number of award shares for the six months ended June 30, 2019 and 2018 are as follows:

	Post-IPO Share Award Scheme Number of shares Six months ended June 30,	
	2019	2018
At the beginning of the period	**32,403,560**	24,537,000
Granted	**17,068,309**	15,722,960
Exercised	**(6,625,862)**	(3,608,345)
Forfeited	**(3,826,988)**	(1,442,450)
At the end of the period	**39,019,019**	35,209,165

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The weighted average fair value of awarded shares granted during the six months ended June 30, 2019 was HK$3.52 per share (equivalent to approximately RMB3.02 per share) (six months ended June 30, 2018: HK$9.39 per share (equivalent to approximately RMB7.62 per share)).

During the six months ended June 30, 2019, the Group recorded share based compensation of RMB17,773,000 (six months ended June 30, 2018 RMB84,505,000) related to Post-IPO Share Award Scheme.

The outstanding awarded shares as of June 30, 2019 were divided into two to four tranches on an equal basis as of their grant dates. The first tranche can 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.

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

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As of June 30, 2019, the Expected Retention Rate, excluding senior management, was assessed to be 95% (2018: 95%). For senior management, the Group estimates the Expected Retention Rate on individual basis.

(c) Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was approved by the board on November 25, 2016 and adopted with effect from the completion of the IPO. As of June 30, 2019, no options have been granted by the Group under the Post-IPO Share Option Scheme.

21 TRADE AND OTHER PAYABLES

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Included in non-current liabilities		
Payables to non-controlling shareholders of a subsidiary (Note a)	**83,142**	137,977
Included in current liabilities		
Payables to advertising platforms for advertising agency services	**167,767**	171,865
Payroll and welfare payables	**158,737**	197,598
Trade payables	**139,248**	356,521
Deposits payable	**44,085**	23,144
Warranty provisions	**33,082**	57,028
Payables to non-controlling shareholders of a subsidiary (Note a)	**19,197**	51,996
Other tax payables	**9,754**	10,717
Others	**9,793**	16,549
	581,663	885,418

(a) On January 25, 2018, the Group acquired an aggregate 50.48% equity interests of an advertising agency company ("**the Acquiree**"). 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. The Group initially 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.

Pursuant to the SPA, in May 2019, the Group acquired the first stage additional 14.86% equity interests for a cash consideration of RMB59,356,000 and settled the same amount in the financial liability accordingly.

Furthermore, as discussed in Note 14, due to the sharp competition in the advertising agency business, the acquired will not meet the performance target for the coming years. Accordingly, management has remeasured the financial liabilities to non-controlling shareholders based on the performance forecast. The financial liability was reduced and a remeasurement gain of RMB30,577,000 was recognized accordingly (Note 8).

21 TRADE AND OTHER PAYABLES (CONTINUED)

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

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Up to 3 months	**96,295**	294,160
3 to 6 months	**12,574**	33,075
6 months to 1 year	**8,270**	17,446
1 to 2 years	**20,666**	10,200
Over 2 years	**1,443**	1,640
	139,248	356,521

22 COMMITMENTS

The Group did not have any significant commitments as of June 30, 2019.

23 CONTINGENCIES

The Group did not have any significant contingent liabilities as of June 30, 2019.

24 SUBSEQUENT EVENT

There were no material subsequent events during the period from June 30, 2019 to the approval date of these financial statements by the Board of Directors on August 26, 2019.

25 DISCONTINUED OPERATIONS

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 discontinued the manufacture and production of smartphone on April 30, 2019 and exited its e-commerce business on November 30, 2018.

Financial information relating to discontinued operations for the six months ended June 30, 2019 are set out below. The income statement and statement of cash flows distinguish discontinued operations from continuing operations and the respective comparative figures have been restated.

25 DISCONTINUED OPERATIONS (CONTINUED)

The results and cash flows of discontinued operations for the six months ended June 30, 2019 are as follows:

	E-commerce operations RMB'000	Smart phone RMB'000	Total discontinued operations RMB'000
Revenue	—	203,704	203,704
Cost of sales	—	(276,060)	(276,060)
Expenses	(808)	(56,988)	(57,796)
Other (losses)/gains, net	(101)	1,383	1,282
Other income, net	6,666	2,983	9,649
Profit/(loss) before income tax	5,757	(124,978)	(119,221)
Income tax expense	—	—	—
Profit/(loss) from discontinued operations	5,757	(124,978)	(119,221)
Net cash generated from/(used in) operating activities	10,949	(19,445)	(8,496)
Net cash generated from investing activities	—	1,710	1,710
Cash flows of discontinued operations	10,949	(17,735)	(6,786)

25 DISCONTINUED OPERATIONS (CONTINUED)

The results and cash flows of discontinued operations for the six months ended June 30, 2018 are as follows:

	E-commerce operations RMB'000	Smart phone RMB'000	Total discontinued operations RMB'000
Revenue	84,908	1,480,326	1,565,234
Cost of sales	(93,551)	(1,085,671)	(1,179,222)
Expenses	(72,618)	(209,171)	(281,789)
Other (losses)/gains, net	(9)	286	277
Other income, net	—	947	947
(Loss)/profit before income tax	(81,270)	186,717	105,447
Income tax expense	—	(21,001)	(21,001)
(Loss)/profit from discontinued operations	(81,270)	165,716	84,446
Net cash used in operating activities	(139,413)	(63,302)	(202,715)
Net cash used in investing activities	—	(1,542)	(1,542)
Cash flows of discontinued operations	(139,413)	(64,844)	(204,257)

26 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the six months ended June 30, 2019 and 2018.

(a) Significant transactions with related parties

In the opinion of the executive directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
(i) Sales of goods and services:		
Associates in form of preferred shares	**22,830**	—
Associates	**—**	835
	22,830	835
(ii) Purchases of goods and services:		
An associate	**6,402**	5,608
Others	**195**	401
	6,597	6,009
(iii) Interest income	**38**	20

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Period /Year end balances with related parties

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
(i) Receivables from:		
Associates in form of preferred shares	**26,634**	11,735
Associates	**1,533**	2,197
	28,167	13,932
(ii) Payables to:		
An associate	**2,130**	1,507
(iii) Contract liabilities from:		
Associates in form of preferred shares	**21,344**	—

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

(c) Key management personnel compensations

Key management includes directors (executive and non-executive). The compensations paid or payable to key management for employee services are shown below:

	Unaudited Six months ended June 30, 2019 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000
Wages, salaries and bonuses	**3,875**	4,827
Pension costs — defined contribution plan	**103**	100
Other social security costs, housing benefits and other employee benefits	**146**	238
Share-based compensation expenses	**6,411**	27,013
	10,535	32,178

Definitions

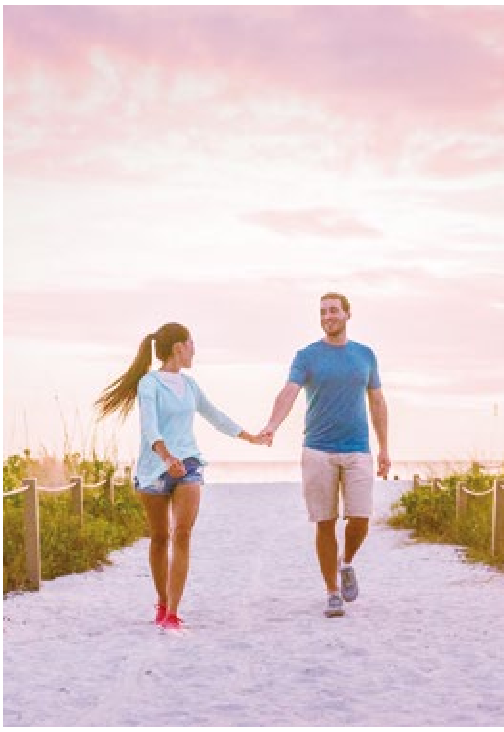
"AR"	augmented reality
"Adjusted Net (Loss)/ Profit from continuing operations"	adjusted net (loss)/profit from continuing operations is calculated as the (loss)/ profit for the year from continuing operations, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation; (ii) fair value (losses)/gains on long-term investments, net of tax; and (iii) gains on disposal of long-term investments, net of tax.
"Baolink Capital"	Baolink Capital Ltd, a company incorporated under the laws of BVI on June 29, 2007, which is wholly-owned by Mr. Cai and is deemed interested in approximately 40.15% of the issued share capital of our Company, and one of our Controlling Shareholders
"Board of Directors" or "Board"	our Board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. "Chinese" shall be construed accordingly
"Company", "our Company", "the Company", "Meitu", "we" or "us"	Meitu, Inc. 美图公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on July 25, 2013 and carries on business in Hong Kong as "美圖之家" (in Chinese) as approved and registered with the Registrar of companies in Hong Kong on October 28 and November 7, 2016, respectively. "Meitu" may also refer to the Company's brand if the context so requires. "Meitu", when italicized, refers to the Company's first product, *Meitu*
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Definitions

"Contractual Arrangements"	the series of contractual arrangements entered into between Mr. Wu, Mr. Cai, Meitu Home and Meitu Networks (as applicable), details of which are set out in the prospectus of the Company dated December 5, 2016 and the 2018 annual report of the Company published on April 26, 2019
"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
"Dajie Net"	Dajie Net Investment Holdings Ltd., a limited liability company incorporated under the laws of the Cayman Islands
"Director(s)"	the director(s) of our Company
"Group", "our Group", or "the Group"	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements) from time to time
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"ICP 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
"Latest Practicable Date"	September 19, 2019, being the latest practicable date prior to the bulk printing and publication of this interim report
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"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 40.15% of the issued share capital of our Company, and one of our Controlling Shareholders
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

"MAUs"	monthly active users
"Meitu HK"	Meitu (China) Limited 美圖(中國)有限公司, a limited liability company incorporated in Hong Kong on August 12, 2013, and our directly wholly-owned subsidiary
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co. Ltd. (廈門數字情緣網科技有限公司) and Xiamen Networks Zhiyuan Xinxi Technology Co. Ltd (廈門網之源信息科技有限公司), a company established in the PRC on June 18, 2003, owned by Mr. Wu and Ms. Cai as to 51% and 49%, respectively, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
"Meitu Technology"	Meitu Technology, Inc., formerly known as MagicV, Inc., and MIXVID, Inc., a limited liability company incorporated under the laws of the State of Delaware, on August 29, 2014, and our indirectly wholly-owned subsidiary
"Meitu Technology (US)"	Meitu Technology (US), LLC, formerly known as Commsource, LLC, a limited liability company incorporated under the laws of the State of California, on April 1, 2015, and our indirectly wholly-owned subsidiary
"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Mr. Cai"	Mr. Cai Wensheng (蔡文胜), our founder, chairman, executive Director, one of our Controlling Shareholders and an authorized representative
"Mr. Wu"	Mr. Wu Zeyuan (吳澤源), also known as Mr. Wu Xinhong (吳欣鴻), our founder, Chief Executive Officer, executive Director and one of our Controlling Shareholders
"Ms. Cai"	Ms. Cai Shuting, the daughter of Mr. Cai and Ms. Wang
"Ms. Wang"	Ms. Wang Baoshan, the spouse of Mr. Cai
"Post-IPO Share Award Scheme"	the share award scheme adopted by the Company on November 25, 2016 which is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules

"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on November 25, 2016 which complies with the provisions of Chapter 17 of the Listing Rules
"PRC Operating Entities"	Meitu Networks and its subsidiaries and branches, the financial results of which have been consolidated and accounted for as if they were subsidiaries of our Company by virtue of the Contractual Arrangements
"Pre-IPO ESOP"	the employees' share option plan of the Company as approved by the Board on February 15, 2014 and amended by the Board on November 18, 2015
"Prospectus"	the prospectus of the Company dated December 5, 2016
"RMB" or "Renminbi"	Renminbi, the lawful currency of PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a par value of US$0.00001 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"Xinhong Capital"	Xinhong Capital Limited, a company incorporated under the laws of BVI on June 13, 2013, which is wholly-owned by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Wu and is deemed interested in approximately 40.15% of the issued share capital of our Company, and one of our Controlling Shareholders
"%"	per cent



Meitu, Inc.
美图公司