Meitu, Inc.
美图公司

Stock Code: 1357

2019 ANNUAL REPORT

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

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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 Director

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)*

COMPANY SECRETARY

Mr. NGAN King Leung Gary

AUTHORIZED REPRESENTATIVES

Mr. CAI Wensheng
Mr. NGAN King Leung Gary

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

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

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISORS

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

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

As to Cayman Islands law
Conyers Dill & Pearman

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1357

COMPANY WEBSITE

corp.meitu.com

2019 Highlights

Revenues* reached RMB977.9 million and grew 3.2% year over year. In particular, revenues growth from online advertising remained strong and grew 21.1% year over year to RMB751.9 million in 2019.

Gross profit* reached RMB699.3 million and grew 42.1% year over year. Gross margin also expanded to 71.5% from 51.9% due to growing proportion of higher-margin businesses in the revenue mix such as premium subscription and online advertising.

Adjusted Net Loss from continuing operations attributable to Owners of the Company* for the year 2019 reduced significantly by 77.7% to RMB190.8 million, with a positive Adjusted Net Profit attributable to Owners of the Company in the fourth quarter of 2019.

Meitu app's user engagement continued to grow, with the average daily time spent of the social users reaching 13.6 minutes per day in the second half year of 2019, compared to 12.5 minutes in the first half year of 2019. During the 2020 Chinese New Year, daily photos and video views in *Meitu* app surged by 53% year over year, thanks to the continuous social transformation effort.

* Financial metrics are presented to exclude discontinued operations.

Key Financial Data of Continuing Operations

	Year ended December 31, 2019 RMB'000	2018 RMB'000	Year on year change (%)
		(Restated) (1)	
Revenue	**977,867**	947,671	3.2%
– Online Advertising	**751,886**	620,892	21.1%
– Premium Subscription Services and In-App Purchases	**85,987**	13,911	518.1%
– Internet Value-added Services	**45,599**	37,681	21.0%
– Others	**94,395**	275,187	–65.7%
Gross Profit	**699,283**	492,130	42.1%
Gross Margin	**71.5%**	51.9%	+19.6p.p.
Adjusted Net Loss from Continuing Operations attributable to Owners of the Company(2)	**(190,813)**	(857,032)	–77.7%

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 of Continuing Operations

	As of December 31,		Year on year
	2019	2018	**change**
	'000	'000	**(%)**
		(Restated)	
Total Monthly Active Users ("MAUs")	**282,472**	306,282	–7.8%
MAU(1) breakdown by product:			
– Meitu	**116,429**	117,444	–0.9%
– BeautyCam	**66,809**	79,137	–15.6%
– BeautyPlus	**66,143**	59,674	10.8%
– Meipai	**7,057**	13,011	–45.8%
– Others	**26,034**	37,016	–29.7%
MAU breakdown by geography:			
– Mainland China	**173,631**	198,825	–12.7%
– Overseas	**108,841**	107,457	1.3%

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 annual results of the Group for the twelve months ended December 31, 2019.

Revenues reached RMB977.9 million and grew 3.2% year over year. In particular, revenues growth from online advertising remained strong and grew 21.1% year over year to RMB751.9 million in 2019.

Gross profit reached RMB699.3 million and grew 42.1% year over year. Gross margin also expanded to 71.5% from 51.9% due to growing proportion of higher-margin businesses in the revenue mix such as premium subscription and online advertising.

Adjusted Net Loss from continuing operations attributable to Owners of the Company for the year 2019 reduced significantly by 77.7% to RMB190.8 million, with a positive Adjusted Net Profit attributable to Owners of the Company in the fourth quarter of 2019.

BUSINESS REVIEW AND OUTLOOK

Strategic Highlights

During 2019, we continued to refine our strategy around social and beauty, and have accordingly refreshed our mission and vision, which are "to let everyone become beautiful easily" and "to empower the beauty industry and make beauty more accessible to our users", respectively. The implications of such strategic focus are that:

i) content on the *Meitu* has become more geared towards beauty-related content, such as cosmetic product reviews, makeup tutorials, fashion, health and wellness;

ii) we have launched some tailored advertising products to enable our brand advertisers to better engage their consumers;

iii) we have launched a professional-grade skin analyzer to partner up with beauty industry participants with the vision of empowering consumers to make more informed decision around their skincare through a better understanding of their skin conditions; and

iv) we have partnered up with Shanghai Skin Disease Hospital, a leading dermatology hospital and one of the earliest recipients of an Internet hospital license in Shanghai, to launch a service that enables remote dermatologist consultation in our photo app directly.

Chairman's Statement

Business Review and outlook

We have continued to increase the user engagement of our social app *Meitu*, with the average daily time spent of the social users reaching 13.6 minutes in the second half of 2019. In particular, as we further reinforced the platform's positioning in beauty-related content in late 2019, we have seen encouraging improvement in the number of high-quality content creators in early 2020. After the completion of the acquisition of approximately 57.09% effective equity interest of Dajie Net Investment Holdings Ltd. ("**Dajie Net**"), the two companies have also started to work closely to further drive *Meitu*'s social ecosystem. For example, Dajie Net has recently launched a new initiative, a turnkey solution for MCN (multi-channel networks) companies to source, identify, train and manage talents' human-resources needs, leveraging Dajie Net's years of recruitment and human resources expertise. On the one hand, this is a meaningful market opportunity as there has been a shortage of new talents (or "**KOL**"s) while the demand from brands and advertisers for these talents has remained strong; on the other hand, Dajie Net is also able to drive more high-quality content creators through *Meitu*'s social platform.

In 2019, we have achieved a significant growth of both gross profits and gross profit margins year over year due to the following:

i) Revenue from our global advertising revenues, which made up 76.9% of our 2019 total revenue, achieved a robust growth. It is mainly due to an increase in average revenue per domestic key account advertiser, as the Group offer comprehensive marketing solutions geared towards the needs of these large advertisers. The *Meitu* app has also contributed to the advertising revenue growth through its social features that enriched the advertising formats with higher client interests. In addition, revenue from the emerging premium subscription business surged, which partly offsets the decline in revenue from our legacy *Meipai* live streaming show.

ii) The gross profit growth significantly outpaced the revenue growth in 2019 and such growth even accelerated in the fourth quarter, as the fast-growing online advertising and premium subscription business carried much higher gross margins compared to live-streaming.

iii) Cost of revenues, such as bandwidth costs and content monitoring fees, had declined year over year due to implementation of a cost optimization program that focused on efficiency enhancement.

We have also significantly reduced sales and marketing expenses, particularly promotional expenses, as the Group reduced its emphasis in driving user acquisition through paid downloads and large marketing campaigns. Instead, the Group focused on driving organic downloads through introducing innovative features and user experience improvements in its apps. We have also completed an expense optimization plan that drove a reduction in both research and development expenses and general and administrative expenses. Its effect on expenses reduction was more pronounced towards the end of 2019. As a result of the foregoing, we have generated Adjusted Net Profit in the fourth quarter of 2019.

Looking ahead, we will focus on maintaining our unique position in the beauty industry by providing a variety of beauty-related offerings and continue to improve our monetization capability. In the near term, we believe how the global public health situation plays out is likely to have significant implications to our profitability. We have already felt some negative impact in our advertising business due to the Novel Coronavirus (COVID-19) outbreak in China during early 2020 as certain brand advertisers have become more cautious in spending their advertising budgets. On the other hand, some new initiatives such as the remote dermatologist consultation services that we are going to launch in the second quarter of this year may potentially benefit as people may continue to avoid going out. In short, it is still too early to predict our profitability this year given the great uncertainty ahead, but we will remain very vigilant and nimble, striving to create long-term shareholder value.

APPRECIATION

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

Mr. Cai Wensheng
Chairman

Hong Kong
March 26, 2020

Management Discussion and Analysis

Year ended December 31, 2019 compared to year ended December 31, 2018

	Year ended December 31, 2019 RMB'000	2018 RMB'000 (Restated)
Continuing operations		
Revenue	**977,867**	947,671
Cost of sales	**(278,584)**	(455,541)
Gross profit	**699,283**	492,130
Selling and marketing expenses	**(326,457)**	(782,698)
Administrative expenses	**(250,826)**	(274,068)
Research and development expenses	**(500,589)**	(517,056)
Net impairment losses on financial assets	**(2,882)**	(1,897)
Other income	**49,486**	38,690
Other (losses)/gains, net	**(47,551)**	493,265
Operating loss	**(379,536)**	(551,634)
Finance income, net	**45,685**	39,656
Shares of losses of investments accounted for using the equity method	**(1,226)**	(3,382)
Loss before income tax	**(335,077)**	(515,360)
Income tax expense	**(8,984)**	(17,849)
Loss from continuing operations	**(344,061)**	(533,209)
Loss from discontinued operations (attributable to equity holders of the Company)	**(60,759)**	(709,857)
(Loss)/profit attributable to:		
– Owners of the Company	**(396,522)**	(1,254,537)
– Non-controlling interests	**(8,298)**	11,471
	(404,820)	(1,243,066)
Adjusted Net (Loss)/Profit from continuing operations attributable to:		
– Owners of the Company	**(190,813)**	(857,032)
– Non-controlling interests	**(3,533)**	14,180
	(194,346)	(842,852)

CONTINUING OPERATIONS

Revenue

Our total revenue increased slightly by 3.2% to RMB977.9 million for the year ended December 31, 2019, compared to RMB947.7 million for the year ended December 31, 2018. It primarily consists of Internet business, as we discontinued our smartphone business in April 2019.

In light of our strategy upgrade, we adjusted the way we present the revenue to align with our key business focus. We derive our revenues from (i) online advertising services; (ii) premium subscription services and in-app purchases; (iii) Internet value-added services and (iv) others. The following table presents our revenue lines and as percentages of our total revenues for the years presented.

	Year ended December 31,			
	2019		2018	
	Amount RMB'000	% of total revenues	Amount RMB'000	% of total revenues
			(Restated)	
Online Advertising	**751,886**	**76.9%**	620,892	65.5%
Premium Subscription Services and In-App Purchases	**85,987**	**8.8%**	13,911	1.5%
Internet Value-added Services	**45,599**	**4.7%**	37,681	4.0%
Others	**94,395**	**9.6%**	275,187	29.0%
Total	**977,867**	**100.0%**	947,671	100.0%

Online advertising

Despite the macro uncertainty and industry headwinds in 2019, our revenue from online advertising still increased by 21.1% year on year to RMB751.9 million for the year ended December 31, 2019, mainly due to an increase in average revenue per domestic key account advertiser, as the Group focused more on big-spending brand advertisers and created comprehensive marketing solutions geared towards their particular needs. Over the course of 2019, we delivered some significant improvements on our product and operation initiatives that enriched the social interactive features of *Meitu* apps and gained more client recognition for our marketing value. With steady traffic and growing user engagements, we continued to ramp up our inventories and introduce new ads formats (such as hotshot and Topview) to retain client interest. Apart from display ads, programmatic ads also had a healthy growth, due to the enhancement of eCPM (earnings per 1,000 ads impressions) and filling rate resulting from auction algorithm optimization. We will continue to improve our advertising technology to enhance overall ads performance.

Amid intensified competition from the proliferation of social media platforms, we are building our unique proposition with a strong focus on beauty-related content offerings for our massive female users to create and share their beauty. This strategic focus also aligns with our sector strength in fast-moving consumer goods and luxury brands.

To provide a better understanding of our financials, we have broken down "Internet value-added services and others" into three separate revenue lines, namely: 1) premium subscription services and in-app purchases; 2) Internet value-added services ("**IVAS**"); and 3) others.

Premium subscription services and in-app purchases

Revenue from premium subscription services and in-app purchases increased significantly by 518.1% year on year to RMB86.0 million for the year ended December 31, 2019. This is a newly introduced business model on our overseas apps *(BeautyPlus* and *Airbrush)* to tap into the massive and still growing global users. Since its inception in the second half of 2018 and impressive jumpstart in the first half of 2019, premium subscription continued a strong momentum in the second half of 2019, with revenue more than doubled compared to the first half. Such an increase is underpinned by a variety of factors, such as favorable demographic factors (i.e. more willingness to pay among overseas users), enhanced brand recognition, targeted product localization and effective go-to-market strategy. Premium subscription should remain as one of our core monetization efforts moving forward, as we see untapped growth potential in both average revenue per paying user and paid users across the board.

Internet value-added services

This revenue line primarily consists of a variety of mobile value-added services offerings. For example, we leverage our platform and user base to promote the mobile entertainment and related services, such as casual mobile game, online literatures, musical and video service and etc., for our third-party partners and we are entitled to a certain portion of revenue sharing. The current IVAS revenue line does not include revenue generated from the “showroom live streaming” business, which previously represented a majority of “Internet value-added services and others” revenue line under our previous classification. This is because “showroom live streaming” no longer aligns with our refreshed strategic focus and therefore we moved it to “others”. However, we will continue to explore ways to use live streaming in the context of beauty-related content offerings and/or monetization.

For the year of 2019, revenue from our IVAS increased by 21.0% year over year to RMB45.6 million from RMB37.7 million for 2018, as we continued to enrich our service offerings and enhance the distribution efficiency through a recommendation algorithm.

Others

Others mainly include: 1) innovation businesses that are in a very nascent stage with marginal revenue contribution, such as *MeituEve*, our professional-grade skin analyzer and *Meitu Skin Doctor*, our remote dermatologist consultation servicing platform; and 2) businesses that do not align with our strategic focus moving forward. For example, as previously discussed, revenue from showroom live streaming was reclassified as others for the reporting period due to the aforementioned reason. Our image technology and brand licensing business to the third party smartphone manufacturer was also included here, as its revenue was negligible.

For the year of 2019, revenue from others decreased by 65.7% year over year to RMB94.4 million from RMB275.2 million for 2018, mainly due to the decline of live streaming business amid increasingly fierce competition.

Cost of Sales

Our cost of sales decreased by 38.8% to RMB278.6 million for the year ended December 31, 2019, compared to RMB455.5 million for year ended December 31, 2018, for the following reasons: (i) the largest cost component, bandwidth costs and content monitoring fees, had declined year over year due to a decrease in the size and engagement of *Meipai* user base, as well as the implementation of a cost optimization program that focused on efficiency enhancement; (ii) lower revenue sharing fee as a result of live streaming show business being phased out.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

Our gross profit increased significantly by 42.1% to RMB699.3 million in 2019 from RMB492.1 million in 2018, and in particular, such growth accelerated to 55.2% year over year in the second half year of 2019. It is attributable to the gross margin uplift to 71.5% in 2019 from 51.9% in 2018, mainly driven by favorable changes in our product mix, as the fast-growing revenue lines, i.e. online advertising and premium subscription services and in-app purchases, carry much higher gross margin than the receding live streaming business.

Research and Development Expenses

Our research and development expenses decreased by 3.2% to RMB500.6 million in 2019, from RMB517.1 million in 2018, primarily due to more effective cost control.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 58.3% to RMB326.5 million in 2019, from RMB782.7 million in 2018, primarily due to a significant reduction in promotion expense, as the company shifted its user acquisition strategy from driving paid downloads and large-scale marketing campaign to driving organic downloads through introducing innovative features and improving user experience.

Administrative Expenses

Our administrative expenses decreased by 8.5% to RMB250.8 million in 2019 from RMB274.1 million in 2018, primarily due to the completion of an expense optimization plan. The effect of such plan on expense reduction was more pronounced in the second half of 2019 with a 18.1% decrease year over year.

Other Income

Other income increased by 27.9% to RMB49.5 million for the year ended December 31, 2019, from RMB38.7 million for the year ended December 31, 2018, primarily due to an increase in government grants.

Other (Losses)/Gains, Net

Other net loss in 2019 was RMB47.6 million, compared to a net gain of RMB493.3 million in 2018, primarily attributable to: (i) a decrease in the net gains on disposal of financial assets at fair value through profit or loss; and (ii) the net loss from the change in the fair value of financial assets at fair value through profit or loss of RMB60.8 million, compared to a net gain of RMB95.4 million in 2018.

Finance Income, Net

Our net finance income mainly comprised of bank interest income and foreign exchange losses. We had a net finance income of RMB45.7 million in 2019, compared to a net finance income of RMB39.7 million in 2018, primarily due to lower foreign exchange losses compared to last year.

Income Tax Expense

Income tax expenses for the year ended December 31, 2019 were RMB9.0 million, compared to RMB17.8 million for the year ended December 31, 2018. Although the Group was loss-making on a consolidated level for the year ended December 31, 2019, some of our entities generated positive net profits and therefore generated our income tax expenses for the year.

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

Our net loss from continuing operations for the year ended December 31, 2019 decreased significantly to RMB344.1 million, compared to RMB533.2 million in 2018, primarily due to the combined positive effect of gross profit growth and expenses reduction, which was partially offset by a decrease in investment disposal gain as compared to that of 2018.

To supplement our consolidated financial statements which are presented in accordance with the IFRSs, 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, IFRSs. For the purpose of this annual 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 IFRSs.

Adjusted Net Loss from continuing operations attributable to Owners of the Company narrowed significantly to RMB190.8 million for the year ended December 31, 2019, compared to RMB857.0 million for the year ended December 31, 2018, mainly due to the significant growth in gross profits from business mix improvement and cost reduction from our expense optimization plan. The most noteworthy is that such efforts started to bear fruits.

Given the macroeconomic uncertainty clouded by the outbreak of the Novel Coronavirus (COVID-19), we will continue to be very vigilant in our cost management, while testing different business models that serve our long term vision of creating a "beauty ecosystem". Our strategy adjustment started to bear fruit in 2019 and the most noteworthy achievement is that we recorded a positive Adjusted Net Profit in the fourth quarter of 2019.

The following table reconciles our Adjusted Net (Loss)/Profit from continuing operations for the years ended December 31, 2019 and 2018 to the most directly comparable financial measure calculated and presented in accordance with IFRSs:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
		(Restated)
Loss from the continuing operations for the year	**(344,061)**	(533,209)
Excluding:		
Share-based compensation	**57,962**	122,105
Changes in fair value of financial assets at fair value through profit or loss	**60,845**	(95,364)
Net effect of goodwill impairment and remeasurement gain on consideration to non-controlling shareholders of a subsidiary	**8,596**	–
Gains on disposal of financial assets at fair value through profit or loss	**(5,171)**	(353,142)
Remeasurement gains on investment in associates	**–**	(30,739)
Amortisation of intangible assets and other expenses related to acquisition	**15,760**	12,743
Other one-off expenses	**5,103**	34,861
Tax effects	**6,620**	(107)
Adjusted Net (Loss)/Profit from continuing operations attributable to:	**(194,346)**	(842,852)
– Owners of the Company	**(190,813)**	(857,032)
– Non-controlling interests	**(3,533)**	14,180

DISCONTINUED OPERATION

During the year ended December 31, 2019, the Group discontinued its smartphone business as a result of the strategic cooperation agreement dated November 19, 2018 entered into between the Company and Xiaomi Corporation ("**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

We have a healthy balance sheet with strong cash position. Our cash and other liquid financial resources as of December 31, 2019 and 2018 were as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	**864,611**	531,618
Short-term bank deposits	**1,646,981**	2,161,908
Long-term bank deposits	**110,000**	–
Cash and other liquid financial resources	**2,621,592**	2,693,526

Cash and cash equivalents include cash in hand and deposits held at call with banks. Long-term bank deposits and short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity.

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

TREASURY POLICY

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Purchase of property and equipment	**12,749**	143,913
Purchase of intangible assets	**–**	16,321
Total	**12,749**	160,234

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

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

LONG-TERM INVESTMENT ACTIVITIES

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Investment in associates in the form of ordinary shares	**–**	8,771
Investment in financial assets at fair value through profit or loss	**12,338**	384,148
Investment in financial assets at fair value through other comprehensive income	**2,259**	433
Total	**14,597**	393,352

We have made minority investments 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 in such early stage, and while successful investments could generate substantial returns, unsuccessful ones may need to be impaired or written-off.

FOREIGN EXCHANGE RISK

Our Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency during the years ended December 31, 2019 and 2018.

PLEDGE OF ASSETS

As of December 31, 2019, we pledged a restricted deposit of RMB500,000 (2018: RMB1,000,000) to guarantee payment of certain operating expenses.

CONTINGENT LIABILITIES

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

BORROWINGS AND GEARING RATIO

As of December 31, 2019, we did not have any pledged bank borrowings (2018: RMB10,000,000). Therefore the gearing ratio of the Group was 0.0% as of December 31, 2019 (2018: 0.3%). The gearing ratio is calculated as the total borrowings divided by the total equity on the respective reporting date. For this purpose, total debt is defined as bank loan as shown in the consolidated balance sheet. The Group's gearing ratio remained at a relatively low level as the Group did not place material reliance on borrowings to finance the Group's operation.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 1,840 full-time employees as of December 31, 2019 (2018: 2,080), the majority of whom were based in various cities in China, including Xiamen (headquarter), Beijing, Shenzhen, Hangzhou and Shanghai. Remuneration is determined with reference to market conditions and individual employees' performance, qualification and experience.

Management Discussion and Analysis

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

SIGNIFICANT INVESTMENTS HELD

As of December 31, 2019, we did not hold any significant investments in the equity interests of any other companies. Save as disclosed in this annual report, during the year ended December 31, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Save as disclosed in this annual report, the Group did not have any other plans for material investments and capital assets as of December 31, 2019.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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 HK$342,956,420 was satisfied by the allotment and issue of 85,739,105 consideration Shares and the remaining balance of approximately HK$52,529,664 was satisfied in cash. The Acquisition was completed on November 19, 2019.

Further details of the Acquisition can be found in the announcements of the Company published on August 28, 2019, October 28, 2019 and November 19, 2019.

Save as disclosed above, during the year ended December 31, 2019, we did not conduct any material acquisitions or disposals of subsidiaries and affiliated companies.

IMPORTANT EVENTS AFTER THE REPORTING DATE

Save as disclosed above, there were no important events affecting the Company which occurred after December 31, 2019 and up to the Latest Practicable Date.

Directors and Senior Management

OUR DIRECTORS

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

Members of our Board

Name	Age	Position/Title	Date of Appointment
Mr. CAI Wensheng	50	Executive Director and Chairman	July 2013
Mr. WU Zeyuan *(also known as Mr. WU Xinhong)*	39	Executive Director and Chief Executive Officer	July 2013
Dr. GUO Yihong	56	Non-executive Director	January 2014
Dr. LEE Kai-Fu	58	Non-executive Director	August 2016
Mr. ZHOU Hao	43	Independent non-executive Director	November 2016
Mr. LAI Xiaoling	44	Independent non-executive Director	January 2019
Mr. ZHANG Ming *(also known as Mr. WEN Chu)*	42	Independent non-executive Director	January 2019

The biography of each Director is set out below:

Executive Directors

Mr. CAI Wensheng（蔡文胜）, aged 50, is a founder, executive Director and the Chairman of our Group, and is the chairman of the Nomination Committee of our Company since the Listing Date. Mr. Cai also serves as a director of Meitu Holdings and Meipai Ltd. Mr. Cai is responsible for the overall strategic planning and business direction of the Group. Mr. Cai completed his junior high education from Shi Guang High School in Shishi city（石獅市石光中學）, Fujian Province, China in July 1984. Mr. Cai is an entrepreneur and renowned investor in the Internet and technology industry in China. In August 2004, Mr. Cai established 265.com Inc.（北京二六五科技有限公司）, a company that provides site navigation services. He was the chairman of 265.com Inc. from August 2004 to 2008, responsible for the company's overall strategic development. 265.com Inc. was sold to Google in 2007. Since then, Mr. Cai has become an influential figure in the Internet start-up community in China. Mr. Cai has invested in various technology start-ups in the PRC, including Baofeng Group Co., Ltd.（暴風集團股份有限公司）(Shenzhen Stock Exchange Stock Code: 300431), 58.com Inc., (NYSE: WUBA) and Feiyu Technology International Company Ltd. (Hong Kong Stock Exchange Stock Code: 1022). Mr. Cai is also the founder and chairman of Longling Capital Co., Ltd. From January 2009 to October 2013, Mr. Cai was the chairman of 4399 Network Co., Ltd.（四三九九網絡股份有限公司）, a software enterprise that provides Internet gaming applications and information services, and was responsible for the company's overall strategic development plan. He was also appointed as a part-time professor at the School of Management, Xiamen University in September 2015.

Directors and Senior Management

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

Mr. WU Zeyuan (吳澤源) (also known as: Mr. Wu Xinhong (吳欣鴻)), aged 39, is a founder, executive Director and the Chief Executive Officer of our Group. Mr. Wu is responsible for the overall management of the Company. Mr. Wu is also a director of Meitu Investment, Meitu HK, Meipai Global, Meitu Mobile, Meitu Networks and Meitu Home. Mr. Wu has been involved in the Internet industry in China since 2000. Mr. Wu received his high school diploma from Quanzhou No. 1 High School (泉州第一中學) in the PRC in July 2001. From September 2000 onwards, Mr. Wu was involved in running domain-name registration businesses. Mr. Wu began developing and researching photo-editing software in 2008. Mr. Wu has created and launched one popular product after another, from 520.com to Martian Translator (*火星文輸入法*), a software program for converting ordinary language into netspeak consisting of unconventional Chinese characters.

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

Non-executive Directors

Dr. GUO Yihong (過以宏), aged 56, is a non-executive Director and a member of the Audit Committee of our Company. Dr. Guo received his bachelor's degree in applied chemistry from the Shanghai Jiaotong University (上海交通大學) in July 1985, Ph.D. from the University of Massachusetts at Amherst in February 1991, and a master's degree in business administration from Columbia Business School in May 1997. In 1999, Dr. Guo was employed at Soros Fund Management LLC. Since 2006, Dr. Guo has been a partner at IDG Capital Investment Consultancy (Beijing) Co., Ltd. (IDG資本投資顧問(北京)有限公司). Dr. Guo has been a director of Internet platform and app development and operating companies, such as Xiamen Gigabit Network Technology Co., Ltd. (廈門吉比特網絡技術股份有限公司), Next Games Oy, Cassia Networks Inc. and Ripple Labs, Inc. Dr. Guo has been a board observer of Farfetch.com Limited since April 2016. Since August 2014, Dr. Guo has been a director of China Quanjude (Group) Co., Ltd (中國全聚德(集團)股份有限公司) (Shenzhen Stock Exchange Stock Code: 002186), a restaurant services group.

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

Dr. LEE Kai-Fu（李開復）, aged 58, was appointed as a non-executive Director in August 2016 and is a member of the Remuneration Committee. Dr. Lee received his bachelor of arts degree and Ph.D. in computer science from Columbia University in May 1983 and Carnegie Mellon University in May 1988, respectively. From 1988 to 1990, Dr. Lee worked at Carnegie Mellon University, where he served as an assistant professor. Between July 1990 and April 1996, Dr. Lee worked at Apple Inc. (NASDAQ: AAPL), serving his last position as vice-president from December 1995. From July 1998 to July 2005, Dr. Lee was the vice president at Microsoft Corporation (NASDAQ: MSFT), a software products and services company, where he played a key role in establishing the Microsoft research division. From July 2005 to September 2009, Dr. Lee was the president of Google China at Google Inc. (NASDAQ: GOOGL), where he helped establish Google's operations in the market and oversaw its growth. He was responsible for launching the Google China R&D Center.

Dr. Lee has been an independent non-executive director of Hon Hai Precision Industry Co., Ltd. (Taiwan Stock Exchange Stock Code: 2317) since July 2016 and Fosun International Limited (Hong Kong Stock Exchange Stock Code: 656) since 28 March 2017. Dr. Lee served as an independent non-executive director of Shangri-La Asia Limited (Hong Kong Stock Exchange Stock Code: 0069) between November 2015 to June 2019.

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

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

Independent non-executive Directors

Mr. ZHOU Hao（周浩）, aged 43, has been appointed as an independent non-executive Director of our Company, chairman of the Audit Committee and member of the Nomination Committee of our Company with effect from Listing. Mr. Zhou is our Director with appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below. Mr. Zhou received his bachelor's degree from Shanghai International Studies University（上海外國語大學）in July 1998. Mr. Zhou joined General Electric (China) Co., Ltd.（通用電氣（中國）有限公司）in January 2007 as a financial manager. From May 2009 to September 2010, Mr. Zhou was the vice president of finance and the chief financial officer at Wuxi PharmaTech (Cayman) Inc., (NYSE: WX). In September 2010, Mr. Zhou joined CITIC Pharmaceutical Co Ltd.（中信醫藥實業有限公司）, a pharmaceutical service provider that supplies medicine and related consumables to hospitals as chief financial officer. Since May 2011, Mr. Zhou has served as the chief financial officer of 58.com Inc., (NYSE: WUBA), a company that operates online marketplace serving local merchants and consumers in China.

Directors and Senior Management

Mr. LAI Xiaoling (賴曉凌), aged 44, has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee on January 1, 2019. Mr. Lai has over 14 years of experience in investment and business management. Since January 2018, Mr. Lai has been a partner of Beijing Shunwei Capital Investment and Consulting Company Limited (北京順為資本投資諮詢有限公司), primarily responsible for investment strategy, team formation and management and portfolio management; from June 2013 to December 2017, he was a partner of Innovation Work (Beijing) Investment Management and Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), primarily responsible for investment strategy, personnel recruitment and training and portfolio management; from June 2012 to April 2013, he worked as the Investment Director for Chengwei Investment Advisory (Shanghai) Company Limited (成為投資諮詢(上海)有限公司); from October 2007 to February 2012, he worked as the Investment Manager and Vice President for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), primarily responsible for deal sourcing, execution and portfolio management.

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

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

Mr. ZHANG Ming (張明) (also known as: Mr. WEN Chu (文廚)), aged 42, has been appointed as an independent non-executive Director of our Company, a member of the Remuneration Committee and a member of the Nomination Committee on January 1, 2019. Mr. Zhang is the founder, chairman and chief executive officer of Great Wall Club, a platform to provide professional services to entrepreneurs, developers and investors to strengthen their connection with other mobile Internet industry leaders and grow their businesses worldwide. He is also a prominent cross-border angel investor and the founder of GASA University, a university dedicated to becoming an elite educational program for successful entrepreneurs who seek to enhance their scientific logic and scientific literacy.

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

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

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

OUR SENIOR MANAGEMENT

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

Name	Age	Position	Roles and responsibilities	Date of joining our Group
Mr. NGAN King Leung Gary（顏勁良）	36	Chief Financial Officer and Company Secretary	Overall financial strategy, investor relations and company secretarial matters	June 2015
Ms. WANG Xiujuan（王秀娟）	42	Chief Operating Officer	Monetization strategies and innovation ecosystem	August 2019
Ms. SHI Na（施娜）	42	Chief Human Resources Officer	Overall human resources and administration management	April 2019
Ms. RUAN Yongli（阮永麗）	34	Senior Vice President of Technology	Network infrastructure development and technical support	April 2006

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

Mr. NGAN King Leung Gary（顏勁良）, aged 36, is our Chief Financial Officer and Company Secretary, and joined our Group in June 2015. Mr. Ngan is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of the Group. Between May 2012 and June 2015, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484), a mobile games and web game company listed on the Stock Exchange. Prior to that, he was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science degree in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited from February 2013 to November 2014.

Ms. WANG Xiujuan（王秀娟）, aged 42, is our Chief Operating Officer and joined our Group in August 2019. Ms. Wang is primarily responsible for the monetization strategies and innovation ecosystem of the Group. Ms. Wang founded Dajie.com in 2008, and has also played an integral role as a co-founder in building many China's consumer mobile and Internet companies, such as ChinaRen, KongZhong.com (NASDAQ: KZ) and RenRen (NYSE: RENN). She was awarded with "2010-2020: 35 Most Influential People in the IT Industry of the Next Decade" by Beijing Youth Daily and Tencent Tech. In addition, she was also awarded with "Pink Platinum Elite Women Leader" by Bazaar Magazine and recognized as a leading role model for women executives in the industry. Ms. Wang received her bachelor degree in international finance at the Central University of Finance and Economics in Beijing. Ms. Wang remains as the chief executive officer of Dajie.com.

Directors and Senior Management

Ms. SHI Na (施娜), aged 42, is our Chief Human Resources Officer and joined our Group in April 2019. Ms. Shi has served as director of human resources and operations at Lenovo Group between 2013 and 2014, and at Lenovo ZUK between 2015 and 2016. Between 2017 and 2019, Ms. Shi served as vice president of human resources at Ziroom Group. Ms. Shi received her bachelor degree in economics at the Minzu University of China in 2000, and her master degree in philosophy of science & technology at Dalian University of Technology in 2003.

Ms. RUAN Yongli (阮永麗), aged 34, is our Senior Vice President of Technology and joined our Group in April 2006. Ms. Ruan is primarily responsible for the development of web infrastructure and data analytics for the Company. Ms. Ruan received her bachelor of science degree in computer science and technology from Minnan Normal University (閩南師範大學) (formerly known as Zhang Zhou Normal School (漳州師範學院)) in the PRC in July 2006.

COMPANY SECRETARY

Mr. NGAN King Leung Gary (顏勁良) was appointed as one of the joint company secretaries of our Company on August 2, 2017, and became the company secretary of our Company from December 15, 2019. See disclosure in "Directors and Senior Management – Our Senior Management" for the biography of Mr. Ngan.

GENERAL COUNSEL

Mr. LAW Yat Yang Arthur (羅日陽), aged 36, was appointed as the General Counsel of the Group on September 18, 2017.

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

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

Report of the Directors

The Board of the Company is pleased to present this report of the Directors with the consolidated financial statements of the Group for the year ended December 31, 2019.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

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

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on December 15, 2016. The net proceeds from the listing amounted to approximately RMB4,211.5 million.

As at December 31, 2019, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from the Listing[1] (RMB million)	**Utilization for the year ended December 31, 2019** (RMB million)	**Unutilized amount** (RMB million)
Component and raw material sourcing to produce smartphones	1,221.3	–	–
Investment in or acquisition of businesses that are complementary to our business	991.8	74.0	387.5
Implementation of sales and marketing initiatives in both China and overseas market	864.2	33.0	–
Expansion of Internet services business	575.5	103.2	197.6
Expansion of research and development capabilities	287.8	9.8	–
General working capital	396.9	396.9	–

Note:

(1) The figures were based on an average of the prevailing exchange rates of RMB against a foreign currency in 2019.

The remaining balance of the net proceeds was placed with banks. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated statement of comprehensive income on page 112 of this annual report.

BUSINESS REVIEW

The business review of the Group for the year ended December 31, 2019 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 7 to 9 and pages 10 to 20 of this annual report. Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed "Report of Directors – Risks relating to the Contractual Arrangements" and "Report of Directors – Dajie VIE Agreements – Risks relating to the VIE Agreements" on page 42 and page 53 of this annual report. An account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the "Environmental, Social and Governance Report" on pages 76 to 104 of this annual report.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2019.

RESERVES

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

As at December 31, 2019, the Company had distributable reserves of US$758,779,000 (equivalent to RMB5,293,397,000) (2018: US$789,671,000 (equivalent to approximately RMB5,546,516,000)).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2019 are set out in the consolidated statement of changes in equity on pages 115 to 116 and in Note 36(b) to the consolidated financial statements, respectively.

PROPERTY AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2019 are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended December 31, 2019 are set out in Note 22 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in Note 37 to the consolidated financial statements.

BORROWINGS

The Group did not have any outstanding bank loans and other borrowings as at December 31, 2019.

DONATION

During the year ended December 31, 2019, the Group made charitable donations of approximately RMB314,179 (2018: RMB120,000).

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 216 of this annual report.

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

A general mandate to buy back the Shares up to 10% of the total number of Shares then in issue was granted to the Board at the annual general meeting of the Company held on June 5, 2018, and renewed at the annual general meeting of the Company held on June 3, 2019. Pursuant to such mandates, during the year ended December 31, 2019, the Company bought back an aggregate of 26,000,000 Shares on the Stock Exchange at an aggregate consideration of HK$41,513,853.36 (equivalent to approximately RMB37,281,000). The buy-back of Shares was effected by the Directors for the benefit of the Company and to create value to its Shareholders. All Shares that were bought back were subsequently cancelled.

The breakdown of Shares bought back by the Company during the year ended December 31, 2019 is as follows:

Month of buy-back	Number of ordinary shares	Highest price per share paid HK$	Lowest price per share paid HK$	Aggregate consideration paid HK$
October 2019	15,000,000	1.76	1.65	26,083,544.53
December 2019	11,000,000	1.44	1.35	15,430,308.83
Total	26,000,000			41,513,853.36

Save as disclosed above, during the year ended December 31, 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DEBENTURE ISSUED

The Group has not issued any debentures during the year ended December 31, 2019.

Report of the Directors

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

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

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

For the year ended December 31, 2019, Mr. Wu was paid discretionary bonuses of a total sum of RMB120,000 (equivalent to approximately 2 months of his base salary). Save as disclosed above, no discretionary bonuses were paid to, or receivable by, the Directors for the year ended December 31, 2019.

SHARE OPTION SCHEMES

1. Employee Share Option Plan

The Pre-IPO ESOP was approved and adopted by the Company on February 15, 2014 and amended by resolution of the Board on November 18, 2015.

Purpose

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

Eligible Participants

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

Maximum Number of Shares

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

As at December 31, 2019, outstanding options representing 32,092,867 underlying Shares were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 24(a) to the consolidated financial statements.

As at the Latest Practicable Date, options to subscribe for an aggregate of 29,793,867 Shares were outstanding, representing approximately 0.69% of the issued share capital of the Company as at the Latest Practicable Date.

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

Limit for Each Participant

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

Remaining Life of the Pre-IPO ESOP

The Pre-IPO ESOP is valid and effective for a period of 10 years from February 15, 2014 and up to February 15, 2024. The remaining life of the scheme is approximately 4 years. Any options that are outstanding on the expiry date of the Pre-IPO ESOP shall remain in force according to the terms of the Pre-IPO ESOP.

Consideration

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

Option Period

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

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

Exercise Price

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

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

2. Post-IPO Share Option Scheme

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

Purpose

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

Eligible Participants

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

Maximum Number of Shares

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

As at December 31, 2019 and as at the Latest Practicable Date, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 422,729,455 Shares, representing 9.86% and 9.81% of the issued share capital of the Company respectively.

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

Remaining Life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to December 15, 2026. The remaining life of the Post-IPO Share Option Scheme is approximately 6 years.

Limit of Each Participant

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

Consideration

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

Option Period

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

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

Exercise Price

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

SHARE AWARD SCHEME

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

Purpose

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

Eligible Participants

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

Awards

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

Granting of Awards

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

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

Maximum Number of Shares to be awarded

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

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

As at December 31, 2019 and as at the Latest Practicable Date, 55,836,101 and 60,633,745 outstanding award Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme (excluding Shares granted which have been forfeited in accordance with the Post-IPO Share Award Scheme).

Assuming (i) the annual limit of 3% of the total number of issued Shares is fully utilized and (ii) options granted under the Pre-IPO ESOP or Post-IPO Share Option Scheme are not exercised, our issued share capital will increase from 4,289,003,296 Shares (being the number of Shares in issue as at December 31, 2019) and 4,311,302,296 Shares (being the number of Shares in issue as at the Latest Practicable Date) to 4,417,673,395 Shares and 4,440,641,365 Shares respectively.

Limit for Each Participant

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

Termination

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

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

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

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2019, the Group entered into the following equity-linked agreements:

(a) On February 19, 2019, the Company, Leyou Technologies Holdings Limited (Hong Kong Stock Exchange Stock Code: 1089)("**Leyou**"), Meitu Investment Ltd (a direct wholly-owned subsidiary of the Company) (the "**Purchaser**") and Dream Beyond Holdings Limited (a direct wholly-owned subsidiary of Leyou)(the "**Vendor**") entered into a share purchase agreement (the "**SPA**") pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, certain shares of Dreamscape Horizon Limited that represented 31% of the issued share capital of such company, for a total consideration of HK$2,686,577,470. Pursuant to the SPA, the total consideration were to be satisfied by the allotment and issue of the consideration Shares by the Company to Leyou under a specific mandate at the issue price of HK$2.71 per consideration Share. Such transaction did not eventually proceed as it was voted down by the Shareholders at the extraordinary general meeting of the Company held on April 18, 2019. Further details of such equity-linked agreement can be found in the announcements of the Company published on January 28, 2019, February 20, 2019, March 31, 2019 and April 18, 2019.

(b) On August 28, 2019, the Company and certain other parties entered into a transaction framework agreement (the "**Transaction Framework Agreement**"). Upon consummation of the transactions contemplated by the Transaction Framework Agreement, the Company acquired an approximately 57.09% effective equity interest in Dajie Net, 北京大杰致遠信息技術有限公司 (Beijing Dajie Zhiyuan Information Technology Co., Ltd.) and their respective subsidiaries. The total consideration was approximately HK$395,486,084, out of which HK$342,956,420 was satisfied by the allotment and issue of 85,739,105 consideration Shares and the remaining balance of HK$52,529,664 was satisfied in cash. Further details of such equity-linked agreement can be found in the announcements of the Company published on August 28, 2019, October 28, 2019 and November 19, 2019.

Save as disclosed above, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2019.

Report of the Directors

DIRECTORS

The Directors and members of senior management of the Company who held office during the year ended December 31, 2019 and up to the Latest Practicable Date were:

Executive Directors:

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

Non-Executive Directors:

Dr. GUO Yihong
Dr. LEE Kai-Fu

Independent Non-executive Directors:

Mr. ZHOU Hao
Mr. LAI Xiaoling
Mr. ZHANG Ming

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

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 21 to 26 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner). Such service contracts were renewed on identical terms on June 3, 2019 (the "**Renewal Date**") for another term of three years or until the third annual general meeting of the Company since the Renewal Date (whichever is sooner). Mr. CAI Wensheng has also entered into a service contract with Meitu Technology (Singapore) Pte. Ltd. ("**Meitu Singapore**") for an initial term of one year with effect from January 1, 2019, subject to renewal and the re-election as and when required under the constitution of Meitu Singapore.

Each of the non-executive Directors and independent non-executive Directors (excluding Mr. LAI Xiaoling and Mr. ZHANG Ming) has signed a letter of appointment with the Company for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner). Such letters of appointment were renewed on identical terms on June 3, 2019 for another term of three years or until the third annual general meeting of the Company since the Renewal Date (whichever is sooner).

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" below, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2019.

PERMITTED INDEMNITY

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

Such permitted indemnity provision has been in force for the year ended December 31, 2019. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended December 31, 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As at December 31, 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[1]
Mr. CAI Wensheng[1]	Interest in a controlled corporation/ Beneficiary of a trust	1,126,600,000	26.27%
Mr. WU Zeyuan[2]	Beneficiary of a trust/Beneficial owner	567,946,670	13.24%
Dr. LEE Kai-Fu	Interest in a controlled corporation	32,994,151	0.77%

Notes:

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

(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.

(3) The percentages are calculated on the basis of 4,289,003,296 Shares in issue as at December 31, 2019.

Save as disclosed above, as at December 31, 2019, none of the Directors and chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

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

As at December 31, 2019, the persons other than the Directors, whose interests have been disclosed in this annual report, had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Easy Prestige[1]	Interest of controlled corporation	566,666,670	13.21%
Xinhong Capital[1]	Beneficial owner	566,666,670	13.21%
Baolink Capital[2]	Beneficial owner	506,600,000	11.81%
Longlink Limited[2]	Interest of controlled corporation	620,000,000	14.46%
Longlink Capital[2]	Beneficial owner	620,000,000	14.46%
Lion Trust (Singapore) Limited[3]	Trustee of a discretionary trust	1,398,366,670	32.60%
Chen Jiarong	Interest of controlled corporation/ Beneficial owner/Interest of spouse	501,800,180	11.70%
Kingkey Enterprise Holdings Limited	Interest of controlled corporation	418,324,680	9.75%
Chen Jiajun	Interest of controlled corporation	418,324,680	9.75%

Notes:

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

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

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

(4) The percentages are calculated on the basis of 4,289,003,296 Shares in issue as at December 31, 2019.

Save as disclosed herein, as at December 31, 2019, no person, other than the Directors whose interests are set out in this annual report, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, its subsidiaries and the PRC Operating Entities, during the year ended December 31, 2019, neither our Controlling Shareholders nor any of our Directors had any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance or contract of significance for the provision of services has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2019.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted non-exempt continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended December 31, 2019.

Non-exempt continuing connected transactions

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

Contractual Arrangements

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

Reasons for the Contractual Arrangements

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

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

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

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

Risks relating to the Contractual Arrangements

We believe the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 45 to 51 of the Prospectus.

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

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

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

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

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

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

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

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

The Contractual Arrangements which were in place during the year ended December 31, 2019 and a brief description of the major terms of the structured contracts under the Contractual Arrangements are as follows:

(a) Exclusive Option Agreement

Meitu Networks, along with Mr. Wu and Ms. Cai (the "**Relevant Shareholders**"), entered into an exclusive option agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Exclusive Option Agreement**"), pursuant to which Meitu Home (or the Company or any subsidiary of the Company, the "**designee**") was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Meitu Networks all or any part of their equity interests in and/or assets of Meitu Networks for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders and/or Meitu Networks shall return any amount of purchase price they have received to Meitu Home. At Meitu Home's request, the Relevant Shareholders and/or Meitu Networks will promptly and unconditionally transfer their respective equity interests in and/or assets of Meitu Networks to Meitu Home (or its designee) after Meitu Home exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry unless Meitu Home confirms a new renewal term in writing.

(b) Exclusive Business Cooperation Agreement

Meitu Networks entered into an exclusive business cooperation agreement with Meitu Home on December 25, 2015 which was amended and restated on August 17, 2016 and further amended and restated on October 12, 2016 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Meitu Networks agreed to engage Meitu Home as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to Meitu Home's adjustment, are equal to all of the net profit of Meitu Networks and its subsidiaries. Meitu Home may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Meitu Networks and its subsidiaries from previous financial periods, which will be wired to the designated account of Meitu Home upon issuance of payment notification by Meitu Home. As of December 31, 2019, the accumulated losses of Meitu Networks and its subsidiaries amounted to RMB97.4 million. Meitu Home enjoys all the economic benefits derived from the businesses of Meitu Networks and its subsidiaries and bears Meitu Networks' business risks. If Meitu Networks runs into financial deficit or suffers severe operation difficulties, Meitu Home will provide financial support to Meitu Networks.

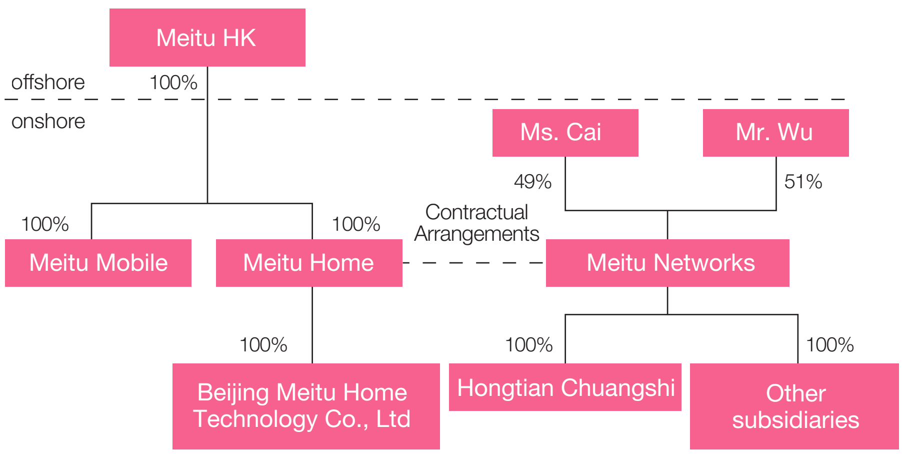
(c) Share Pledge Agreement

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

(d) Powers of Attorney

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

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



Apart from the above, there are no other new contractual arrangements entered into, renewed or reproduced between the Group and the PRC Operating Entities during the financial year ended December 31, 2019. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2019.

For the year ended December 31, 2019, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements has been removed.

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

The revenue of Meitu Networks and its subsidiaries for the years ended December 31, 2019 and 2018 were RMB733.6 million and RMB830.1 million, respectively.

For the year ended December 31, 2019, the revenue of Meitu Networks and its subsidiaries amounted to approximately 53.8% (2018: 27.9%) of the revenue for the year of the Group, respectively.

The total assets of Meitu Networks and its subsidiaries as at December 31, 2019 and 2018 were RMB1,186.8 million and RMB1,018.7 million, respectively.

As at December 31, 2019, the total assets of Meitu Networks and its subsidiaries amounted to approximately 25.7% (2018: 20.0%) of the total assets of the Group as at December 31, respectively.

Mitigation actions taken by the Company

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

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

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

Listing Rule Implications

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

Waiver from the Stock Exchange and Annual Review

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

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

(b) no change without independent Shareholders' approval;

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

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

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

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended December 31, 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2019, (iii) no new contracts were entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2019, and (iv) the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the relevant agreement governing the Contractual Arrangements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2019:

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

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

During the year ended December 31, 2019, no related party transactions disclosed in Note 30 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

DAJIE VIE AGREEMENTS

Entering into of the VIE Agreements

After completion of the transactions contemplated under the Transaction Framework Agreement, the Company owns approximately 57.09% of the effective equity interest in the Dajie Group. The WFOE, being a wholly owned subsidiary of Dajie Net, has entered into the VIE Agreements with the Onshore Target Company and the Dajie Relevant Shareholders. The VIE Agreements enable the financial results, the entire economic benefits and the risks of the business of the Onshore Target Company and its wholly-owned subsidiaries to flow into the WFOE and enable the WFOE to gain control over the Onshore Target Company and its wholly-owned subsidiaries. As a result, the Company now has a controlling equity interest in the Onshore Target Company and its subsidiaries via the VIE Agreements indirectly. In short, the VIE Agreements allow the financial results of the Onshore Target Company and its subsidiaries to be consolidated and accounted for as if they were subsidiaries of our Company.

Further details of the VIE Agreements can be found in the announcements of the Company published on August 28, 2019 and October 28, 2019.

Reasons for the use of the VIE Agreements

Foreign investment activities in the PRC shall be subject to the restrictions as set forth in the Administrative Measures of Foreign Investment Admission (Negative List) (2019 Version) (the "**2019 Negative List**") which was promulgated and amended from time to time jointly by the National Development and Reform Commission of the PRC (the "**NDRC**") and Ministry of Commerce of the PRC (the "**MOFCOM**") and the latest version of which was released on June 30, 2019 and became effective on July 30, 2019. Foreign investments in industries which fall within the 2019 Negative List shall be subject to special administration measures as set forth therein.

Under the 2019 Negative List, the proportion of foreign investment in the business of providing value-added telecommunications services (excluding e-commerce, domestic multi-party conferencing, store-and-forward, and call center services) (the "**Relevant Businesses**") cannot exceed 50%. The provision of online recruitment services, which is the principal business of the Onshore Target Company, falls within the aforesaid industry, and the Company, as a foreign investor, is subject to the aforesaid restriction in relation to its equity interest of the Onshore Target Company. Therefore, it is not feasible for the Company to hold more than 50% of equity interest in the Onshore Target Company, whether directly or indirectly. With respect to the subsidiaries of the Onshore Target Company (the "**Onshore Target Subsidiaries**"), some of them primarily engage in the business of advertising, sales, human resources and public relations related services, which is not restricted or prohibited for foreign investment and the other subsidiaries currently do not conduct any business. Therefore, the Onshore Target Company will transfer, as soon as practicable, all the equity interest held by it directly or indirectly in the Onshore Target Subsidiaries to the WFOE at the lowest price as permitted by, and in accordance with, applicable PRC laws, or deregister the relevant Onshore Target Subsidiaries.

The shareholding structure of the Dajie Group was the result of commercial negotiation among the parties to the Transaction Framework Agreement. Since Dajie Net and Dajie HK have been newly established, they currently have no substantive operations and are therefore unable to build up sufficient experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**") within a short timeframe. An enquiry was made with the Beijing Communications Administration（北京市通信管理局）and it was concluded that there was a lack of clear guidance on the scope of the Qualification Requirements. Accordingly, direct ownership by the Company of the maximum permitted interest under PRC law in the Onshore Target Company was neither commercially agreed nor advisable from a regulatory perspective.

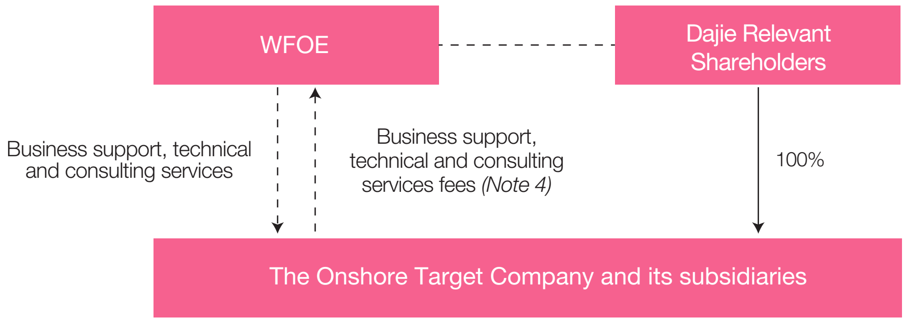
Brief summary of the major terms of the VIE Agreements

The following diagram illustrates the flow of economic benefits from the Onshore Target Company and its wholly owned subsidiaries to the WFOE under the VIE Agreements upon the execution and effectiveness of the VIE Agreements:

(1) Powers of attorney to exercise all shareholders' rights in the Onshore Target Company (Note 1)

(2) Exclusive option to acquire all or part of the equity interest in and/or assets of the Onshore Target Company (Note 2)

(3) First priority security interest over the entire equity interest in the Onshore Target Company (Note 3)



Notes:

(1) Please refer to "Dajie Power of Attorney" for details.

(2) Please refer to "Dajie Exclusive Option Agreement" for details.

(3) Please refer to "Dajie Equity Pledge Agreement" for details.

(4) Please refer to "Dajie Exclusive Business Cooperation Agreement" for details.

"——➤" denotes direct legal and beneficial ownership in the equity interest and "- - ➤" denotes contractual relationship.

Dajie Exclusive Option Agreement

The Onshore Target Company and the Dajie Relevant Shareholders entered into an exclusive option agreement with the WFOE (the "**Dajie Exclusive Option Agreement**"), pursuant to which the WFOE (or the Offshore Target Company or any subsidiary of the Offshore Target Company, the "**designee**") was granted an irrevocable and exclusive right to purchase from the Dajie Relevant Shareholders and/or the Onshore Target Company all or any part of their equity interests in the Onshore Target Company or all or any part of the assets of the Onshore Target Company for a nominal price (the "**Purchase Right**"), unless the relevant government authorities or the PRC laws request that another amount to be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Dajie Relevant Shareholders and/or the Onshore Target Company shall return any amount of purchase price they have received to the WFOE. Upon the WFOE's request, the Dajie Relevant Shareholders and/or the Onshore Target Company will promptly and unconditionally transfer their respective equity interests in and/or assets of the Onshore Target Company to the WFOE after WFOE exercises the Purchase Right.

The Dajie Exclusive Option Agreement is for an initial term of ten years and will be automatically renewable upon expiry unless the WFOE confirms a new renewal term in writing.

In order to prevent the flow of the assets and value of the Onshore Target Company and its subsidiaries to the Dajie Relevant Shareholders, during the term of the Dajie Exclusive Option Agreement, the Onshore Target Company is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of the WFOE. In addition, the Onshore Target Company is not allowed to, and shall procure its subsidiaries not to, make any distributions to its shareholder(s) without the prior written consent of the WFOE. In the event that the Dajie Relevant Shareholders receive any distribution from the Onshore Target Company and/or its subsidiaries and subject to the PRC laws, the Dajie Relevant Shareholders must immediately pay or transfer such distribution to the WFOE (or its designee).

Dajie Exclusive Business Cooperation Agreement

The Onshore Target Company entered into an exclusive business cooperation agreement with the WFOE (the "**Dajie Exclusive Business Cooperation Agreement**"), pursuant to which the Onshore Target Company agreed to engage the WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to the WFOE's adjustment, are equal to all of the net profit of the Onshore Target Company and its subsidiaries. The WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of the Onshore Target Company and its subsidiaries from previous financial periods. If the Onshore Target Company runs into financial deficit or suffers severe operation difficulties, the WFOE will provide financial support to the Onshore Target Company to the extent that relevant PRC laws permit.

The Exclusive Business Cooperation Agreement is for an initial term of ten years and automatically renewable upon expiry unless the WFOE confirms a new renewal term in writing.

Dajie Equity Pledge Agreement

The WFOE, the Dajie Relevant Shareholders and the Onshore Target Company entered into an equity pledge agreement (the "**Dajie Equity Pledge Agreement**"). Under the Dajie Equity Pledge Agreement, the Dajie Relevant Shareholders pledged as first charge all of their respective equity interests in the Onshore Target Company to the WFOE as collateral security for all of their payments due to the WFOE and to secure performance of their and the Onshore Target Company's obligations under the Dajie Exclusive Business Cooperation Agreement, the Dajie Exclusive Option Agreement, the Dajie Power of Attorney (as defined below) and the Dajie Equity Pledge Agreement. The Dajie Equity Pledge Agreement will not terminate until (i) all obligations of the Onshore Target Company and the Dajie Relevant Shareholders are satisfied in full; (ii) the WFOE (or its designee) exercises its exclusive option to purchase the entire equity interests of the Dajie Relevant Shareholders in the Onshore Target Company and/or the entire assets of the Onshore Target Company, pursuant to the terms of the Dajie Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) the WFOE exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws.

Dajie Power of Attorney

An irrevocable power of attorney was entered into between the Dajie Relevant Shareholders, the WFOE and the Onshore Target Company (the "**Dajie Power of Attorney**"), whereby the Dajie Relevant Shareholders appointed the WFOE or a director of its offshore holding company or its/his/her successor (including a liquidator replacing WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Target Company and to exercise all of its rights as a registered shareholder of the Onshore Target Company. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Onshore Target Company. The authorized person is entitled to sign minutes, file documents with the relevant PRC governmental authority and exercise voting rights on the winding up of the Onshore Target Company on behalf of the Dajie Relevant Shareholders. The Dajie Relevant Shareholders have each undertaken to transfer all assets obtained after the winding up of the Onshore Target Company to the WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Dajie Power of Attorney, the Company, through the WFOE, is able to exercise management control over the activities that most significantly impact the economic performance of the Onshore Target Company.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the Dajie Relevant Shareholders, as if the successors were signing parties to the VIE Agreements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. In case of a breach, the WFOE can enforce its rights against the successors.

Pursuant to the VIE Agreements, any inheritor of the Dajie Relevant Shareholders shall inherit any and all rights and obligations of the registered shareholders under the VIE Agreements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of equity interest in the Onshore Target Company, as if the inheritor was a signing party to such VIE Agreements.

In addition, the spouse of each Dajie Relevant Shareholder who is an individual and is married executed an irrevocable undertaking, whereby the spouse expressly and irrevocably acknowledged and undertook that (i) any equity interests held by the respective spouse in the Onshore Target Company do not fall within the scope of their communal properties; (ii) he/she will not have any claim on the interests of the Onshore Target Company obtained through the VIE Agreements; (iii) he/she has never participated and will not participate in the operation or management of the Onshore Target Company.

Apart from the above, there are no other new contractual arrangements entered into, renewed or reproduced between the Group and the Onshore Target Company during the financial year ended December 31, 2019. There was no material change in the VIE Agreements and/or the circumstances under which they were adopted for the year ended December 31, 2019.

For the year ended December 31, 2019, none of the VIE Agreements has been unwound as none of the restrictions that led to the adoption of structured contracts under the VIE Agreements has been removed.

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

The revenue of the Onshore Target Company and its subsidiaries for the year ended December 31, 2019 was RMB48.4 million.

For the year ended December 31, 2019, the revenue of the Onshore Target Company and its subsidiaries amounted to approximately 3.6% of the revenue for the year of the Group.

The total assets of the Onshore Target Company and its subsidiaries as at December 31, 2019 was RMB222.9 million.

As at December 31, 2019, the total assets of the Onshore Target Company and its subsidiaries amounted to approximately 4.8% of the total assets of the Group.

Board's view on the VIE Agreements

Based on the above, the Board is of the view that the VIE Agreements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. The VIE Agreements enable the WFOE to gain control over the Onshore Target Company, and to be entitled to the economic interests and benefits of the Onshore Target Company and its subsidiaries. The Company will unwind the VIE Agreements as soon as relevant PRC rules and regulations governing foreign investment in the operation of the Relevant Businesses allow the Company or any of its wholly-owned subsidies to register itself as the shareholder of the Onshore Target Company and its subsidiaries. Moreover, Meitu Networks holds a direct equity interest of more than 50% in the Onshore Target Company, which acts as an additional layer of control by the Group over the assets of the Onshore Target Company and its subsidiaries.

Risks relating to the VIE Agreements

We believe the following risks are associated with the VIE Agreements. Further details of these risks are set out on pages 20 to 24 of the announcement of the Company published on August 28, 2019.

- If the PRC government finds that the VIE Agreements do not comply with applicable PRC Laws, or if these regulations or their interpretations change in the future, the Company and/or the Dajie Group could be subject to severe consequences, including the nullification of the VIE Agreements and the relinquishment of the Company's interest in the Onshore Target Company.

- Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and how it may impact the viability of the current corporate structure, VIE Agreements, corporate governance and business operations of the Company and the Dajie Group.

- The bankruptcy or a dissolution or liquidation proceeding of the Onshore Target Company and its subsidiaries may cause the Dajie Group to lose the ability to use and enjoy assets and licenses held by the Onshore Target Company and its subsidiaries.

- The exercise of the option to acquire the ownership of the Onshore Target Company may be subject to substantial costs.

- The VIE Agreements may not be as effective in providing operational control as direct ownership and the Onshore Target Company or their shareholders may fail to perform their obligations under the VIE Agreements.

- The Dajie Relevant Shareholders may potentially have a conflict of interests with the Dajie Group.

- The VIE Agreements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed.

- The VIE Agreements, in the worst case scenario, may be regarded as invalid and illegal. As a result, the Company may be required to dispose of the business under the VIE Agreements and will lose rights to receive the economic benefits from the Onshore Target Company, such that the financial results of the Onshore Target Company would no longer be consolidated into the Company's financial results and the Company will have to de-recognise assets and liabilities of the Onshore Target Company according to the relevant accounting standards. If such disposal of the business under the VIE Agreements would lead to the Group no longer having a sustainable business, the Stock Exchange may delist the Company.

Mitigation actions taken by the Company

As aforementioned, there are uncertainties with respect to the interpretation and implementation of the newly enacted Foreign Investment Law, the Board will closely monitor the development of the Foreign Investment Law with the help of the Company's PRC legal adviser, including but not limited to any new negative list issued by or approved to be issued by the State Council, or any future laws, administrative regulations or provisions prescribed by relevant governmental authorities.

The Company will then discuss with its PRC legal adviser in order to assess any possible impact arising from the development of the Foreign Investment Law on the VIE Agreements and the business operation of the Company and the Dajie Group.

In case there would be material and adverse effect on the Company or the business of the Dajie Group arising from the Foreign Investment Law, the Company will disclose, as soon as possible: (i) updates of material development to the Foreign Investment Law as and when it occurs; and (ii) specific measures taken by the Company to fully comply with the development to the Foreign Investment Law and any material impact of the development of the Foreign Investment Law on the Company's operations and financial position.

QUALIFICATION REQUIREMENTS

Updates in Relation to the Qualification Requirements

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

Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Meitu Networks and the Onshore Target Company 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;

(c) Dajie HK is taking steps to set up an office in Hong Kong for the promotion of its website and app in Hong Kong; and

(d) Meitu Technology and Meitu Technology (US), our United States subsidiaries, have operated an office 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, or the Onshore Target Company 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 (i) 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, and (ii) the Onshore Target Company and its subsidiaries through the VIE Agreements between the WFOE, the Company's subsidiary in the PRC, on the one hand, and the Onshore Target Company and its respective shareholders, on the other hand. The Contractual Arrangements and the VIE Agreements allow the results of operations and assets and liabilities of (i) Meitu Networks and its subsidiaries and (ii) the Onshore Target Company and its subsidiaries, to be consolidated into our results of operations and assets and liabilities under IFRSs as if they were wholly-owned subsidiaries of our Group.

REGULATORY UPDATE

Prior to the Listing, Mr. Wu, Mr. Cai and Ms. Wang entered into the Concert Party Agreement, and Mr. Wu and Mr. Cai had given the Undertaking to the Company in anticipation of the potential nationality-related restrictions on ownership under The People's Republic of China Foreign Investment Law (Draft for Consultation Purposes)《中華人民共和國外國投資法(草案徵求意見稿)》 (the "**2015 Consultation Draft**").

On March 15, 2019, the NPC adopted the Foreign Investment Law which took effect on January 1, 2020. In this regard, the Company received advice from its PRC legal advisors that: (i) the Foreign Investment Law does not contain any notion or provision regulating contractual arrangements as previously proposed under the 2015 Consultation Draft; (ii) the Foreign Investment Law does not envision any requirement that companies controlled pursuant to contractual arrangements be controlled by PRC nationals; and (iii) the termination of the Concert Party Agreement and the Undertaking would not affect the validity of the Contractual Arrangements.

The Undertaking provided that it would cease to have effect if effectively the Company would no longer be required to comply with the relevant PRC laws and regulations governing the Contractual Arrangements under the applicable foreign investment laws as finally enacted, and the Stock Exchange has given its consent to the termination of the Undertaking. The Company's PRC legal advisors have advised the Company that based on the terms of the Undertaking, subject to the Stock Exchange granting its written consent, and given the PRC legal advisors' advice that the relevant PRC laws which would have underpinned the need of the Undertaking are no longer applicable to the Company in light of the Foreign Investment Law, the Undertaking has ceased to be in effect.

In view of the above, the Company has sought, and the Stock Exchange has given, consent on November 29, 2019, for the Undertaking to be terminated on the basis of the advice received from the Company's PRC legal advisors. In addition, the Concert Party Agreement was also terminated with the consent of the Company on the same day as a result of the termination of the Undertaking.

Further details of the above regulatory changes and termination of the Concert Party Agreement and Undertaking are set out in the announcement of the Company published on November 29, 2019.

MAJOR CUSTOMERS AND SUPPLIERS

The relationship between our Group and our customers has been stable. For the year ended December 31, 2019, the revenue amounts from the Group's five largest customers accounted for 30.4% (2018: 50.0%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 10.2% (2018: 32.3%) of the Group's total revenue.

During the year ended December 31, 2019, none of our Directors, their associates or any Shareholders of the Company (who or which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of our top five customers.

The relationship between the Group and our suppliers has been stable. For the year ended December 31, 2019, the purchase amounts placed with the Group's five largest suppliers accounted for 19.7% (2018: 33.8%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 5.3% (2018: 15.8%) of the Group's total purchases.

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

AUDITOR

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

IMPORTANT EVENTS AFTER REPORTING DATE

Save as disclosed above, there were no important events affecting the Company which occurred after December 31, 2019 and up to the Latest Practicable Date.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

Report of the Directors

PUBLIC FLOAT

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed above, there were no changes in information of Directors of the Company that are required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from May 29, 2020 to June 3, 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on June 3, 2020. All transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on May 28, 2020.

MEITU AND THE COMMUNITY

As a global company, Meitu, Inc. is committed "to let everyone become beautiful easily " as its core mission and "to empower the beauty industry and make beauty more accessible to our users " as its vision.

By the order of the Board
Mr. CAI Wensheng
Chairman

Hong Kong
March 26, 2020

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

During the year ended December 31, 2019, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry with all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code for the year ended December 31, 2019.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted for the year ended December 31, 2019 after making reasonable enquiry.

BOARD OF DIRECTORS

Board Composition

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

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

The biographical information of the Directors and the relationships between the members of the Board are disclosed under the section headed "Directors and Senior Management" on pages 21 to 26 of this annual report.

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

During the year ended December 31, 2019 and up to the Latest Practicable Date, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Terms of Appointment of Non-executive Directors

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

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

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner) and is subject to retirement by rotation at an annual general meeting at least once every three years. Such letters of appointment were renewed on identical terms on June 3, 2019 for another term of three years or until the third annual general meeting of the Company since the Renewal Date (whichever is sooner).

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

Corporate Governance Report

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

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

Board Meetings, General Meetings and Committee Meetings

The Board meets 4 times during a year as a minimum and it met 7 times during the year ended December 31, 2019. The attendance of each Directors at Board and Committee meetings and general meetings is detailed in the table below.

	Attendance/No. of Meeting(s)				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
Mr. CAI Wensheng	7/7	–/–	–/–	2/2	2/2
Mr. WU Zeyuan	7/7	–/–	–/–	–/–	2/2
Dr. GUO Yihong	7/7	2/2	–/–	–/–	1/2
Dr. LEE Kai-Fu	6/7	–/–	0/2	–/–	1/2
Mr. ZHOU Hao	6/7	1/2	–/–	1/2	2/2
Mr. LAI Xiaoling	7/7	2/2	2/2	–/–	2/2
Mr. ZHANG Ming	7/7	–/–	2/2	2/2	2/2

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

Continuous Professional Development of Directors

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

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

During the year ended December 31, 2019, all Directors have participated in continuous professional training to develop and refresh their knowledge and skills in relation to their contribution to the Board.

Name of Director	Participated in continuous professional training
Executive Directors	
Mr. CAI Wensheng	✓
Mr. WU Zeyuan	✓
Non-executive Directors	
Dr. GUO Yihong	✓
Dr. LEE Kai-Fu	✓
Independent non-executive Directors	
Mr. ZHOU Hao	✓
Mr. LAI Xiaoling	✓
Mr. ZHANG Ming	✓

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

The Audit Committee comprises a majority of independent non-executive Directors and includes members with appropriate accounting or related financial management expertise as required under the Listing Rules. As at the Latest Practicable Date, the members of the Audit Committee are Mr. ZHOU Hao, Mr. LAI Xiaoling and Dr. GUO Yihong. Dr. GUO Yihong is a non-executive Director, and Mr. LAI Xiaoling and Mr. ZHOU Hao are independent non-executive Directors. Mr. ZHOU Hao is the chairman of the Audit Committee.

The Audit Committee held 2 meetings during the year ended December 31, 2019. Individual attendance record of each Committee member is set out on page 62 of this annual report. During the meetings, the Audit Committee reviewed the annual results announcement and the annual report of the Group for year ended December 31, 2018, the interim results announcement and interim report of the Group for the six months ended June 30, 2019, internal control and risk management systems of the Group, etc..

Remuneration Committee

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

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

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

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

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

The Remuneration Committee comprises a majority of independent non-executive Directors. As at the Latest Practicable Date, the members of the Remuneration Committee are Dr. LEE Kai-Fu, Mr. LAI Xiaoling and Mr. ZHANG Ming. Dr. LEE Kai-Fu is a non-executive Director, and Mr. LAI Xiaoling and Mr. ZHANG Ming are independent non-executive Directors. Mr. LAI Xiaoling is the chairman of the Remuneration Committee.

The Remuneration Committee held 2 meetings during the year ended December 31, 2019. Individual attendance record of each Committee member is set out on page 62 of this annual report. During the meetings, the Remuneration Committee reviewed the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

Details of the fees and other emoluments paid or payable to the Directors for the year ended December 31, 2019 are set out in Note 31 to the audited consolidated financial statements contained in this annual report.

The remuneration of the members of senior management (including the executive Directors) by band for the year ended December 31, 2019 is set out below:

	Number of members of senior management
Nil to HK$500,000	–
HK$500,001 to HK$1,000,000	1
HK$1,000,001 to HK$5,000,000	3
HK$5,000,001 to HK$10,000,000	2
Total	6

Nomination Committee

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

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

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

The Nomination Committee held 2 meetings during the year ended December 31, 2019. Individual attendance record of each Committee member is set out on page 62 of this annual report. During the meetings, the Nomination Committee reviewed the composition of the Board, the diversity of the Board, assessed the independence of independent non-executive Directors and recommended to the Board on the re-election of directors.

Board Diversity Policy

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

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

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

Policy for Nomination of Directors

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

1. Objective

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

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

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

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

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

2. Selection Criteria

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

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

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

3. Nomination Procedures

3.1 Nomination by the Nomination Committee

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

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

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

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

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

3.2 Nomination by Shareholders

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

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

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

4. Succession planning

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

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

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

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

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

4.2.4 Continuity through a smooth succession of Directors; and

4.2.5 Compliance with the relevant legal and regulatory requirements.

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

5. Board diversity

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

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

6. Confidentiality

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

7. Monitoring and reporting

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

8. Review of the Nomination Policy

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

Corporate Governance Functions

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

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the directors and the senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The Board has performed the above duties during the year ended December 31, 2019.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2019.

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

The statement of the independent auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 105 to 110 of this annual report.

DIVIDEND POLICY

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management process

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

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

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

The Audit Committee of the Board also reviews the Company's financial controls, risk management and internal control systems/policies on a regular basis. During the year ended December 31, 2019, the Audit Committee conducted reviews of the effectiveness of the risk management and internal control system/policies of the Group. The reviews had covered various aspects of the Group's risk management and internal control system/policies. The reviews results were reported to the Board. The Board is satisfied that such systems/policies are effective and adequate.

The Group has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. The systems in place are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

Review on risk management and internal control system

The Company has conducted annual review on the effectiveness of the Group's risk management and internal control systems for the year ended December 31, 2019 and confirmed that the Group's risk management and internal control system in respect of financial, operational, compliance, risk management and adequacy of resources, are effective and adequate.

AUDITOR'S REMUNERATION

A breakdown of the remuneration payable to the external Auditor of the Company, PricewaterhouseCoopers, in respect of the audit services and the non-audit services for the year ended December 31, 2019 is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services (including services in connection with the Listing)	6,726
Non-audit Services	–
	6,726

COMPANY SECRETARY

Mr. NGAN King Leung Gary ("**Mr. Ngan**"), our Chief Financial Officer, was appointed as a joint company secretary of the Company, together with Ms. LEE Ka Man ("**Ms. Lee**") from Fair Wind Secretarial Services Limited, on August 2, 2017. Mr. Ngan is primarily responsible for the overall financial strategy, investor relations and company secretarial matters of the Group. Prior to joining our Group, Mr. Ngan held the positions of chief operating officer and chief financial officer at Forgame Holdings Limited, a mobile games and webgames company listed on the Stock Exchange (Hong Kong Stock Exchange Stock Code: 484) where he worked from May 2012 to June 2015, and was the director and head of Hong Kong and China Internet research at UBS AG, where he worked from July 2006 to April 2012. Mr. Ngan received his bachelor of science degree in economics from the Wharton School, University of Pennsylvania in 2006. He has been a CFA Charterholder since 2010. Mr. Ngan was also the joint company secretary of Forgame Holdings Limited (Hong Kong Stock Exchange Stock Code: 484) from February 2013 to November 2014.

During the year ended December 31, 2019, Mr. Ngan has complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

Upon the confirmation with the Stock Exchange that Mr. Ngan is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules, Ms. Lee resigned as a joint company secretary of the Company on December 15, 2019, and as a result, Mr. Ngan has become the sole company secretary of the Company.

CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended December 31, 2019.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At annual general meetings, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries. During the year ended December 31, 2019, the Company held an extraordinary general meeting on April 18, 2019 and an annual general meeting on June 3, 2019, at which the chairman of the Board and/or the chairmen of each of the Board committees (as appropriate) were present to answer questions from the Shareholders.

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

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

The Report is the fourth Environmental, Social and Governance ("ESG") Report (the "Report") of Meitu, Inc. (the "Company", together with its subsidiaries, and Xiamen Meitu Networks Technology Co., Ltd and its subsidiaries, collectively "Meitu", the "Group" or "We").

Purpose and Objective

The purpose of this Report is to describe in a clear and transparent way our sustainability initiatives, strategies and performance. The Report is intended to provide our key stakeholders with an understanding and knowledge of our work in environmental, social and governance aspects.

Reporting Period and Scope

Unless otherwise stated, the Report covers the locations where we operate our core businesses, including our headquarter in Xiamen, the People's Republic of China (the "PRC"), our offices in Beijing, Shanghai, Shenzhen, Guangzhou and Hong Kong for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period").

Reporting Standards

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

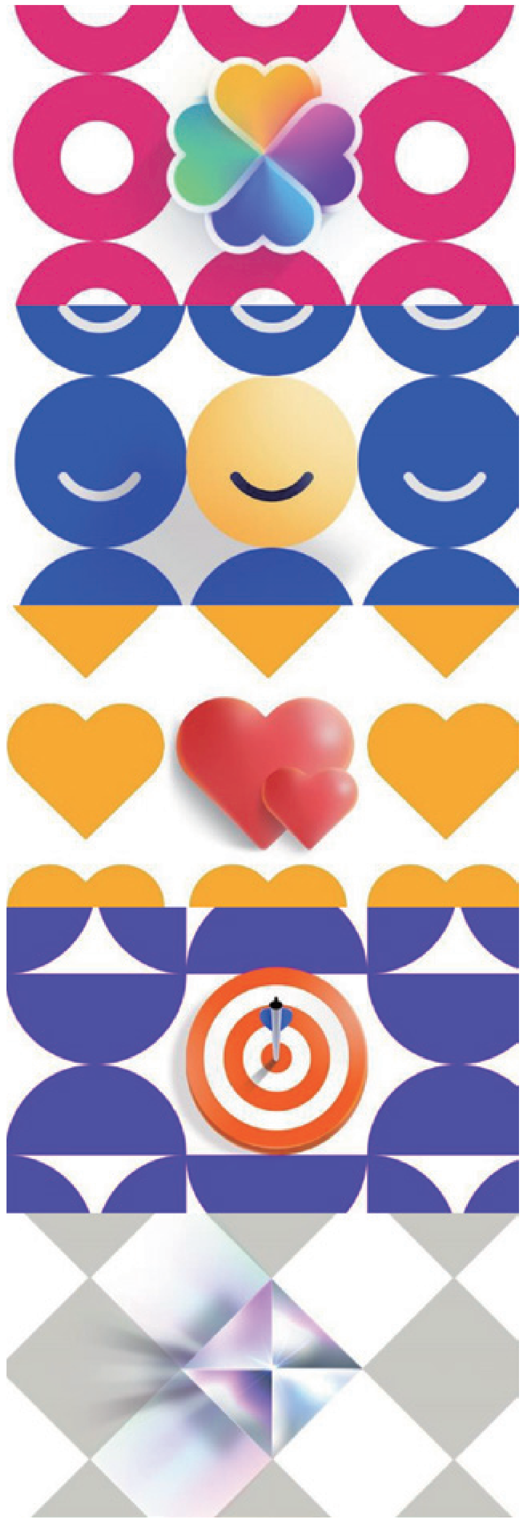
Access To The Report

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

Your Feedback

We highly value opinions from our stakeholders. You are encouraged to provide valuable comments and suggestions on the content of the Report, the reporting approach or the Group's overall performance in sustainable development. Please contact us at email: ir@meitu.com.

MISSION, VISION AND VALUES



Mission

To let everyone become beautiful easily.

Vision

To empower the beauty industry and make beauty accessible to our users.

Values

Passion

To be passionate in work and life.

To continue to create the most value for users.

Focus

To focus on goals and use resources to their greatest potential.

To come together to achieve goals.

Breakthrough

To persistently work to break through limitations.

To continue to learn and develop innovative mindset.

AWARDS AND RECOGNITIONS

Award	Organizer
Best Customized IP Mobile Phone In 2018 （「2018年最佳IP定制手機」）– *Meitu T9*	imobile.com.cn
2018 App Store Annual Popularity Award（「2018年度應用商店年度人氣獎－美顏相機」）– *BeautyCam*	Vivo Communication Technology Co. Ltd.
Outstanding Organization Award –（「優秀組織獎」）*Meipai*'s "Meet the Most Beautiful Labourers"（「遇見最美勞動者」）Short Video Collection Event	Xinhua News Agency and Cyberspace Administration of China
Short Video Role Model Award（「短視頻榜樣獎」）– *Meipai*'s "Meet the Most Beautiful Labourers"（「遇見最美勞動者」）Short Video Collection Event	Xinhua News Agency and Cyberspace Administration of China
Best Feature Award（「最佳專題獎」）– *Meipai*'s "Meet the Most Beautiful Labourers"（「遇見最美勞動者」）Short Video Collection Event	Xinhua News Agency and Cyberspace Administration of China
360 Mobile Assistant 2018 "Brightness" App Annual List Most Featured（「360手機助手2018「閃耀」app年度榜最具特色app」）– *O2Cam*	360 Mobile Assistant（「360手機助手」）
Council member of the fifth council of Xiamen High-tech Development Association（「廈門市高新技術發展協會第五屆理事會理事單位」）	Hi-tech Development Association（「廈門高新技術發展協會」）
2018-2019 Xiamen Innovative Growth Cultural Enterprise（「2018-2019年廈門市創新成長型文化企業」）	Xiamen City Cultural Reform and Development Leading Group（「廈門市文化改革發展工作領導小組」）
2018 Siming District Headquarters Enterprise（「2018年度思明區總部企業」）	People's Government of Siming District, Xiamen（「廈門市思明區人民政府」）
Executive Vice Chairman of Xiamen Software Industry Association（「廈門市軟件行業協會常務副理事長」）	Xiamen Software Industry Association

Award	Organizer
Ranked the 59th in 2019 China Top 100 Internet Company (「2019中國互聯網百强」)	Internet Society of China and Cyber Security Industry Development Center, Ministry of Industry and Information Technology (「工業和信息化部網絡安全產業發展中心」)
Top 100 Enterprises in Xiamen 2019(「廈門企業100强」)	Xiamen Enterprise and Entrepreneurs Federation (「廈門企業和企業家聯合會」), Xiamen Daily News (「廈門日報社」) and Xiamen Media Group (「廈門廣播電視集團」)
Top 20 Internet companies in Fujian Province in 2019 (「2019福建省互聯網企業20强」)	Fujian Internet Association (「福建省互聯網協會」) and Cyber Security Industry Development Center, Ministry of Industry and Information Technology (「工業和信息化部網絡安全產業發展中心」)
China's Top 100 Digital Services and Service Outsourcing Companies in 2019(「2019中國數字服務暨服務外包領軍企業百强企業」)	China Council for International Investment Promotion
Excellent Communication Award of the 8th Xiamen Cyber Culture Festival (「第八屆廈門網絡文化節優秀傳播獎」) – *Meipai*	Network Office of Xiamen Municipal Party Committee (「廈門市委網信辦」)
The 9th China Public Company Word of Mouth List "Most Growing Technology Listed Company Award"(「第九屆中國上市公司口碑榜—最具成長性科技中概股上市公司獎」)	National Business Daily (「每日經濟新聞」)
2019 Top Ten Fujian Cultural Enterprise Nomination Award (「2019年度福建省文化企業十強提名獎」)	Fujian Province Cultural Reform and Development Leading Group (「福建省文化改革發展工作領導小組」)
CNMO 2019 Annual Selection of AI Skin Testing Innovation Award (「CNMO 2019年度評選AI測膚創新獎」) – *MeituEve*	Connect More (CNMO)
2019 Fujian Innovative Extraordinary Employers (「2019福建創新非凡僱主」)	liepin.com and Liexin Media (「獵新傳媒」)
50 Best Public Welfare Lists in the Internet for 50 Years (「互聯網50年50佳公益榜」) – *Meipai*	CCIDCOM. and ccidnet.com
App Trend of 2019 – *WIDE*	APP Store
Favorite Video Tools for Content Creators of the Year #2019 New Content Explorer Conference# (「2019年第三屆#新內容探索者大會#年度內容創作者最喜愛的影像工具」) – *Meitu*	Ciweigongshe (「刺猬公社」)

OUR APPROACH TO SUSTAINABILITY

Meitu's mission "to let everyone become beautiful easily" is a core foundation that underpins our sustainable development. Our four sustainable values guide us in fulfilling our mission and turning our vision "to empower the beauty industry and make beauty accessible to our users" into reality:

Producing Quality Product

- To continue to create the most value for users and persistently work to break through limitations

Treating Our People Well

- To come together to achieve goals and continue to learn and develop an innovative mindset

Protecting the Environment

- To operate in an environmentally-friendly manner and use resources to their greatest potential

Caring for the Community

- To be passionate in work and life and contribute to society

ESG Risk Management

Being accountable for the long-term stable growth of the Group, the Board retains the ultimate responsibility for the oversight of the Group's risk management activities and monitors material ESG risks. The Group considers risk management as an integral part of daily management and sound corporate governance. Risk management mechanism assists the Group to evaluate and minimize risks that may prevent or endanger the achieving of its business objectives in a dynamic business environment where economic, industry, regulatory and operating conditions continue to change. The Group assesses and determines the ESG-related risks and opportunities and considers their implications. We also formulate ESG-related controls to address significant ESG risks of which the controls are operated effectively at corresponding business levels. Coupled with sound internal controls, the process facilitates a continuous process of identifying, evaluating, prioritizing, managing and monitoring of the risks that the Group faces in its operations. Details on our risk management approach can be found in the Corporate Governance Report section.

Stakeholder Engagement

We have been engaging various key stakeholder groups including employees, suppliers, shareholders, governments, customers and users as well as communities regularly during our day-to-day operation to understand their views and expectations as well as to identify material aspects for our sustainable development.

Key stakeholders and regular engagement pathways

- Various MT-Club activities
- Internal communication system
- Annual meeting
- Regular meetings
- Performance appraisal
- Social media

- The Group's website
- Mass media
- Social media
- Direct communication

- Field trips
- Assessment
- Audit Continuous
- Direct communication

- The Group's website
- Mass media
- Direct communication
- Customer satisfaction survey
- Social media
- Customer service hotline
- Experience store

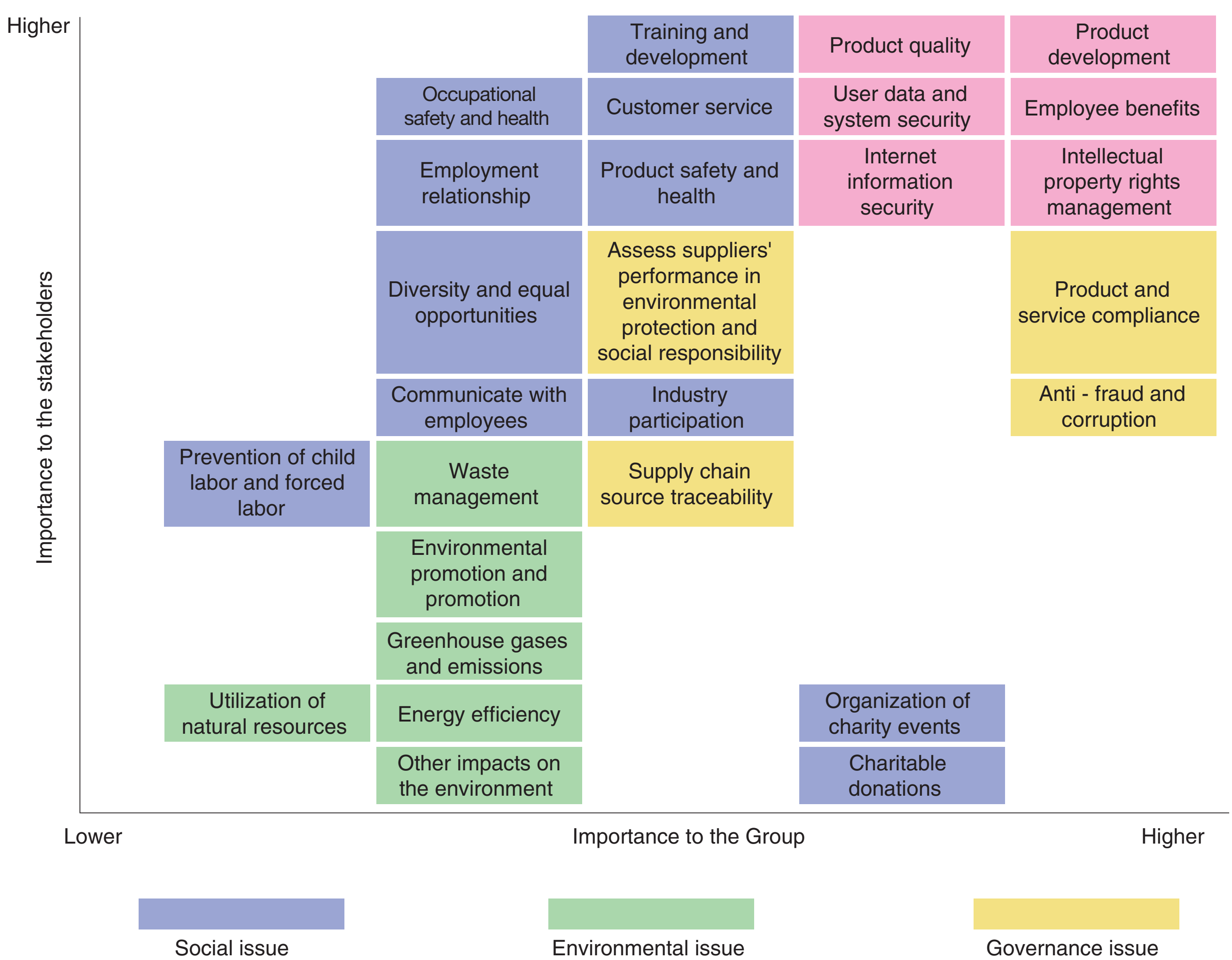
- Meetings
- Annual reports
- Investor briefings
- The Group's website
- Roadshow
- Investor summits
- Direct communication

- Direct communication
- Annual meeting
- Forums
- Seminars and workshops

Materiality Assessment

An online stakeholder survey was conducted annually to formally collect stakeholders' feedbacks on our sustainable development performance through engagement of an independent third-party consultant. Stakeholders were invited to rank the importance of the identified ESG topics. This year, 26 issues were identified. We mapped the results of our materiality analysis onto a matrix to reflect the relative importance and impact of the 26 issues our stakeholders and the Group. A total of eight topics were considered as material this year. They include product development, employee benefits, intellectual property rights management, product and service compliance, anti-fraud and corruption, product quality, user data and system security and internet information security. The results thereby serve as a guide for the preparation of the Report and making corresponding adjustments to allocate resources effectively.

Materiality Matrix



DOING BUSINESS RIGHT

Ethical principles are fundamental to how we operate. This means zero tolerance for bribery, extortion, fraud and money laundering. In accordance with relevant laws and regulations including but not limited to Criminal Law of the PRC (《中華人民共和國刑法》) and the Prevention of Bribery Ordinance of Hong Kong (Cap. 201), internal policies including the Employees Handbook (《員工手冊》), Policy on Staff Discipline (《員工勞動紀律規範》), Policy on Sending and Accepting Gifts by Employees (《員工收受禮品管理規範》) and Anti-Fraud and Reporting System (《反舞弊與舉報制度》) were established to clearly stipulate the procedures of making declarations of interests and fighting against corruption. Hotline and e-mail box were provided as part of our whistle-blowing procedure.

The Group joined the "Sunshine Integrity Alliance"(「陽光誠信聯盟」) which was initiated by JD.com, Inc. and launched in conjunction with more than 300 well-known companies such as Tencent, Baidu, Lenovo, Xiaomi and etc. to jointly combat corruption and information security crimes through the Internet. At the same time, the Alliance has established and shared a "blacklist"(「失信名單」) of which the allied companies would refuse to recruit people on the list to maintain integrity in the organization.

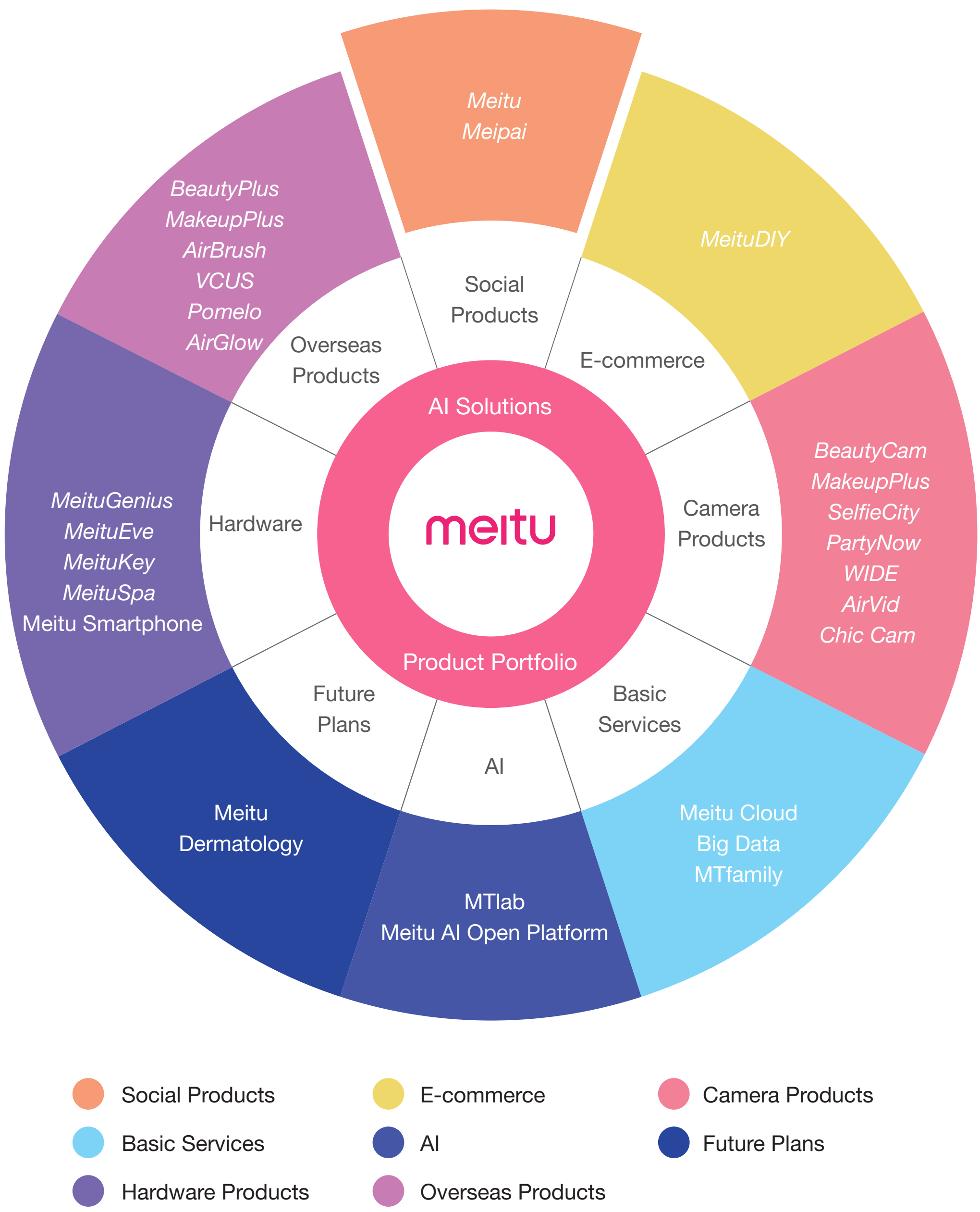
During the Reporting Period, we were not aware of any litigation concerning corruption, extortion, fraud and money laundering against the Group.

MANAGING OUR SUPPLY CHAIN

The Group's good reputation is one of our strongest competitive assets. We set a high standard on integrity and ethics in all levels of our operations. By the same token, we expect our suppliers to share the same values. We work closely with our suppliers and review them regularly to ensure that the whole value chain is working towards the same ethical objectives. We expect that our business partners uphold the same philosophy by maintaining high moral standards, treating their employees fairly, protecting the environment and observing all applicable regulations. With regard to environmental protection, occupational health and safety, conduct and morality, laws and regulations, we have formulated the Supplier Code of Conduct (《供應商行為守則》), which clearly states the essential requirements for business partners. All suppliers are required to sign off to show their acceptance to adhere to the Supplier Code of Conduct.

As at 31 December 2019, we worked with around 1,000 suppliers, of which around 90% of them are situated in Mainland China.

PRODUCING QUALITY PRODUCT



MeituEve,
a commercial artificial intelligence skin analyzer

MeituKey, a home skin analyzer

MeituSpa, an artificial intelligence cleansing brush

Health and Safety

Regarding our social platform, pursuant to the Administrative Regulations on Online Live-streaming Services (《互聯網直播服務管理規定》), the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs (《關於加強互聯網視聽節目內容管理的通知》) and the Administrative Measures for Internet Information Services 《互聯網信息服務管理辦法》, we have taken concrete measures to prohibit any content on obscenity, pornography, gambling, violence, murder or fear or any content that incites the commission of crimes on our social platforms. For example, when a user registers an account or modifies a nickname, a pop-up window would prompt the user when a suspected sensitive word is chosen and the nickname containing the suspected sensitive words would not be allowed. The sensitive word and image detection technology also applies to profile picture and text content in the comment and video description. In addition, a pop-up reminder of "please do not imitate high-risk actions"(「高危動作，切勿模仿」) has been added to the content of sports items such as parkour and skateboarding.

When it comes to our hardware product, including *MeituGenius, MeituEve, MeituKey and MeituSpa*, we make sure they have passed all relevant safety and quality tests. For example, the Radio Type Approval Certification (《無綫電型號核准認證》) in accordance with the provision on the Radio Regulations of the People's Republic of China (《中華人民共和國無線電管理條例》) and GB/T 26572-2011 Requirements of Concentration Limits for Certain Restricted Substances in Electrical and Electronic Products《電子電氣產品限用物質的限量要求》to ensure the amount of hazardous substances in the electrical appliances would not exceed the maximum limit.

Meitu collaborated with DFS Group, in particular with Meitu's smart mirror *MeituGenius*, to deliver smart beauty retail experiences with AR and AI in 13 countries and territories around the world, including the United States, Italy, Australia, New Zealand, Japan, Singapore, Hong Kong and Macau.

Protecting The Underaged

To protect the underaged in the *Meipai* community, publication of any short video or live content with the underaged as the main character would be prohibited and removed from the community. Live broadcast of users who declared to be underaged is forbidden. Any underaged live broadcast content by a verified adult account detected during the review process would also be terminated and removed from the community.

Safeguarding Privacy

The Group are dedicated to protecting the privacy of our users. To comply with relevant laws and regulations including "Administrative Measures on Network Operation and Information Security Confidentiality of the State Administration of Security Supervision"(《國家安全監管總局網絡運行和信息安全保密管理辦法》) as well as the General Data Protection Regulation in the European Union. We have formulated the Privacy Policy to explain our practices regarding how we collect, store, use, manage and protect our users' information including their personal details during their use of our websites and through any of our mobile applications available on other mobile devices.

Conscience Advertising

To ensure all advertisements published on our platforms are in compliance with applicable laws including the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》) and the Trade Descriptions Ordinance (《商品説明條例》) of Hong Kong, the Meitu Advertising Review Specifications (《美圖廣告審核規範》) was developed. The Group specifies the requirements and standards of media descriptions to avoid misrepresentation and exaggerated descriptions. We require that product descriptions and highlights must be clear and visible, and avoid vague information such that customers can clearly understand the product features and specifications, etc. On the other hand, as regards advertising space on our online platforms, we comply with the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) to regulate our online advertising. We enter into written contracts with key opinion leaders who intend to use the *Meipai* platform for advertising to require their declaring responsibility for the authenticity of their advertisements. We will immediately stop any person from using the *Meipai* platform who release illegal advertisements.

Intellectual Property Rights

The Group strives to uphold the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》). Unless otherwise stated, the intellectual property rights created by employees related to their work including the documents, design work and software are owned by the Group. To protect our own intellectual property rights, we apply patent for our design and invention. During the Reporting Period, a total of 104 patents were successfully registered under the Patent Law of the People's Republic of China (《中華人民共和國專利法》),in which 67 were under the invention category, 23 under the design category and 14 under the utility category.

Concerning copyright infringements on *Meipai*, we make use of both manual and artificial intelligence monitoring to help screen out and remove videos which violate the interests of copyright owners. Whistleblowing channels including email, hotline and also in-app button are also available for users to report any case of copyright infringement. To encourage the users to help maintaining wellness in the *Meipai* community, the *Meipai* Supervisors Programme was launched to enable "supervisors" to report contents which violate the rules of the community by offering them incentives.

Environmental, Social and Governance Report

Product Labelling

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

Customer Feedback

Feedback is of fundamental importance to our sustainable business development. We developed customer service and complaint management system to standardize and optimize the quality of our feedback handling service. In particular, we have standardized the whistleblowing handling procedure for *Meipai* through the development of the "Meipai Personal Rights Dispute Complaint Procedure"(《美拍人身權益糾紛投訴流程》) to speed up and standardize the handling of user application concerning infringement of right to portrait, reputation, honor, name and privacy. Concerning product return, we have standardized the procedure for both internal and external customer services teams. In case of product return cases which involve product serious health and safety issues such as explosion and electric leakage, the public relations and legal department might be involved.

After-sales Services

For hardware products which are suspected to have the performance problems set out in the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), they could be returned within seven days, exchanged within 15 days or repaired within one year from the date of purchase. In addition, users who have purchased hardware product via designated online platforms can enjoy product return within seven days for no reason.

App Recall Procedure

A special group will be formed to conduct mitigation measures in case that any bug or defect is found in any of our launched app products. Updates will be made and our app products will be relaunched after thorough inspection and testing processes.

During the Reporting Period, we were not aware of any material non-compliance with regard to health and safety, advertising, labelling and privacy matters relating to products and services provided.

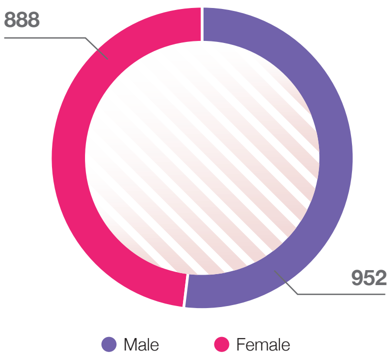
TREATING OUR PEOPLE WELL

We regard every employee as a family member, and do our utmost to create a young, fresh, interesting and dynamic work environment to make our people feel like home. We strictly comply with relevant laws and regulations of the jurisdictions where we operate, including but not limited to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) as well as the Employment Ordinance (《僱傭條例》) of Hong Kong.

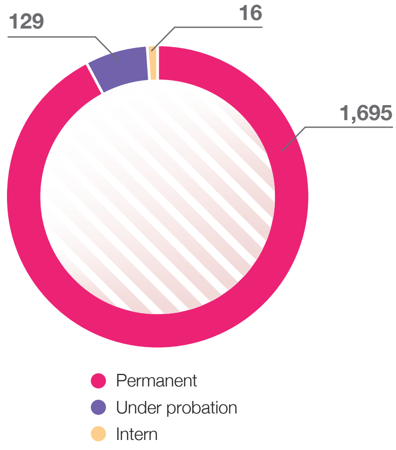
- Diversified Rewards
- Social Security
- Holiday & Leaves
- Flexible working hours
- Transportation Allowance
- Health Care
- Staff Activities
- Birthday Benefit
- Food & Beverage

Overview*

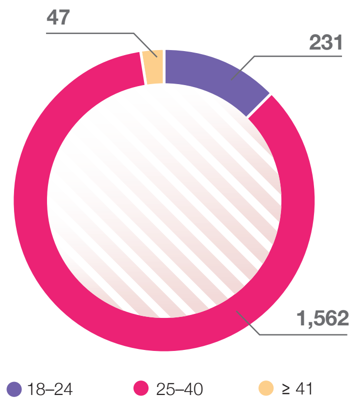
Total workforce by gender



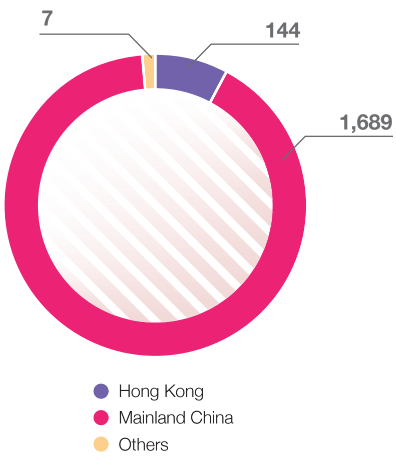
Total workforce by employment type



Total workforce by age group



Total geographical region



*Data of the whole Group has been included.

Recruitment

We look to assemble our team by recruiting talents who share the same values as us. To find the right talents, We have fully utilized different recruitment channels, such as campus recruitments, job-hunting websites, headhunters, employee referrals and our official website. Identity and background check are conducted before our staff is on duty and avoid the occurrence of hiring child labour. We ensure that the work or services provide by our staff are voluntary and we impose zero tolerance to forced labour which people are forced to do against their will and under threat of punishment. The human resources department of the Group reviews our recruitment practices regularly to avoid child labour and forced labour. If child labour is discovered under the legal minimum working age within the Group, we will immediately take the child labour away from the workplace and terminate the labour relationship with him or her. We will also take remedial measures that provide the maximum protection to his or her interests.

Benefits and Welfare

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

Annual Dinner

11th Foundation Party

Compensation

Besides basic monthly salary, employees without leave or absence would be rewarded with a monthly attendance bonus. In addition, we have an internal referral bonus system. The human resources department would update the internal referral request list every month. Successful referrals would be entitled to receive referral bonuses.

Working Hours

Meitu offers flexible working hours of 7.5 hour a day and 5 days a week. We impose zero tolerance to forced labour and we encourage employees to complete their work during working hours. If overtime is necessary, Meitu requires that the relevant departments to submit the reasons for overtime work, a list of overtime employees and the proposed overtime hours two working days in advance, and that the accumulated overtime cannot exceed 36 hours a month for each employee. We provide reimbursement of taxi fares and dinner allowance for employee working overtime.

Career Ladder

In order to help employees effectively plan their career development, the Group has established a clear career path system. Three major career paths, namely the management path, management assistant path and the professional path, are available for employees to choose from according to their interests. Promotion are based on performance appraisals which are conducted semi-annually.

Rest Periods

In addition to annual leave, full-time employees were entitled to sick leave, wedding leave, maternity leave, paternity leave, compassionate leave and other holidays prescribed by the "Measures for Taking Holidays for National Annual Leave and Festivals"(《全國年節及紀念日放假辦法》).

Dismissal

The Employee Handbook has clearly stipulated the procedure for termination of employment. In particular, we ensure that any dismissal of employees by the Group has sufficient evidence that the dismissed employee was terminated due to performance and disciplinary issue.

Equal Opportunity, Diversity and Anti-Discrimination

Diversity is about differences. We believe that differences matter. Inclusiveness is about creating an environment in which people feel, and are, valued and where we can leverage those differences to deliver better business results. We ensure that all our employees are granted equal opportunity and we prohibit all forms of discrimination on gender, age, family status, sexual orientation, disability, race and religion in our workplace.

Health and Safety

Protecting the health and safety of our employees is a priority for Meitu. Meitu complies with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and strives to create a working environment with "zero" work injury. As Meitu mainly operates in offices, staff involves a lot of computer work, which may easily cause backache. As such, Meitu has organized sports activities such as badminton, soccer, yoga and basketball, to encourage employees to enjoy sports and stay healthy.

2019 Meitu Mid-Autumn Hike

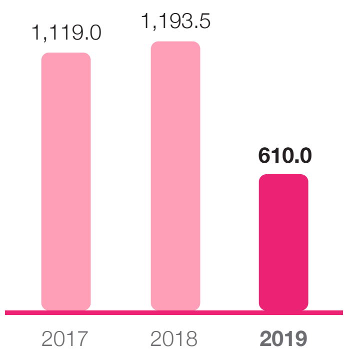
Badminton Game

Basketball Match

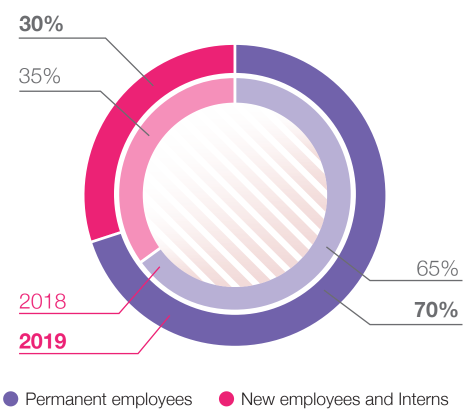
Training and Development

Meitu is committed to creating a comprehensive training system to effectively promote business development. Meitu hopes to integrate the learning spirit into its corporate culture to enable employees to achieve their own values in Meitu.

Total Training Hours*



Proportion of Training Attendees by Employment Type*



* Training data of offices in Hangzhou, Suzhou and Nanjing has been included.

Meitu Training Centre (MTC) has been established to be responsible for staff training and development. Our training system is made up of three levels.

Orientation Training

First all of, new comers will be invited to participate in the "New Employee Training Camp" to help them fully familiarize and understand the policy and culture of Meitu. When they are sent back to the workplace, their own department will arrange mentors for them to assist their integration through role modelling.

Vocation Training

Meitu also provides a wide variety of vocational training, from the company-level weekly "Meitu Utalk", monthly "MTC Lecture", quarterly "Meitu Internal Technology Salon", to all kinds of department-wise internal training resources and external training sponsorship, which would definitely allow our talents to master professional skills and unlock their potentials in workplace. In Meitu, our staff also have chances to meet celebrities and industry leaders at the sharing session we organized.

Management Training

When our staff is promoted to be a manager, they would be provided with high-quality management course resources which would help them to complete the role transformation, become an excellent manager and develop a high-quality team.

During the Reporting Period, we were not aware of any material non-compliance with regard to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

PROTECTING THE ENVIRONMENT

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

Green Hardware Product

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

Energy Efficiency and Air Emissions

Greenhouse gases and air emissions generated by the Group were mainly from the use of electricity in our offices and petrol used by our company vehicles. To help improve the roadside air quality, we strived to replace petrol-fuelled company vehicles with electric ones. We have implemented emission reduction and energy saving measures including:

- offering staff shuttle bus services before and after office hours to reduce private car consumption by staff;
- setting the temperature of air conditioning in our office at 24°C to 26°C during summer;
- using video conferencing system to replace business travels;
- using energy saving lighting fixtures; turning off lights for one hour during lunch time;
- considering the durability of office suppliers during the procurement process; and
- encouraging our staff to turn of electrical appliances when they were not in use.

Reduction in electricity consumption not only brings about environmental benefits, but also reduces our operating expenses. Below is our emission and energy consumption performance during the Reporting Period.

Emission	Unit	2019	2018	2017
Total Greenhouse Gas (GHG) Emissions	Tonnes of CO_2e	**1,197.63**	1,965.29	1,481.39
Direct Emissions (Scope 1)	Tonnes of CO_2e	**58.47**	105.21	261.47
Indirect Emissions (Scope 2)	Tonnes of CO_2e	**1,139.16**	1,860.08	1,219.92
Intensity of Total GHG Emissions (Scope 1 and 2)	Tonnes of CO_2e/m^2	**0.04**	0.06	0.08
Nitrogen Oxides (NOx)	kg	**18.00**	19.51	7.22
Sulphur Oxides (SOx)	kg	**0.32**	0.58	0.28
Particulate Matter (PM)	kg	**1.32**	1.44	0.53

Energy	Unit	2019	2018	2017
Total energy consumption	MWh	**2,010.67**	2,878.78	1,852.78
Purchased electricity	MWh	**1,810.57**	2,519.16	1,679.79
Unleaded petrol	MWh	**200.10**	359.62	172.99
Intensity of energy consumption	MWh/m^2	**0.07**	0.09	0.10

1. Purchased electricity consumption and its corresponding indirect GHG emissions have not included some of our leased premises in Hangzhou, Suzhou, Nanjing and Beijing as the electricity supply was controlled by the property management and hence the relevant data was unavailable to individual tenants.

Water Management

Water is an important and valuable natural resource. Although the Group's business does not involve intensive use of water, we still strive to promote water-saving practices in our operations. Reminders in the form of "Save Water" signs are placed in the lavatories and pantries to remind our employees to save water. Freshwater pipelines are checked regularly. Action is taken immediately if any leakage is detected to prevent wastage of freshwater. We do not have any issue in sourcing water.

Water	Unit	2019	2018	2017
Total water consumption[2]	m^3	**9,229.14**	7,2610.50	5,936.04
Intensity of water consumption	m^3/m^2	**0.32**	0.82	0.97

2. Water consumption has not included some of our leased premises in Xiamen, Beijing, Hangzhou, Suzhou, Guangzhou, Shenzhen, Nanjing and Hong Kong as the water supply is controlled by the property management and data is unavailable to individual tenants.

Waste Management

Due to the nature of our office-based operation, waste generated by Meitu is not significant. No significant hazardous waste is generated, except for a small amount of waste batteries, toner and cartridges. They have been collected and handled by a qualified third party. Office general refuse including waste paper is our main source of non-hazardous waste which is handled properly on a daily basis to maintain hygiene in workplace.

Waste	Unit	2019	2018	2017
Total non-hazardous waste generated	Tonnes	**35.60**	508.09	376.26
Intensity of non-hazardous waste generated	Tonnes/m^2	**0.001**	0.02	0.03
Total hazardous waste generated[3]	Tonnes	**0.13**	0.46	/
Intensity of hazardous waste generated	kg/m^2	**0.004**	0.01	/

3. Absence of reliable data on hazardous waste in 2017.

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

- implementing intelligent office systems for filing and reporting to minimize the use of paper;
- reusing paper products, such as manila envelopes and envelopes for internal document transfers;
- providing reusable tableware in office to reduce the use of disposable tableware; and
- reducing the use of plastic trash bags by only replacing the garbage bin liners when necessary.

Packaging Management

Meitu's consumption of packaging materials mainly comes from the packaging of hardware products. We have tried to minimize the packaging materials from the design stage to reduce consumption of resources. Packaging material consumption was greatly reduced due to the discontinued smartphone business.

Packaging Material	Unit	2019	2018	2017
Total packaging material for finished goods	tonnes	**7.43**	570.27	794.51
Packaging material intensity	tonnes/m^2	**0.0002**	0.02	0.03

Meitu Tree Planting Day

When people start to pay attention to nature, nature also gives people feedback. When we love the beauty of nature, nature also makes us more beautiful. As "becoming beautiful" is our focus as a technology company, Meitu organized tree-planting activities during the Reporting Period.

Plant hope and harvest wellness. Tree Planting Day was a day that Meitu add "beauty" to the earth. This was not only a beautiful wish, but also a vision in which we hoped to put into practice. As a corporate named "Mei (Beauty)", it has always been Meitu's mission to make the world a more beautiful place, where making the world more beautiful is everyone's wish. We believe, environmental protection is the best "face beatification" for our planet.

CARING FOR THE COMMUNITY

Every year, Meitu gives back to society in the practice of public welfare activities. We work with users to give love and warmth to those in need in a convenient and fast way.

“Increase 1 Degree for Love to Warm The Winter”(「暖冬•為愛添1°」) Clothes Donation Campaign

Meitu forged a partnership with the China Charity Federation’s “1 Paper Action”(「一張紙獻愛心行動」) to launch a campaign named “Increase 1 Degree for Love to Warm The Winter”(「暖冬•為愛添1°」) on the social media platforms to call on the users to donate old clothes for children living in poor areas to give them warmth in the freezingly cold winter. With the help of the promotion ambassador, Zheng Hehuizi, a total of 1,753 tonnes of clothes were donated through Meitu platform and the Weibo topic “Increase 1 Degree for Love to Warm The Winter”(「暖冬為愛添1度」) reached 11.714 million views.

美图秀秀

meitu

"Positive Idol"(「正能量偶像」) Campaign

"Positive Idol"(「正能量偶像」) Campaign was a charity program for the establishment of a book corner in rural elementary schools by *Meipai* platform and the "Fujian Provincial Shoulder Action Education Foundation"(「福建省擔當者行動教育基金會」). The campaign encouraged official fan club of the idols and the idol himself or herself to create a weibo topic with the idol's name. The idol who gained the highest view rate of his video would be the winner and *Meipai* would name a book corner with the idol's name. The campaign ended with a total of 30 book corners donated, a total of 438,000 videos released during the event, a total of 350 million topical videos being played and a total of 1.913 million topic interactions.

“Prepare A Bright Future For Idol”(「為愛豆鋪花路」) Campaign

“Prepare A Bright Future For Idol”(「為愛豆鋪花路」) Campaign was a charity program for donation of free lunch to elementary school in rural poor areas by Meitu and “China Social Welfare Foundation Free Lunch Fund”(「中國社會福利基金會免費午餐基金」). The campaign worked as the fans of the idol made use of the campaign sticker provided in the *Meitu* mobile application to produce and share pictures to the Meitu community with double hashtag of “Prepare A Bright Future For Idol”(「為愛豆鋪花路」) and “Prepare A Bright Future For XXX”(「為XXX鋪花路」) (where XXX was the idol’s Chinese full name). The idol with the highest number of post with his or her hashtag was the winner of the campaign, where Meitu donated RMB100,000 to the Foundation to provide free lunch to the children which was enough for the children to enjoy for a year.

"Fasten For The Loved, I Am In Action"(「為愛而繫，我在行動」) Campaign

During the Reporting Period, Meitu joined hands with Didi Chuxing to launched a campaign called "FASTEN FOR THE LOVED, I AM IN ACTION"(「為愛而繫，我在行動」) to remind people of keeping the seat belt fastened no matter where they sat in the car for safety. In order to encourage users to actively participate in the event, Meitu and Didi Chuxing also launched a customized "seat belt" sticker in the *Meitu* mobile application. Users had a chance to win travel rewards when they enjoyed the photo taking and interactions in the application.

The Group has fully utilized its social advantages of the platform to advocate its users to pay attention to safety issues during travel, fasten seat belts and take responsibility for themselves, family and friends, enhancing the safety awareness of the general public with such a funny way of cute stickers.

HKEX ESG REPORTING GUIDE INDEX

KPI	Section/Explanation
A. Environment	
Aspect A1：Emissions	
A1-General disclosure	PROTECTING THE ENVIRONMENT
A-1.1	PROTECTING THE ENVIRONMENT
A-1.2	PROTECTING THE ENVIRONMENT
A-1.3	PROTECTING THE ENVIRONMENT
A-1.4	PROTECTING THE ENVIRONMENT
A-1.5	PROTECTING THE ENVIRONMENT
A-1.6	PROTECTING THE ENVIRONMENT
Aspect A2：Use of Resources	
A2-General disclosure	PROTECTING THE ENVIRONMENT
A-2.1	PROTECTING THE ENVIRONMENT
A-2.2	PROTECTING THE ENVIRONMENT
A-2.3	PROTECTING THE ENVIRONMENT
A-2.4	PROTECTINGTHE ENVIRONMENT
A-2.5	PROTECTING THE ENVIRONMENT
Aspect A3：The Environment and Natural Resources	
A3-General disclosure	PROTECTING THE ENVIRONMENT
A-3.1	PROTECTING THE ENVIRONMENT
B. Society	
Aspect B1：Employment	
B1-General disclosure	TREATING OUR PEOPLE WELL
B-1.1	TREATING OUR PEOPLE WELL
B-1.2	TREATING OUR PEOPLE WELL
Aspect B2：Health and Safety	
B2-General disclosure	TREATING OUR PEOPLE WELL
B-2.1	No cases of work-related fatalities during the Reporting Period
B-2.2	No relevant disclosure would be made this year
B-2.3	TREATING OUR PEOPLE WELL

KPI	Section/Explanation
Aspect B3：Development and Training	
B3-General disclosure	TREATING OUR PEOPLE WELL
B-3.1	TREATING OUR PEOPLE WELL
B-3.2	No relevant disclosure would be made this year
Aspect B4：Labour Standards	
B4-General disclosure	TREATING OUR PEOPLE WELL
B-4.1	No relevant disclosure would be made this year
B-4.2	No relevant disclosure would be made this year
Aspect B5：Supply Chain Management	
B5-General disclosure	MANAGING OUR SUPPLIERS
B-5.1	No relevant disclosure would be made this year
B-5.2	No relevant disclosure would be made this year
Aspect B6：Product Responsibility	
B6-General disclosure	PRODUCING QUALITY PRODUCT
B-6.1	PRODUCING QUALITY PRODUCT
B-6.2	PRODUCING QUALITY PRODUCT
B-6.3	PRODUCING QUALITY PRODUCT
B-6.4	PRODUCING QUALITY PRODUCT
B-6.5	PRODUCING QUALITY PRODUCT
Aspect B7：Anti-Corruption	
B7-General disclosure	DOING BUSINESS RIGHT
B-7.1	No such cases during the Reporting Period
B-7.2	DOING BUSINESS RIGHT
Aspect B8：Community Investment	
B8-General disclosure	CARING FOR THE COMMUNITY
B-8.1	CARING FOR THE COMMUNITY
B-8.2	CARING FOR THE COMMUNITY

Independent Auditor's Report

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

OPINION

What we have audited

The consolidated financial statements of Meitu, Inc. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 111 to 215, which comprise:

- the consolidated balance sheet as of December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matters identified in our audit are summarized as follows:

- Fair value measurement of financial assets at fair value through profit or loss
- Impairment assessments of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss	
Refer to Note 2.10, 3.3, 4(a) and 16(b) to the consolidated financial statements. As of December 31, 2019, the Group's carrying value of long-term investments classified as financial assets at fair value through profit and loss ("FVTPL") amounted to RMB502,774,000. For the year ended December 31, 2019, the Group had recognized a net loss on fair value changes of RMB60,845,000 on the financial assets at FVTPL. The fair value of financial assets at FVTPL has been determined using either the discounted cash flow method or equity allocation model based on significant unobservable inputs. Fair value measurement had taken into account the estimation of the following significant unobservable inputs: • Revenue growth rates and long-term pre-tax operating margin in the discounted cash flow method; • Expected volatility of shares under liquidation and redemption scenario, marketability discount and risk-free rate in equity allocation model.	• We understood and evaluated the management's processes and key controls over the valuation process in relation to the financial assets at FVTPL. • We involved our in house valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. • In order to assess the reliability of the management' s forecast and reasonableness of the key assumptions used in the discounted cash flow model we evaluated the revenue growth rate, operating expenses and long term pre-tax operating margin with reference to historical data and our knowledge of the industry. • We assessed the reasonableness of expected volatility of shares under liquidation and redemption scenarios with reference to historical volatilities of comparable companies and also benchmarked the marketability discount and risk-free rate adopted against market data with the involvement of our in house valuation experts. • We evaluated the management's sensitivity analysis on the key assumptions. • We tested the mathematical accuracy of the calculation of the management's assessments.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss (Continued)	
We focused on this area due to the significant estimation and judgement involved in determining the respective fair value of financial assets at FVTPL, which do not have direct open market quoted prices, with respect to the adoption of applicable valuation methodologies and the key assumptions in the valuation.	• Based on our audit procedures, we found the management's estimation and judgement involved in determining the respective fair values of financial assets at FVTPL were supported by the evidence that we gathered.
Impairment assessments of goodwill	
Refer to Notes 2.8(a), 2.9, 4 (c), and 15 to the consolidated financial statements. As of December 31, 2019, the Group recorded a significant carrying amount of goodwill amounting to RMB274,422,000 arising from several acquisitions. Impairment provision of RMB53,537,000 had been recognized during the year ended December 31, 2019. For the purpose of impairment assessment, the goodwill balance was allocated to three cash-generating units ("CGUs") of the Group. Management assessed the recoverable amount of the CGUs based on their respective value-in-use ("VIU") calculations using cash flow projections. The key assumptions applied in the projections primarily include (i) annual revenue growth rate; (ii) gross margin; (iii) terminal growth rate; and (iv) pre-tax discount rate. We focused on this area due to the magnitude of the carrying amount of goodwill as of December 31, 2019 and the fact that significant estimation and judgement were involved in the impairment assessment.	• We assessed the appropriateness of using VIU calculations as valuation model for the impairment assessments of goodwill. • We assessed the key assumptions adopted in the VIU calculations including annual revenue growth rates and gross margin by comparing against the historical results of the CGUs, the approved budgets of the CGUs and the Group's business plan. We assessed the pre-tax discount rate and terminal growth rate with reference to comparable listed companies and market data with the involvement of our internal valuation experts. • We independently tested the accuracy of mathematical calculation applied in the valuation models. • We performed sensitivity analysis on the key assumptions adopted in the impairment assessment so as to assess the potential implication on the results of the impairment assessment if these key assumptions are to be changed within a reasonable range • Based on the procedures we performed, we found the management's estimation and judgement involved in determining the impairment was supported by the evidence we gathered.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2020

Consolidated Income Statement

	Note	Year ended December 31, 2019 RMB'000	2018* RMB'000
Continuing operations			
Revenue	5	**977,867**	947,671
Cost of sales	8	**(278,584)**	(455,541)
Gross profit		**699,283**	492,130
Selling and marketing expenses	8	**(326,457)**	(782,698)
Administrative expenses	8	**(250,826)**	(274,068)
Research and development expenses	8	**(500,589)**	(517,056)
Net impairment losses on financial assets	3.1(b)	**(2,882)**	(1,897)
Other income	6	**49,486**	38,690
Other (losses)/gains, net	7	**(47,551)**	493,265
Finance income, net	10	**45,685**	39,656
Share of losses of investments accounted for using the equity method	16(a)	**(1,226)**	(3,382)
Loss before income tax		**(335,077)**	(515,360)
Income tax expense	11	**(8,984)**	(17,849)
Loss from continuing operations		**(344,061)**	(533,209)
Loss from discontinued operations (attributable to equity holders of the Company)	35	**(60,759)**	(709,857)
Loss for the year		**(404,820)**	(1,243,066)
(Loss)/profit attributable to:			
– Owners of the Company		**(396,522)**	(1,254,537)
– Non-controlling interests		**(8,298)**	11,471
		(404,820)	(1,243,066)
Loss per share for loss from continuing operations attributable to owners of the Company for the year (expressed in RMB per share)	12		
– Basic		**(0.08)**	(0.13)
– Diluted		**(0.08)**	(0.13)
Loss per share for loss attributable to owners of the Company for the year (expressed in RMB per share)	12		
– Basic		**(0.09)**	(0.30)
– Diluted		**(0.09)**	(0.30)

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

* The consolidated income statement for the year ended December 31, 2018 has been restated for the discontinued operations (Note 35).

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2019 RMB'000	2018* RMB'000
Loss for the year		**(404,820)**	(1,243,066)
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**25,552**	136,879
Other comprehensive income for the year, net of tax		**25,552**	136,879
Total comprehensive loss for the year, net of tax		**(379,268)**	(1,106,187)
Total comprehensive loss attributable to:			
– Owners of the Company		**(371,253)**	(1,117,837)
– Non-controlling interests		**(8,015)**	11,650
Total comprehensive loss for the year attributable to owners of the Company arises from:			
Continuing operations		**(310,494)**	(407,980)
Discontinued operations		**(60,759)**	(709,857)

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

* The consolidated statement of comprehensive income for the year ended December 31, 2018 has been restated for the discontinued operations (Note 35).

Consolidated Balance Sheet

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property and equipment	13	**75,058**	153,061
Right-of-use assets	14	**51,455**	–
Long-term bank deposits		**110,000**	–
Intangible assets	15	**497,799**	203,305
Long-term investments			
– Investments in associates in the form of ordinary shares	16(a)	**15,521**	16,540
– Financial assets at fair value through profit or loss	16(b)	**502,774**	547,178
– Financial assets at fair value through other comprehensive income		**9,676**	7,296
Prepayments and other receivables	19	**9,467**	14,823
Deferred tax assets	26	**3,037**	1,203
		1,274,787	943,406
Current assets			
Inventories	20	**14,307**	359,439
Trade receivables	18	**359,965**	521,817
Prepayments and other receivables	19	**454,559**	569,784
Short-term bank deposits	21(c)	**1,646,981**	2,161,908
Cash and cash equivalents	21(a)	**864,611**	531,618
Restricted cash	21(b)	**500**	1,000
		3,340,923	4,145,566
Total assets		**4,615,710**	5,088,972
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	22	**280**	274
Share premium	22	**7,133,987**	7,040,940
Reserves	23	**(66,455)**	(168,766)
Accumulated losses		**(3,429,954)**	(3,031,751)
Non-controlling interests		**97,342**	119,233
Total equity		**3,735,200**	3,959,930

Consolidated Balance Sheet

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Trade and other payables	25	**85,094**	137,977
Lease liabilities	14	**18,647**	–
Deferred tax liabilities	26	**45,518**	12,171
		149,259	150,148
Current liabilities			
Borrowings		**–**	10,000
Trade and other payables	25	**597,486**	885,418
Lease liabilities	14	**30,757**	–
Income tax liabilities		**44,061**	51,094
Contract liabilities	5	**58,947**	32,382
		731,251	978,894
Total liabilities		**880,510**	1,129,042
Total equity and liabilities		**4,615,710**	5,088,972

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

The consolidated financial statements on pages 111 to 215 were approved by the Board of Directors on March 26, 2020 and were signed on its behalf.

Cai Wensheng
Director

Wu Zeyuan
Director

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance as of January 1, 2019		274	7,040,940	(168,766)	(3,031,751)	3,840,697	119,233	3,959,930
Change in accounting policy	2.2	–	–	–	(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 year		–	–	–	(396,522)	(396,522)	(8,298)	(404,820)
Other comprehensive income								
Currency translation differences	23(a)	–	–	25,269	–	25,269	283	25,552
Total comprehensive loss for the year		–	–	25,269	(396,522)	(371,253)	(8,015)	(379,268)
Transactions with owners as their capacity as owners								
Value of employee services:			–					
Pre-IPO ESOP Scheme	24	–	–	3,281	–	3,281	–	3,281
Post-IPO Share Award Scheme	24	–	–	51,126	–	51,126	–	51,126
Shares issued upon exercise of employee share options	22(a)	2	5,513	–	–	5,515	–	5,515
Appropriation to statutory reserves	23(b)	–	–	170	(170)	–	–	–
Buy-back and cancellation of ordinary shares	22(b)	(2)	(37,279)	–	–	(37,281)	–	(37,281)
Acquisition of additional equity interests in non-wholly owned subsidiaries	23	–	–	22,465	–	22,465	(22,465)	–
Non-controlling interests on acquisition of a subsidiary	34	–	–	–	–	–	8,651	8,651
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	34	6	124,813	–	–	124,819	–	124,819
Total transactions with owners as their capacity as owners		6	93,047	77,042	(170)	169,925	(13,814)	156,111
Balance as of December 31, 2019		280	7,133,987	(66,455)	(3,429,954)	3,637,858	97,342	3,735,200

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance as of January 1, 2018		280	7,679,137	(263,065)	(1,774,312)	5,642,040	–	5,642,040
Comprehensive (loss)/income								
(Loss)/profit for the year		–	–	–	(1,254,537)	(1,254,537)	11,471	(1,243,066)
Other comprehensive income								
Currency translation differences	23(a)	–	–	136,700	–	136,700	179	136,879
Total comprehensive loss for the year		–	–	136,700	(1,254,537)	(1,117,837)	11,650	(1,106,187)
Transactions with owners as their capacity as owners								
Value of employee services:								
– Pre-IPO ESOP Scheme	24	–	–	8,456	–	8,456	–	8,456
– Post-IPO Share Award Scheme	24	–	–	129,945	–	129,945	–	129,945
Shares issued upon exercise of employee share options	22(a)	1	4,004	–	–	4,005	–	4,005
Appropriation to statutory reserves	23(b)	–	–	2,902	(2,902)	–	–	–
Buy-back and cancellation of ordinary shares	22(b)	(7)	(642,201)	–	–	(642,208)	–	(642,208)
A forward contract with non-controlling interests	23	–	–	(183,704)	–	(183,704)	–	(183,704)
Non-controlling interests on acquisition of subsidiaries	34	–	–	–	–	–	107,583	107,583
Total transactions with owners as their capacity as owners		(6)	(638,197)	(42,401)	(2,902)	(683,506)	107,583	(575,923)
Balance as of December 31, 2018		274	7,040,940	(168,766)	(3,031,751)	3,840,697	119,233	3,959,930

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

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	28(a)	**17,844**	(1,941,389)
Interest received		**3,824**	2,939
Interest paid		**(1,515)**	(2,345)
Income tax paid		**(8,364)**	(56,162)
Net cash generated from/(used in) operating activities		**11,789**	(1,996,957)
Cash flows from investing activities			
Purchase of property and equipment	13	**(12,749)**	(143,913)
Purchase of intangible assets	15	**–**	(16,321)
Proceeds from disposal of property and equipment and intangible assets	28(a)	**25,163**	3,995
Investments in associates in the form of ordinary shares		**–**	(8,771)
Investments in financial assets at fair value through profit or loss		**(12,338)**	(384,148)
Proceeds from disposal of financial assets at fair value through profit or loss		**5,171**	618,554
Investments in financial assets at fair value through other comprehensive income		**(2,259)**	(433)
Investment income received from short-term investments placed with banks		**18,138**	16,851
Placement of term bank deposits		**(2,142,538)**	(2,861,784)
Receipt from maturity of term bank deposits		**2,557,759**	4,557,915
Interest received from term bank deposits		**70,920**	104,191
Loans to an investee company		**–**	(5,000)
Loans to third parties		**–**	(7,000)
Repayments received from an investee company		**5,000**	–
Repayments received from third parties		**7,000**	–
Payment for acquisition of subsidiaries, net of cash acquired	34	**(45,983)**	(71,977)
Net cash generated from investing activities		**473,284**	1,802,159

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Repayment of short-term borrowings	28(c)	**(10,000)**	–
Payments for lease liabilities	28(c)	**(53,967)**	–
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	25	**(59,356)**	–
Payments for shares buy-back	22	**(37,281)**	(642,208)
Proceeds from shares issued under employee share option scheme		**6,121**	3,541
Share issue transaction costs	34	**(974)**	–
Net cash used in financing activities		**(155,457)**	(638,667)
Net increase/(decrease) in cash and cash equivalents		**329,616**	(833,465)
Cash and cash equivalents at the beginning of the year	21	**531,618**	1,396,632
Effects of exchange rate changes on cash and cash equivalents		**3,377**	(31,549)
Cash and cash equivalents at the end of the year		**864,611**	531,618

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1 GENERAL INFORMATION

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

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

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

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

1 GENERAL INFORMATION (CONTINUED)

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

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

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

On November 19, 2018, the Company and Xiaomi Corporation ("**Xiaomi**") entered into a strategic cooperation framework agreement (the "**Strategic Cooperation Agreement**"), in which Xiaomi undertakes to be responsible for design, research and development, production, business operation and sales and marketing of all future Meitu branded smartphones (other than the model *Meitu V7*) for a maximum of approximately 30 years, while Meitu 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

IFRS 16	Leases
IFRIC 23 Interpretation 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 2017	Annual Improvements 2015-2017 cycle

The Group changed its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2.2. The adoption of other applicable new and amended standards and interpretations listed above did not have any significant impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

As of December 31, 2019, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending December 31, 2019.

		Effective for accounting periods beginning on or after
IFRS 17	Insurance Contracts	January 1, 2021 (likely to be extended to January 1, 2022)
IAS 1 and IAS 8 (Amendments)	Definition of Material	January 1, 2020
IFRS 3 (Amendments)	Definition of a Business	January 1, 2020
Revised Conceptual Framework for Financial Reporting		January 1, 2020

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 2.24.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.75%.

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as of January 1, 2019
- accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using 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 Interpretation 4 “Determining whether an Arrangement contains a Lease”.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(ii) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as of December 31, 2018 (Note 29(b))	76,938
Discounted using the lessee's incremental borrowing rate of at the date of initial application	75,832
Less: short-term leases recognized 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

(iii) Measurement of right-of-use assets

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. The recognized right-of-use assets of the Group all relate to properties lease.

(iv) Adjustments recognized in the balance sheet on January 1, 2019

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 year ended December 31, 2019 as a result of the adoption of IFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries

(a) Consolidation

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

The acquisition method of accounting is used to account for business combination by the Group (Note 2.3(a)(i)).

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

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

(i) Business combination

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) Business combination (Continued)

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

(a) Consolidation (Continued)

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

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

(iii) Disposal of subsidiaries

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

(b) Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Associates

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Associates (Continued)

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

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted for as hybrid financial instruments and designated as financial assets measured at fair value through profit or loss (Note 2.10).

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3(a)(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Copyrights, customer relationship and brand names

Copyrights, customer relationship and brand names acquired in business combination are recognized at fair value at the acquisition date. Separately copyrights are shown at historical cost. Copyrights, customer relationship and brand names have finite useful lives and are carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method over the useful lives (4 to 15 years).

(c) Other intangible assets

Other intangible assets mainly include domain names and computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized over their estimated useful lives (generally 5 to 10 years), using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (Continued)

(d) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. There had been no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2019 (2018: Nil).

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

2.9 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

(b) Recognition and derecognition

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

(c) Measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment and other financial assets (Continued)

(c) Measurement (Continued)

Debt instruments

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment and other financial assets (Continued)

(c) Measurement (Continued)

Equity instruments

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

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

(d) Impairment

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

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

2.11 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Inventories

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

2.13 Trade receivables

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

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

2.14 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade and other payables

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

2.17 Borrowings

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowings (Continued)

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

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

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

2.18 Convertible redeemable preferred shares

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

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

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

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

2.19 Current and deferred income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (Continued)

(a) Current income tax

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

(b) Deferred income tax

(i) Inside basis differences

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

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

(ii) Outside basis differences

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

(ii) Outside basis differences (Continued)

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

(c) Offsetting

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

2.20 Employee benefits

(a) Short-term obligations

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

(b) Pension obligations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

(b) Pension obligations (Continued)

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

(c) Employee leave entitlements

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

(d) Bonus plans

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

(e) Termination benefit

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

– including any market performance conditions;

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

– including the impact of any non-vesting conditions.

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

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

(b) Share-based payment transactions among group entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions

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

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

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

2.23 Revenue recognition

Online Advertising

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

Revenue from displaying advertisements to the users of online and mobile platforms operated by the Group is recognized ratably over the contracted period in which the advertisements are displayed. Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of pay-per-click or pay-per-display advertisements for advertisers to users of the Group based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to the users.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

Online Advertising (Continued)

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

Premium Subscription Services and In-App Purchases

Premium subscription services and in-app purchases revenue are primarily revenues from paid subscriptions in the application.

The Group provides to users certain subscription packages which entitle paying subscribers unlimited "ad-free" content offerings with certain privilege features in the application. The subscription fee for these packages is time-based and is collected upfront from subscribers. The terms of time-based subscriptions range from one month to twelve months. The receipt of subscription fee is initially recorded as contract liabilities and recognized as revenue ratably over the subscription period.

The subscription can be paid directly by users through various online payment channels. The Group records revenue on gross basis and recognizes service fees levied by online payment channels as the cost of sales.

Internet Value-added Services and Others

Internet value-added services and others revenues mainly comprise revenue earned from operating the Group's video and live streaming community, value-added service through leveraging platforms, e-commerce and others.

Revenue from operating the video and live streaming community is earned through sales of virtual currency on its platforms and revenue is recognized upon its utilization for the exchange of virtual gifts to be consumed on the platforms. The Group shares a portion of the revenue ("Revenue sharing fee") with content providers and recognized it as cost of sales. Cash collected from sales of virtual currency before utilization is recognized as contract liabilities.

Revenue from value-added service through leveraging platforms is earned from the service sharing fee from third parties, of which the Group leverage the platforms and user base to promote the mobile entertainment and other online application and collected from the third-party game/application developers a predetermined percentage of the fees. The Group recognizes the related revenue on a net basis since the Group is acting as an agent in the transaction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

Internet Value-added Services and Others (Continued)

Revenue from e-commerce is earned and recognized when control of the products have transferred, which is upon acceptance of the delivery of the products by the customers.

Sales of Smart Hardware Products

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (Continued)

Sales of Smart Hardware Products (Continued)

(ii) Sales of smart hardware products – End customers

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

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

Financing components

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

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

From 1 January 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.

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, initially measured using the index or rate as of the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leases (Continued)

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles 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.

2.25 Interest income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

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

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Government grants

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

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

2.28 Dividends distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

For the Group's PRC subsidiaries whose functional currency is RMB, if US$ had strengthened/weakened by 5% against RMB with all other variables held constant, the loss before income tax for the year ended December 31, 2019 would have been approximately RMB28,340,000 (2018: RMB37,438,000) higher/lower, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US$.

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk (Continued)

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with the limits set by the Group. Each investment is managed by senior management on a case by case basis. If the fair value of the investments held by the Group had increased/decreased by 5% with all other variables held constant, loss before income tax for the year ended December 31, 2019 would have been approximately RMB25,139,000 (2018: RMB27,359,000) lower/higher.

(b) Credit risk

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

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

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

(ii) Credit risk of trade receivables

The Group applies the simplified approach to measure expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and account aging. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of trade receivables and adjusts for forward looking macroeconomic data.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

The assessed expected credit losses for the trade receivables as of December 31, 2019 and 2018 are determined as follows:

As of December 31, 2019	0-180 days	180-365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	317,450	41,341	3,759	362,550
Expected credit loss rate	0.1%	0.4%	53.2%	0.7%
Expected credit loss (RMB'000)	440	145	2,000	2,585

As of December 31, 2018	0-180 days	180-365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	479,743	41,254	2,550	523,547
Expected credit loss rate	0.1%	0.4%	41.8%	0.3%
Expected credit loss (RMB'000)	480	185	1,065	1,730

The closing loss allowances for trade receivables as of December 31, 2019 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**1,730**	–
Movement in loss allowance for trade receivables	**855**	1,730
At the end of the year	**2,585**	1,730

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables mainly comprise amounts due from receivables from advertising customers for advertising agency services, rental and other deposits, refundable value-added tax, interest receivables, loans to third parties and other receivables.

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables (Continued)

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

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

The Group expects that the credit risk associated with other receivables due from certain entities (including rental and other deposits, refundable value-added tax, interest receivables, loans to third parties and other receivables) is considered to be low, since these entities have a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed that the expected credit loss rate for the amounts due from these entities are immaterial under 12 months expected credit loss method and considered them to have low credit risk, and thus the loss allowance is immaterial.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables (Continued)

For other receivables from advertising customers for advertising agency services, management makes periodic collective assessments on the recoverability of receivables based on historical settlement records and past experience. In calculating the expected credit loss rates, the Group considers historical loss rates for these receivables and adjusts for forward looking macroeconomic data.

The assessed expected credit losses for the other receivables from advertising customers for advertising agency services as of December 31, 2019 and 2018 are determined as follows:

As of December 31, 2019	0-180 days	180-365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	269,691	26,842	–	296,533
Expected credit loss rate	0.1%	7.2%	–	0.7%
Expected credit loss (RMB'000)	270	1,924	–	2,194
As of December 31, 2018	**0-180 days**	**180-365 days**	**Over 365 days**	**Total**
Gross carrying amount (RMB'000)	308,058	3,227	1,745	313,030
Expected credit loss rate	0.0%	1.2%	6.5%	0.1%
Expected credit loss (RMB'000)	15	39	113	167

The closing loss allowance for other receivables as of December 31, 2019 reconciles to the opening loss allowance as follows:

	Other receivables	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**167**	–
Movement in loss allowance for other receivables	**2,027**	167
At the end of the year	**2,194**	167

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
As of December 31,2019					
Lease liabilities	**31,015**	**18,692**	**1,495**	**51,202**	**49,404**
Trade and other payables (excluding payroll and welfare payables, other taxes payables and warranty provisions)	**347,915**	**89,136**	**–**	**437,051**	**433,009**
	378,930	**107,828**	**1,495**	**488,253**	**482,413**
As of December 31,2018					
Borrowings	10,383	–	–	10,383	10,000
Trade and other payables (excluding payroll and welfare payables, other taxes payables and warranty provisions)	620,075	59,436	89,136	768,647	758,052
	630,458	59,436	89,136	779,030	768,052

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

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

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

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of December 31, 2019 by level of the inputs to valuation methodologies used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

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

As of December 31, 2019	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
– Financial assets at fair value through profit or loss (Note 16(b))	**–**	**–**	**502,774**	**502,774**
– Financial assets at fair value through other comprehensive income	**–**	**–**	**9,676**	**9,676**
	–	**–**	**512,450**	**512,450**

As of December 31, 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
– Financial assets at fair value through profit or loss (Note 16(b))	–	–	547,178	547,178
– Financial assets at fair value through other comprehensive income	–	–	7,296	7,296
	–	–	554,474	554,474

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

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

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

Specific valuation methodologies used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments; and
- Other methodologies, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets and liabilities mainly include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and short-term investments placed with banks.

The following table presents the changes in level 3 instruments for the year ended December 31, 2019 and 2018:

	Financial assets at fair value through profit or losses RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Short-term investments placed with banks RMB'000	Total RMB'000
Year ended December 31, 2019				
Opening balance as of December 31, 2018	547,178	7,296	–	**554,474**
Additions	12,338	2,259	4,201,882	**4,216,479**
Disposal	–	–	(4,220,020)	**(4,220,020)**
Changes in fair value	(60,845)	–	–	**(60,845)**
Investment income recognized in profit or loss	–	–	18,138	**18,138**
Currency translation differences	4,103	121	–	**4,224**
Closing balance as of December 31, 2019	502,774	9,676	–	**512,450**
Total unrealized losses and change in fair value for the year included in "other gains/(losses), net" for financial assets at fair value through profit or loss held at the end of the year (Note 7)	(60,845)	–	–	**(60,845)**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

	Financial assets at fair value through profit or losses RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Short-term investments placed with banks RMB'000	Total RMB'000
Year ended December 31, 2018				
Opening balance as of December 31, 2017	280,863	6,534	–	**287,397**
Additions	455,884	433	3,475,750	**3,932,067**
Disposal	(292,560)	–	(3,492,601)	**(3,785,161)**
Changes in fair value	85,174	–	–	**85,174**
Investment income recognized in profit or loss	–	–	16,851	**16,851**
Currency translation differences	17,817	329	–	**18,146**
Closing balance as of December 31, 2018	547,178	7,296	–	**554,474**
Total unrealized gains and change in fair value for the year included in "other gains/(losses), net" for financial assets at fair value through profit or loss held at the end of the year	36,813	–	–	**36,813**

The Group have personnel who have 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 16(b)). As the investments in private companies are not traded in an active market, their fair value have been determined using various applicable valuation methodologies, including discounted cash flows, equity allocation model etc. 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

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.

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

Description	Fair value as of December 31, 2019 (RMB'000)	2018 (RMB'000)	Valuation methodologies	Unobservable input	Range (weighted average) 2019	2018
Financial assets at fair value through profit or loss (Note 16(b))	502,774	547,178	Discounted cash flow	Long-term revenue growth rate	2%-3%	2%
				Long-term pre-tax operating margin	8.2%-38.6%	7.1%-34.3%
				Weighted average cost of capital	15.2%	14.6%
			Equity allocation model	Expected volatility of shares under liquidation and redemption scenario	39.1%-77.3%	34.2%-75.3%
				Marketability discount	20%-30%	9%-30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

(a) Fair value of financial assets

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

(b) Impairment provision for trade and other receivables

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

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining whether goodwill is impaired requires an estimation of the recoverable amount of CGU to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The calculation requires the Group to estimate the future cash flows expected to arise from CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. Details of the key assumptions in assessment are disclosed in Note 15.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(d) Payables to non-controlling shareholders of a subsidiary

As disclosed in Note 25(a), the Group is obliged to acquire the non-controlling equity interest of a subsidiary from the non-controlling shareholders and, accordingly, it had recognized a financial liability due to the non-controlling shareholders computed based on the estimated outcome of the future performance of the subsidiary (determined by net income reported by the subsidiary), as specified in underlying investment agreement. Changes in estimates of future performance of the subsidiary may affect the carrying amounts of the financial liability and other (losses)/gains, net. If the outcome of the performance of the subsidiary had been higher or lower over estimation by 10%, the carrying amount of the payables to non-controlling shareholders of the subsidiary and other (losses)/gains, net would have been approximately RMB8,125,000 higher or RMB15,434,000 lower.

5 REVENUE AND SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. Considering the Group has discontinued the business of smartphone and e-commerce operations, the Group determined that it has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially located in the PRC and substantially all of the Group's revenues are derived from the PRC. Therefore, no geographical segments are presented.

The results of the revenue for the year ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Revenue from continuing operations		
Online Advertising	**751,886**	620,892
Premium Subscription Services and In-App Purchases	**85,987**	13,911
Internet Value-added Services	**45,599**	37,681
Others	**94,395**	275,187
Total revenue	**977,867**	947,671
Revenue from discontinued operations (Note 35)	**386,715**	2,024,423

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Timing of revenue recognition		
At a point in time	**139,994**	312,868
Over time	**837,873**	634,803
	977,867	947,671

The major customers which contributed more than 10% of the revenue from continuing operations of the Group for the year ended December 31, 2019 and 2018 are listed as below.

	Year ended December 31,	
	2019	2018
Customer A	**14%**	11%

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

As of December 31, 2019, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Contract liabilities

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

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
– Online Advertising	**32,439**	9,175
– Premium Subscription Services and In-App Purchases	**15,321**	2,217
– Others	**9,655**	6,803
Discontinued operations	**1,532**	14,187
	58,947	32,382

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
– Online Advertising	**9,175**	3,440
– Premium Subscription Services and In-App Purchases	**2,217**	–
– Others	**6,803**	8,929
Discontinued operations	**14,187**	183,885
	32,382	196,254

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

6 OTHER INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Government grants	**46,964**	36,723
Others	**2,522**	1,967
	49,486	38,690

7 OTHER (LOSSES)/GAINS, NET

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Fair value changes on financial assets at fair value through profit or loss (Note 16(b))	**(60,845)**	95,364
Goodwill impairment (Note 15)	**(53,537)**	–
Remeasurement gains on consideration to non-controlling shareholders of a subsidiary (Note 25)	**44,941**	–
Gains on short-term investments placed with banks	**18,138**	16,851
Gains on disposal of financial assets at fair value through profit or loss	**5,171**	353,142
Loss on disposals of property and equipment	**(1,235)**	(2,518)
Remeasurement gains on investment in associates	**–**	30,739
Others	**(184)**	(313)
	(47,551)	493,265

8 EXPENSES BY NATURE

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**744,866**	766,991
Promotion and advertising expenses	**112,153**	564,146
Bandwidth and storage related costs	**82,735**	98,451
Revenue sharing fee	**79,461**	236,296
Depreciation of property and equipment (Note 13)	**63,079**	65,167
Depreciation of right-of-use assets (Note 14)	**47,711**	–
Travelling and entertainment expenses	**23,432**	36,302
Video content monitoring fee	**19,652**	34,859
Tax and levies	**16,933**	22,870
Outsourced technical services	**15,494**	34,758
Amortization of intangible assets (Note 15)	**15,248**	9,751
Operating lease expenses	**10,455**	57,689
Cost related to smart hardware	**8,753**	–
Utilities and office expenses	**8,424**	14,267
License fees	**8,072**	6,256
Auditor's remuneration		
– Annual audit services	**6,726**	6,775
– Non-audit services	**–**	420
Provision for inventory impairment	**3,812**	–
Impairment of property and equipment	**1,375**	659
Others	**88,075**	73,706
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**1,356,456**	2,029,363

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**609,482**	689,252
Pension costs – defined contribution plans	**32,670**	44,174
Other social security costs, housing benefits and other employee benefits	**81,761**	116,065
Share-based compensation expenses (Note 24)	**54,407**	138,401
	778,320	987,892
Less: employee benefit expenses from discontinued operations	**(33,454)**	(220,901)
	744,866	766,991

(a) Senior management's emoluments

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Share-based compensation expenses	**10,144**	45,502
Wages, salaries and bonuses	**5,293**	8,848
Pension costs – defined contribution plans	**31**	88
Other social security costs, housing benefits and other employee benefits	**112**	165
	15,580	54,603

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Senior management's emoluments (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2019	2018
HK$500,001 to HK$1,000,000	**1**	2
HK$1,000,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$10,000,000	**2**	–
HK$10,000,001 to HK$20,000,000	**–**	1
HK$40,000,001 to HK$60,000,000	**–**	1
	4	4

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include none directors (2018: None). All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the year ended December 31, 2019 (2018: None). The emoluments payable to the 5 non-director individuals for the year ended December 31, 2019 (2018: 5) are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Share-based compensation expenses	**14,195**	51,873
Wages, salaries and bonuses	**11,473**	13,647
Pension costs – defined contribution plans	**151**	186
Other social security costs, housing benefits and other employee benefits	**243**	245
	26,062	65,951

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2019	2018
Nil to HK$1,000,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$4,000,001 to HK$4,500,000	**2**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$12,000,001 to HK$12,500,000	**–**	1
HK$48,500,001 to HK$49,000,000	**–**	1
	5	5

10 FINANCE INCOME, NET

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Interest income	**56,714**	81,218
Interest expenses	**(1,515)**	(2,024)
Foreign exchange losses, net	**(2,475)**	(32,418)
Finance charges paid/payable for lease liabilities and others	**(7,039)**	(7,120)
	45,685	39,656

11 INCOME TAX EXPENSE

The income tax expense of the Group for the year ended December 31, 2019 and 2018 are analyzed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Current income tax:		
– PRC and overseas enterprise income tax	**7,456**	17,129
Deferred income tax (Note 26)	**1,528**	10,105
Income tax expense	**8,984**	27,234
Income tax expense is attributable to:		
Profit from continuing operations	**8,984**	17,849
Profit from discontinued operations	**–**	9,385
	8,984	27,234

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Loss from continuing operations before income tax:	**(335,077)**	(515,360)
Loss from discontinued operations before income tax:	**(60,759)**	(700,472)
	(395,836)	(1,215,832)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**(107,551)**	(407,229)
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	**(145)**	(3,139)
– Tax losses and temporary differences for which no deferred tax asset was recognized	**99,870**	393,811
– Change of tax rate	**956**	–
– Reversed recoverable tax losses recognized in prior periods	**–**	8,451
– Super Deduction for research and development expenses (Note (d))	**–**	(857)
– Expenses not deductible for income tax purposes:		
– Share-based compensation	**13,325**	33,644
– Others	**2,529**	2,553
Income tax expense	**8,984**	27,234

11 INCOME TAX EXPENSE (CONTINUED)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As of December 31, 2019, certain PRC subsidiaries of the Group suffered operating losses for the year. Based on management's assessment, the Group did not recognize deferred income tax assets of RMB338,830,000 (2018: RMB298,566,000) in respect of losses from continuing operations amounting to RMB2,253,541,000 (2018: RMB1,769,564,000) that can be carried forward against future taxable income. Losses from continuing operations amounting to RMB172,348,000, RMB354,521,000, RMB286,212,000, RMB558,544,000 and RMB358,151,000 will expire in 2020, 2021, 2022, 2023 and 2024, respectively.

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%. No provision for Hong Kong profits tax has been made as the Group utilised previous unrecognized tax losses.

(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 21%. No provision for profits tax has been made as the Group did not have any assessable profits subject to these jurisdictions for the year.

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

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

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%.

12 LOSS PER SHARE

(a) Basic

	Year ended December 31, 2019	2018
Loss attributable to owners of the Company (RMB'000)		
From continuing operations	**(335,763)**	(544,680)
From discontinued operations	**(60,759)**	(709,857)
	(396,522)	(1,254,537)
Weighted average number of ordinary shares in issue (thousand)	**4,208,670**	4,219,270
Basic and diluted loss per share (in RMB/share)		
From continuing operations	**(0.08)**	(0.13)
From discontinued operations	**(0.01)**	(0.17)
	(0.09)	(0.30)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2019 and 2018, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP (Note 24) and restricted stock unit under the Post-IPO Share Award Scheme (Note 24). As the Group incurred losses for the year ended December 31, 2019 and 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the year ended December 31, 2019 and 2018 is the same as basic loss per share.

13 PROPERTY AND EQUIPMENT

	Servers and other equipment RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
As of January 1, 2019					
Cost	**235,993**	**51,288**	**11,704**	**6,717**	**305,702**
Accumulated depreciation and impairment	**(106,408)**	**(38,237)**	**(4,684)**	**(3,312)**	**(152,641)**
Net book amount	**129,585**	**13,051**	**7,020**	**3,405**	**153,061**
Year ended December 31, 2019					
Opening net book amount	**129,585**	**13,051**	**7,020**	**3,405**	**153,061**
Additions	**3,193**	**6,598**	**2,003**	**955**	**12,749**
Acquisition of subsidiaries (Note 34)	**790**	**33**	**7**	**51**	**881**
Disposals	**(23,782)**	**–**	**(811)**	**(114)**	**(24,707)**
Depreciation charges	**(52,886)**	**(8,528)**	**(2,321)**	**(1,223)**	**(64,958)**
Impairment loss	**(1,968)**	**–**	**–**	**–**	**(1,968)**
Closing net book amount	**54,932**	**11,154**	**5,898**	**3,074**	**75,058**
As of December 31, 2019					
Cost	**174,185**	**56,331**	**10,535**	**6,693**	**247,744**
Accumulated depreciation and impairment	**(119,253)**	**(45,177)**	**(4,637)**	**(3,619)**	**(172,686)**
Net book amount	**54,932**	**11,154**	**5,898**	**3,074**	**75,058**
As of January 1, 2018					
Cost	121,240	34,740	7,835	7,586	171,401
Accumulated depreciation and impairment	(55,092)	(18,527)	(2,668)	(3,216)	(79,503)
Net book amount	66,148	16,213	5,167	4,370	91,898
Year ended December 31, 2018					
Opening net book amount	66,148	16,213	5,167	4,370	91,898
Additions	121,126	16,515	5,029	1,243	143,913
Acquisition of subsidiaries (Note 34)	1,305	1,320	1,585	–	4,210
Disposals	(3,617)	–	(1,726)	(398)	(5,741)
Depreciation charges	(51,409)	(20,997)	(2,025)	(1,810)	(76,241)
Impairment loss	(3,968)	–	(1,010)	–	(4,978)
Closing net book amount	129,585	13,051	7,020	3,405	153,061
As of December 31, 2018					
Cost	235,993	51,288	11,704	6,717	305,702
Accumulated depreciation and impairment	(106,408)	(38,237)	(4,684)	(3,312)	(152,641)
Net book amount	129,585	13,051	7,020	3,405	153,061

13 PROPERTY AND EQUIPMENT (CONTINUED)

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cost of sales	**36,400**	36,302
Research and development expenses	**16,834**	26,384
Administrative expenses	**9,020**	10,125
Selling and marketing expenses	**2,704**	3,430
	64,958	76,241
Less: depreciation expenses from discontinued operations	**(1,879)**	(11,074)
	63,079	65,167

14 LEASE

(i) Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As of December 31, 2019 RMB'000	As of January 1, 2019 RMB'000
Right-of-use assets		
Buildings	**51,455**	73,898
Lease liabilities		
Current	**30,757**	43,752
Non-current	**18,647**	31,719
	49,404	75,471

* For adjustments recognized on adoption of IFRS 16 on January 1, 2019, please refer to Note 2.1.

Additions to the right-of-use assets and the exchange differences during the year ended December 31, 2019 was RMB23,597,000 and RMB1,672,000 respectively.

(ii) Amounts recognized in the income statement

The income statement shows the following amounts relating to leases:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets		
Buildings	**47,711**	–
Interest expense (included in finance cost)	**2,878**	–
Expense relating to short-term leases	**1,364**	–

The total cash outflow for leases during the year ended December 31, 2019 was RMB55,329,000.

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

The Group leases various buildings. Rental contracts are typically made for fixed periods of 1 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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15 INTANGIBLE ASSETS

	Goodwill RMB'000	Copyrights RMB'000	Brand names RMB'000	Customer relationship, domain names and others RMB'000	Total RMB'000
As of January 1, 2019					
Cost	**111,656**	**1,384**	**37,389**	**69,595**	**220,024**
Accumulated amortization and impairment	**–**	**(334)**	**(1,246)**	**(15,139)**	**(16,719)**
Net book amount	**111,656**	**1,050**	**36,143**	**54,456**	**203,305**
Year ended December 31, 2019					
Opening net book amount	**111,656**	**1,050**	**36,143**	**54,456**	**203,305**
Acquisition of subsidiaries (Note 34)	**162,039**	**59,200**	**140,700**	**327**	**362,266**
Amortization	**–**	**(634)**	**(4,521)**	**(10,120)**	**(15,275)**
Goodwill impairment	**(53,537)**	**–**	**–**	**–**	**(53,537)**
Currency translation differences	**727**	**3**	**–**	**310**	**1,040**
Closing net book amount	**220,885**	**59,619**	**172,322**	**44,973**	**497,799**
As of December 31, 2019					
Cost	**274,422**	**60,587**	**178,089**	**70,362**	**583,460**
Accumulated amortization and impairment	**(53,537)**	**(968)**	**(5,767)**	**(25,389)**	**(85,661)**
Net book amount	**220,885**	**59,619**	**172,322**	**44,973**	**497,799**
As of January 1, 2018					
Cost	–	764	–	28,335	29,099
Accumulated amortization and impairment	–	(163)	–	(7,638)	(7,801)
Net book amount	–	601	–	20,697	21,298
Year ended December 31, 2018					
Opening net book amount	–	601	–	20,697	21,298
Additions	–	620	–	15,701	16,321
Acquisition of subsidiaries	111,656	–	37,389	27,811	176,856
Disposals	–	–	–	(1,313)	(1,313)
Amortization	–	(171)	(1,246)	(8,440)	(9,857)
Closing net book amount	111,656	1,050	36,143	54,456	203,305
As of December 31, 2018					
Cost	111,656	1,384	37,389	69,595	220,024
Accumulated amortization and impairment	–	(334)	(1,246)	(15,139)	(16,719)
Net book amount	111,656	1,050	36,143	54,456	203,305

15 INTANGIBLE ASSETS (CONTINUED)

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Continuing operations:		
Administrative expenses	**6,949**	3,214
Research and development expenses	**1,105**	936
Selling and marketing expenses	**6,252**	5,003
Cost of sales	**942**	598
	15,248	9,751

Impairment test for goodwill

Goodwill arising from the Group's acquisition of subsidiaries 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' cash generating unit (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 of the Group was allocated three CGUs, CGU A engaged in online recruitment services, CGU B engaged in online advertising services overseas and CGU C engaged in advertising agency services.The goodwill allocation is presented below:

	As of December 31, 2019 RMB'000
CGU A	**162,039**
CGU B	**62,643**
CGU C	**49,740**
	274,422

15 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill (Continued)

The recoverable amount of the CGUs are determined based on value-in-use calculations. These calculation use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined a projection period of five years based on expected development trend of the acquirees and industry experiences. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The growth rate does not exceed the long-term average growth rate for the related industry in which the CGUs operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant industry.

The key assumptions used for value-in-use calculations are as follows:

	Year ended December 31, 2019		
	CGU A	CGU B	CGU C
Average expected growth rate of revenue	49.2%	34.6%	17.9%
Average gross margin	77.6%	86.4%	11.5%
Terminal growth rate after 5 years	3.0%	3.0%	3.0%
Pre-tax discount rate	23.0%	22.1%	24.3%

	Year ended December 31, 2018	
	CGU B	CGU C
Average expected growth rate of revenue	39.2%	21.7%
Average gross margin	88.7%	8.8%
Terminal growth rate after 5 years	3.0%	3.0%
Pre-tax discount rate	24.5%	22.4%

After assessment of the performance of the above CGUs, management recognized an impairment loss of RMB53,537,000 in total for the goodwill arising from above CGU B and CGU C.

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
As of January 1	**16,540**	28,415
Additions	**–**	12,692
Converted from an associate to a subsidiary	**–**	(22,572)
Share of losses of the associates	**(1,226)**	(3,382)
Currency translation differences	**207**	1,387
As of December 31	**15,521**	16,540

For the year ended December 31, 2019, none of the Group's investments in associates is individually material to the Group.

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
As of January 1	**547,178**	280,863
Additions	**12,338**	455,884
Disposals	**–**	(292,560)
Changes in fair value	**(60,845)**	85,174
Currency translation differences	**4,103**	17,817
As of December 31	**502,774**	547,178

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

The Group made investments in 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 accounted for associates of the Group. After an assessment performed on the Group's business model for managing financial assets and contractual cash flows 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.

The Group performs assessments on the fair value of its financial assets at fair value through profit or loss periodically. Management reviews the investees' performance and forecast, and applies valuation techniques, where applicable, to determine their respective fair value. During the year ended December 31, 2019, change in fair value amounting to RMB60,845,000 was recognized as other losses in the consolidated income statement (Note 7).

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets at amortized cost:		
– Short term bank deposits (Note 21(c))	**1,646,981**	2,161,908
– Long term bank deposits	**110,000**	–
– Cash and cash equivalents (Note 21(a))	**864,611**	531,618
– Trade and other receivables (excluding prepayments and refundable value-added tax)	**724,458**	918,983
– Restricted cash (Note 21(b))	**500**	1,000
Financial assets at fair value through profit or loss (Note 16(b))	**502,774**	547,178
Financial assets at fair value through other comprehensive income	**9,676**	7,296
	3,859,000	4,167,983

17 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortized cost:		
– Trade and other payables (excluding payroll and welfare payables, other taxes payables and warranty provisions)	433,009	758,052
– Borrowings	–	10,000
– Lease liabilities	49,404	–
	482,413	768,052

18 TRADE RECEIVABLES

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade receivables from contracts with customers	362,550	523,547
Less: loss allowance (Note 3.1(b))	(2,585)	(1,730)
	359,965	521,817

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Up to 6 months	317,450	479,743
6 months to 1 year	41,341	41,254
Over 1 year	3,759	2,550
	362,550	523,547

As of December 31, 2019 and 2018, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

19 PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in non-current assets		
Rental and other deposits	**9,431**	14,430
Others	**36**	393
	9,467	14,823
Included in current assets		
Receivables from advertising customers for advertising agency services	**296,533**	313,030
Refundable value-added tax	**55,316**	108,387
Rental and other deposits	**38,527**	19,201
Prepayment to advertising platform for advertising agency services	**30,283**	28,645
Interest receivables	**19,553**	37,119
Prepayments to suppliers	**10,974**	40,967
Prepaid income tax	**2,924**	9,049
Loans to third parties	**–**	7,000
Others	**2,643**	6,553
Less: loss allowance (Note 3.1(b))	**(2,194)**	(167)
	454,559	569,784

As of December 31, 2019, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at the year end.

20 INVENTORIES

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Raw materials	**52,140**	316,758
Finished goods	**29,427**	412,032
Merchandise	**8,826**	64,498
	90,393	793,288
Provision for impairment (Note a)	**(76,086)**	(433,849)
	14,307	359,439

Note:

(a) The Group reversed RMB361,575,000 of a previous inventory write-down for the smartphone and e-commerce products for the year ended December 31, 2019, as the Group sold the relevant goods that had been written down to original cost. The amount reversed has been presented in "loss from discontinued operations".

21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Cash at bank and in hand	**864,611**	421,807
Short-term bank deposits with initial terms within three months	**–**	109,811
	864,611	531,618

21 CASH AND BANK BALANCES (CONTINUED)

(b) Restricted cash

As of December 31, 2019, RMB500,000 (2018: RMB1,000,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As of December 31, 2019, short-term bank deposits amounting RMB1,646,981,000 (2018: RMB2,161,908,000) were bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated both in US$ and HK$, and the weighted average effective interest rate was 3.00% per annum for the year ended December 31, 2019 (2018: 3.00%).

22 SHARE CAPITAL AND PREMIUM

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

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued:					
As of January 1, 2019		4,202,516	42	274	7,040,940
Employee share option scheme under Pre-IPO ESOP					
– Shares issued and proceeds received	(a)	26,748	–	2	5,513
Buy-back and cancellation of shares	(b)	(26,000)	–	(2)	(37,279)
Consideration of business acquisition:					
– Shares issued	34	85,739	1	6	124,813
As of December 31, 2019		4,289,003	43	280	7,133,987

22 SHARE CAPITAL AND PREMIUM (CONTINUED)

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2018		4,273,553	43	280	7,679,137
Employee share option scheme under Pre-IPO ESOP					
– Shares issued and proceeds received	(a)	19,828	–	1	4,004
Buy-back and cancellation of shares	(b)	(110,865)	(1)	(7)	(642,201)
Employee Share Award Scheme:					
– Shares issued	(c)	20,000	–	–	–
As of December 31, 2018		4,202,516	42	274	7,040,940

(a) During the year ended December 31, 2019, 26,748,000 pre-IPO share options with exercise price of US$0.03 were exercised (2018: 19,828,000 pre-IPO share options).

(b) The Company's annual general meeting approved a share buy-back mandate on June 5, 2018 and renewed the mandate on June 3, 2019, pursuant to which the Company may buy back its own issued ordinary shares, from time to time, at the discretion of the Board of Directors of the Company up to an amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company. The buy-back 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. During the year ended December 31, 2019, the Company had bought back 26,000,000 shares at an average price of HK$1.60 for an aggregate consideration of HK$41,514,000 (equivalent to RMB37,281,000) and all the shares bought back were subsequently cancelled (2018: 110,865,000 shares at an average price of HK$6.85 for an aggregate consideration of HK$759,361,000 (equivalent to RMB642,208,000)).

(c) During the year ended December 31, 2018, the Company issued 20,000,000 new shares under the Post-IPO Share Award Scheme.

23 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 (Note 24)	**–**	**–**	**3,281**	**–**	**–**	**3,281**
– Post-IPO Share Award Scheme (Note 24)	**–**	**–**	**51,126**	**–**	**–**	**51,126**
Currency translation differences (Note (a))	**–**	**–**	**–**	**25,269**	**–**	**25,269**
Appropriation to statutory reserves (Note (b))	**–**	**170**	**–**	**–**	**–**	**170**
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note (c))	**–**	**–**	**–**	**–**	**22,465**	**22,465**
As of December 31, 2019	**2,000**	**20,120**	**400,328**	**(313,017)**	**(175,886)**	**(66,455)**
As of January 1, 2018	2,000	17,048	207,520	(474,986)	(14,647)	(263,065)
Value of employee services:						
– Pre-IPO ESOP Scheme (Note 24)	–	–	8,456	–	–	8,456
– Post-IPO Share Award Scheme (Note 24)	–	–	129,945	–	–	129,945
Currency translation differences (Note (a))	–	–	–	136,700	–	136,700
Appropriation to statutory reserves (Note (b))	–	2,902	–	–	–	2,902
A forward contract with non-controlling interests (Note (c))	–	–	–	–	(183,704)	(183,704)
As of December 31, 2018	2,000	19,950	345,921	(338,286)	(198,351)	(168,766)

(a) Currency translation differences represent the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(b) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(c) As detailed in Note 25, 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. 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.

24 SHARE-BASED PAYMENTS

(a) Pre-IPO ESOP

On February 15, 2014, the Board of Directors of the Company approved the establishment of the Pre-IPO ESOP with the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Pre-IPO ESOP shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under the original Pre-IPO ESOP shall be 11,695,907 shares. The Pre-IPO ESOP was amended by resolution of the Board on November 18, 2015. The overall limit on the number of underlying Shares pursuant to the amended Plan is 116,959,070 shares after the share subdivision.

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

The exercise price of the granted options to employees shall be US$0.03 per share. Except as provided otherwise in the grant letter or offer in any other form by the Board of Directors, 25% of the shares subject to the option shall vest on the first vesting date, and the remaining 75% shares shall vested over the next 36 months. The first vesting date should be determined by the Company and grantees for each grant agreement. The granted options have a contractual option term of 10 years. The Group has no legal or constructive obligation to buy back or settle the options in cash.

No share options were granted under Pre-IPO ESOP to employees of the Company in 2019 (2018: Nil).

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

	Exercise price	Number of share options Year ended December 31, 2019	2018
At the beginning of the year		**58,903,947**	79,339,909
Exercised (Note (a))	US$0.03	**(26,748,580)**	(19,827,852)
Forfeited	US$0.03	**(62,500)**	(608,110)
At the end of the year		**32,092,867**	58,903,947

Notes:

(a) As a result of the options exercised during the year ended December 31, 2019, 26,748,580 ordinary shares were issued by the Company (Note 22). The weighted average price of the shares immediately before the dates on which the options were exercised was HK$2.52 per share (equivalent to RMB2.20 per share) (2018: HK$5.88 per share (equivalent to RMB4.97 per share)).

As of December 31, 2019, all share options granted will expire in 2026.

24 SHARE-BASED PAYMENTS (CONTINUED)

(a) Pre-IPO ESOP (Continued)

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

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

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

No share options were granted under Pre-IPO ESOP to non-employees of the Company in 2019 (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 the year ended December 31, 2019, the Group recognized share based compensation of RMB3,281,000 (2018: RMB8,456,000) related to Pre-IPO ESOP granted to employees.

24 SHARE-BASED PAYMENTS (CONTINUED)

(b) Post-IPO Share Award Scheme

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

Movements in the number of award shares for the year ended December 31, 2019 are as follows:

	Post-IPO Share Award Scheme Number of shares Year ended December 31,	
	2019	2018
At the beginning of the year	**32,403,560**	24,537,000
Granted	**30,232,442**	22,780,960
Exercised	**(10,746,760)**	(7,118,453)
Forfeited	**(13,918,354)**	(7,795,947)
At the end of the year	**37,970,888**	32,403,560

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

The weighted average fair value of awarded shares granted during the year ended December 31, 2019 was HK$2.77 per share (equivalent to approximately RMB2.41 per share) (2018: HK$7.92 per share (equivalent to approximately RMB6.52 per share)).

During the year ended December 31, 2019, the Group recorded share based compensation of RMB51,126,000 (2018: RMB129,945,000) related to Post-IPO Share Award Scheme.

The outstanding awarded shares as of December 31, 2019 were divided into two to four tranches on an equal basis as of their grant dates. The first tranche will be vested after a specified period ranging from one to eighteen months from the grant date, and the remaining tranches will become vested in each subsequent year.

24 SHARE-BASED PAYMENTS (CONTINUED)

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

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

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As of December 31, 2019, the Expected Retention Rate, excluding senior management, was assessed to be 94% (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 had been granted by the Group under the Post-IPO Share Option Scheme.

25 TRADE AND OTHER PAYABLES

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in non-current liabilities		
Payables to non-controlling shareholders of a subsidiary	**85,094**	137,977
Included in current liabilities		
Payroll and welfare payables	**232,154**	197,598
Payables to platforms for agency services	**145,318**	171,865
Trade payables	**117,803**	356,521
Deposits payable	**35,998**	23,144
Payables due to the then shareholders of a newly-acquired subsidiary	**19,154**	–
Warranty provisions	**9,211**	57,028
Other tax payables	**8,206**	10,717
Payables to non-controlling shareholders of a subsidiary (Note (a))	**4,621**	51,996
Others	**25,021**	16,549
	597,486	885,418

25 TRADE AND OTHER PAYABLES (CONTINUED)

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Up to 1 year	**88,860**	344,681
1 to 2 years	**24,669**	10,200
Over 2 years	**4,274**	1,640
	117,803	356,521

(a) On January 25, 2018, the Group acquired an aggregate 50.48% equity interests of an advertising agency company, which became the Group's subsidiary accordingly. There was a contractual undertaking in the sales and purchase agreement where the Group is obliged to acquire the remaining 49.52% equity interests in the subsidiary 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, according to a formula based on future performance of the company which reflects 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 then estimated outcome of the performance of the subsidiary, with a corresponding debit recorded in the reserve of the Group under such a forward contract arrangement.

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 the performance of the subsidiary did not meet the performance target for the year ended December 31, 2019, management remeasured the financial liabilities to non-controlling shareholders. The financial liability was reduced accordingly and a remeasurement gain of RMB44,941,000 was recognized accordingly (Note 7).

26 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Deferred tax assets:		
– Impairment of trade receivables, prepayments and other receivables	3,037	1,203

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

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

Movement	Impairment of trade receivables, prepayments and other receivables RMB'000	Others RMB'000	Total RMB'000
As of January 1, 2018	6,672	8,425	15,097
Charged to profit or loss	(5,469)	(8,425)	(13,894)
As of January 1, 2019	**1,203**	**–**	**1,203**
Credited to profit or loss	**1,834**	**–**	**1,834**
As of December 31, 2019	**3,037**	**–**	**3,037**

26 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Deferred tax liabilities

	As of December 31, 2019 RMB'000	2018 RMB'000
Deferred tax liabilities		
– Appreciation on intangible assets from business combination	**38,728**	9,649
– Financial assets at fair value through profit or loss	**6,790**	2,522
Deferred tax liabilities	**45,518**	12,171

	Appreciation on intangible assets from business combination RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
As of January 1, 2018	–	5,313	5,313
Acquisition of subsidiaries	10,647	–	10,647
Credited to profit or loss	(998)	(2,791)	(3,789)
As of January 1, 2019	**9,649**	**2,522**	**12,171**
Acquisition of subsidiaries (Note 34)	**29,985**	**–**	**29,985**
(Credited)/charged to profit or loss	**(906)**	**4,268**	**3,362**
As of December 31, 2019	**38,728**	**6,790**	**45,518**

27 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2019 (2018: Nil).

28 CASH GENERATED FROM/(USED IN) OPERATIONS

(a) Cash generated from/(used in) operations

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Profit before income tax from:		
Continuing operations	**(335,077)**	(515,360)
Discontinued operations (Note 35)	**(60,759)**	(700,472)
Profit before income tax including discontinued operations	**(395,836)**	(1,215,832)
Adjustments for:		
– Depreciation of property and equipment (Note 13)	**64,958**	76,241
– Share-based compensations (Note 24)	**54,407**	138,401
– Depreciation of right-of-use assets (Note 14)	**47,711**	–
– Other (gains)/losses related to non-operating activities	**45,676**	(482,847)
– Amortization of intangible assets (Note 15)	**15,275**	9,857
– Impairment of property and equipment (Note 13)	**1,968**	4,978
– Share of losses of investments in associates in the form of ordinary shares (Note 16(a))	**1,226**	3,382
– Interest expenses	**8,197**	8,601
– Interest income (Note 10)	**(56,714)**	(81,218)
– Foreign exchange (gain)/loss, net	**(2,398)**	18,813
Changes in working capital:		
– Decrease in inventories	**345,241**	300,648
– Decrease/(increase) in trade receivables	**171,599**	(102,319)
– Decrease/(increase) in prepayments and other receivables	**86,105**	(144,326)
– Decrease in trade and other payables	**(370,071)**	(475,768)
– Decrease in restricted cash	**500**	–
Cash generated from/(used in) operations	**17,844**	(1,941,389)
Cash generated from/(used in) operations from:		
– Continuing operations	**(214,666)**	(1,161,048)
– Discontinued operations (Note 35)	**232,510**	(780,341)
	17,844	(1,941,389)

28 CASH GENERATED FROM/(USED IN) OPERATIONS (CONTINUED)

(a) Cash generated from/(used in) operations (Continued)

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net book amount	**24,707**	7,054
Gain/(Loss) on disposals of property and equipment	**456**	(3,059)
Proceeds	**25,163**	3,995

(b) Non-cash investing and financing activities

Other than the business combination described in Note 34, there were no material non-cash transactions during the year ended December 31, 2019 (2018: Nil).

28 CASH GENERATED FROM/(USED IN) OPERATIONS (CONTINUED)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Net debt		
Borrowings	**–**	10,000
Lease liabilities	**49,404**	–
Net debt	**49,404**	10,000

	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as of January 1, 2018	–	–	–
Cash flows	10,000	–	10,000
Foreign exchange adjustments	–	–	–
Net debt as of December 31, 2018	10,000	–	10,000
Recognized on adoption of IFRS 16 (Note 2.2)	–	75,471	75,471
Cash flows	(10,000)	(53,967)	(63,967)
Acquisition – leases	–	23,597	23,597
Foreign exchange adjustments	–	1,672	1,672
Finance expense recognized	–	2,631	2,631
Net debt as of December 31, 2019	–	49,404	49,404

29 COMMITMENTS

(a) Capital Commitments

The Group did not have any significant capital commitment as of December 31, 2019 (2018:Nil).

(b) Operating Lease Commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate. From January 1, 2019, the Group has recognized right-of-use assets for these leases, except for short-term leases, see Note 2.2 and Note 14 for further information.

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Less than 1 year	–	46,070
Later than 1 year and not later than 5 years	–	30,868
	–	76,938

30 RELATED PARTY TRANSACTIONS

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

(a) Significant transactions with related parties

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

		Year ended December 31,	
		2019	2018
		RMB'000	RMB'000
(i)	Sales of goods and services:		
	Associates in form of preferred shares	**36,218**	30,124
	Associates	**–**	1,683
		36,218	31,807
(ii)	Purchases of goods and services:		
	An associate	**12,390**	12,404
	Others	**186**	1,773
		12,576	14,177

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Year end balances with related parties

		As of December 31,	
		2019	2018
		RMB'000	RMB'000
(i)	Contract liabilities from:		
	An associate in form of preferred shares	**21,344**	–
(ii)	Payables to:		
	Associates in form of preferred shares	**17,111**	–
	An associate	**1,583**	1,507
		18,694	1,507
(iii)	Receivables from:		
	Associate in form of preferred shares	**11,736**	11,735
	Associates	**–**	2,197
		11,736	13,932

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 chief executive and other senior management. The compensations paid or payable to key management for employee services are shown below:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**8,854**	12,957
Share-based compensation expenses	**10,144**	45,502
Other social security costs, housing benefits and other employee benefits	**201**	350
Pension costs – defined contribution plan	**138**	155
	19,337	58,964

31 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director for the year ended December 31, 2019 is set out as below:

Name	Fees RMB'000	Salaries RMB'000	Pension costs – defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Executive Directors					
Cai Wensheng	975	–	82	11	1,068
Wu Zeyuan	376	602	25	62	1,065
Independent Non-executive Directors					
Ko Chun Shun Johnson (Note (a))	–	–	–	–	–
Zhou Hao	322	–	–	–	322
Lai Xiaoling(Note (b))	322	–	–	–	322
Ming Zhang(Note (c))	320	–	–	–	320
Non-executive Directors					
Guo Yihong	322	–	–	–	322
Lee Kai-Fu	322	–	–	16	338
	2,959	602	107	89	3,757

Notes:

(a) Appointed on November 20, 2016，resigned on January 1, 2019.

(b) Appointed on January 1, 2019.

(c) Appointed on January 1, 2019.

31 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

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

The remuneration of each director for the year ended December 31, 2018 is set out as below:

Name	Fees RMB'000	Salaries RMB'000	Pension costs – defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Executive Directors					
Cai Wensheng	613	–	–	16	629
Wu Zeyuan	326	612	26	68	1,032
Independent Non-executive Directors					
Ko Chun Shun Johnson(Note (a))	315	–	–	–	315
Zhou Hao	315	–	–	–	315
Lo Po Man (Note (b))	46	–	–	–	46
Shoucheng Zhang(Note(c))	277	–	–	–	277
Non-executive Directors					
Guo Yihong	315	–	–	–	315
Lee Kai-Fu	315	–	–	16	331
	2,522	612	26	100	3,260

Notes:

(a) Appointed on November 20, 2016，resigned on January 1, 2019.

(b) Appointed on November 20, 2016，resigned on February 22, 2018.

(c) Appointed on February 22, 2018，resigned on December 6, 2018.

31 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2018: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2018: Nil).

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

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2018: Nil).

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

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2018: Nil).

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

32 CONTINGENCIES

The Group did not have any material contingent liabilities as of December 31, 2019 (2018: Nil).

33 SUBSEQUENT EVENTS

The wide spread of the Novel Coronavirus (COVID-19) in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

The Group does not have other significant subsequent events.

34 BUSINESS COMBINATION

(a) Summary of acquisition

On August 28, 2019, the Group acquired an aggregate 57.09% equity interests of an online recruitment services company (the “Acquiree”) for a total consideration of RMB173,547,000, out of which RMB125,793,000 was settled by the allotment and issue of 85,739,000 consideration shares and the remaining RMB47,754,000 was settled by cash. The acquisition was completed on November 19, 2019 (“Acquisition Date”).

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

	RMB’000
Purchase consideration	
Ordinary shares issued (Note (a))	125,793
Cash paid	47,754
Total purchase consideration	173,547

(a) The fair value of the 85,739,000 shares issued as part of the consideration paid for the original shareholders of the Acquiree (RMB125,793,000) was based on the published share price on November 19, 2019 of HK$1.64 per share (equivalent to RMB1.47 per share). Issue costs of RMB974,000 which were directly attributable to the issue of the shares have been debited to the share premium (Note 22).

34 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (Continued)

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

	Fair value RMB'000
Cash and cash equivalents	1,771
Trade receivables	9,602
Prepayment and other receivables	1,035
Brand name	140,700
Copyrights and others	59,527
Property and equipment	881
Trade and other payables	(163,373)
Deferred tax liabilities	(29,985)
Net identifiable assets acquired	20,158
Less: non-controlling interest (Note (i))	(8,650)
Add: goodwill (Note (ii))	162,039
	173,547

(i) Non-controlling interest

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

34 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (Continued)

(ii) Goodwill

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

(iii) Revenue and profit contribution

The revenue and the results contributed by the Acquiree for the period since respective acquisition dates were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on January 1, 2019.

(b) Purchase consideration – cash outflow

	RMB'000
Cash consideration	47,754
Less: cash and cash equivalents acquired	(1,771)
Net cash outflow – investing activities	45,983

Payment of issue costs of RMB974,000 which were directly attributable to the issue of the shares have been shown in financing activities in the consolidated statement of cash flows.

35 DISCONTINUED OPERATIONS

As described in Note 1, in order to focus the resources of the Group on implementing its new strategy surrounding "Beauty and Social Media", the Group discontinued the manufacture and production of smartphones on April 30, 2019 and exited its e-commerce business on November 30, 2018.

Financial information relating to discontinued operations for the year ended December 31, 2019 and 2018 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.

The results and cash flows of discontinued operations for the year ended December 31, 2019 are as follows:

	E-commerce operations RMB'000	Smartphone RMB'000	Total-discontinued operations RMB'000
Revenue	–	386,715	386,715
Cost of sales	–	(386,922)	(386,922)
Expenses	(817)	(71,777)	(72,594)
Other (losses)/gains, net	(101)	2,862	2,761
Other income, net	6,209	3,072	9,281
Profit/(loss) before income tax	5,291	(66,050)	(60,759)
Income tax expense	–	–	–
Profit/(loss) from discontinued operations	5,291	(66,050)	(60,759)
Net cash generated from operating activities	17,299	215,211	232,510
Net cash generated from investing activities	–	2,522	2,522
Cash flows of discontinued operations	17,299	217,733	235,032

35 DISCONTINUED OPERATIONS (CONTINUED)

The results and cash flows of discontinued operations for the year ended December 31, 2018 are as follows:

	E-commerce operations RMB'000	Smartphone RMB'000	Total-discontinued operations RMB'000
Revenue	180,635	1,843,788	2,024,423
Cost of sales	(252,655)	(1,906,593)	(2,159,248)
Expenses	(127,315)	(430,035)	(557,350)
Other losses, net	(418)	(9,900)	(10,318)
Other income, net	–	2,021	2,021
Loss before income tax	(199,753)	(500,719)	(700,472)
Income tax expense	–	(9,385)	(9,385)
Loss from discontinued operations	(199,753)	(510,104)	(709,857)
Net cash used in operating activities	(201,038)	(579,303)	(780,341)
Net cash used in investing activities	–	(2,158)	(2,158)
Cash flows of discontinued operations	(201,038)	(581,461)	(782,499)

36 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**4,090,620**	3,518,430
	4,090,620	3,518,430
Current assets		
Amount due from subsidiaries	**1,122,291**	1,600,358
Prepayments and other receivables	**6,081**	7,913
Short-term bank deposits	**588,105**	754,952
Cash and cash equivalents	**8,785**	54,716
	1,725,262	2,417,939
Total assets	**5,815,882**	5,936,369
EQUITY AND LIABILITIES		
Equity		
Share capital	**280**	274
Share premium	**7,133,987**	7,040,940
Reserves (Note 36(b))	**348,150**	209,337
Accumulated loss	**(1,840,590)**	(1,494,424)
Total equity	**5,641,827**	5,756,127
Liabilities		
Current liabilities		
Amount due to subsidiaries	**173,951**	180,055
Trade and other payables	**104**	187
Total liabilities	**174,055**	180,242
Total equity and liabilities	**5,815,882**	5,936,369

The balance sheet of the Company was approved by the Board of Directors on March 26, 2020 and was signed on its behalf.

Cai Wensheng
Director

Wu Zeyuan
Director

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

(b) Reserves movement of the Company

	Reserves RMB'000	Accumulated (losses)/ retained earnings RMB'000
As of January 1, 2019	**209,337**	**(1,494,424)**
Loss for the year	**–**	**(346,166)**
Value of employee services	**54,407**	**–**
Currency translation differences (Note (i))	**84,406**	**–**
As of December 31, 2019	**348,150**	**(1,840,590)**
As of January 1, 2018	(351,757)	50,166
Loss for the year	–	(1,544,590)
Value of employee services	138,401	–
Currency translation differences (Note (i))	422,693	–
As of December 31, 2018	209,337	(1,494,424)

Note:

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

37 SUBSIDIARIES

The following is a list of the principal subsidiaries as of December 31, 2019:

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/ indirectly held by the Group (%)
Meitu (China) Limited	Hong Kong/ Limited liability company	Investment holding, Hong Kong	HK$10,000	100%
Meitu Investment Ltd	The BVI/ Limited liability company	Investment holding, the BVI	US$1	100%
Xiamen Home Meitu Technology Co., Ltd.	The PRC/ Limited liability company	Provision of information technology services, the PRC	US$360,000,000	100%
Beijing Meitu Home Technology Co., Ltd.	The PRC/ Limited liability company	Provision of information technology services, the PRC	RMB10,000,000	100%
Xiamen Meitu Mobile Technology Co., Ltd.	The PRC/ Limited liability company	Development, manufacturing and sales of smartphones, the PRC	RMB1,650,000,000	100%
Xiamen Meitu Networks Technology Co., Ltd.	The PRC/ Limited liability company	Development and operation of apps, the PRC	RMB32,000,000	100%*

37 SUBSIDIARIES (CONTINUED)

Name	Place of establishment and nature of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly/ indirectly held by the Group (%)
Ruisheng Advertisement (Beijing) Limited Company.	The PRC/ Limited liability company	Advertising agency, the PRC	RMB17,500,100	65.34%
Dajie Net Investment Holdings Ltd.	Cayman Islands/ Limited liability company	Online recruitment services, the PRC	US$50,000	57.09%

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

Five Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated*)	(Restated**)	**(Restated**)**
Revenue	741,813	1,578,580	4,490,376	947,671	**977,867**
Gross profit	100,490	239,160	2,792,353	492,130	**699,283**
Loss for the year from the continuing operations	(2,217,557)	(6,260,880)	(78,102)	(533,209)	**(344,061)**
Adjusted Net Loss from the continuing operations	(710,488)	(540,454)	73,272	(842,852)	**(194,346)**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	261,975	458,078	503,097	943,406	**1,274,787**
Current assets	1,446,843	6,092,187	6,298,425	4,145,566	**3,340,923**
Total assets	1,708,818	6,550,265	6,801,522	5,088,972	**4,615,710**
Equity and liabilities					
Equity attributable to owners of the Company	(4,247,807)	6,017,242	5,642,040	3,840,697	**3,637,858**
Total equity	(4,247,807)	6,017,242	5,642,040	3,959,930	**3,735,200**
Non-current liabilities	5,681,892	–	–	150,148	**149,259**
Current liabilities	274,733	533,023	1,159,482	978,894	**731,251**
Total liabilities	5,956,625	533,023	1,159,482	1,129,042	**880,510**
Total equity and liabilities	1,708,818	6,550,265	6,801,522	5,088,972	**4,615,710**

* Financial metrics of 2017 are presented to exclude discontinued operation "*MeituBeauty*".

** Financial metrics of 2018 and 2019 are restated to exclude discontinued business "*MeituBeauty*" and smartphone business.

Definitions

"2015 Consultation Draft"	The People's Republic of China Foreign Investment Law (Draft for Consultation Purposes)《中華人民共和國外國投資法(草案徵求意見稿)》 published by the PRC Ministry of Commerce on January 19, 2015
"AI"	artificial intelligence
"Adjusted Net (Loss)/Profit from continuing operations"	adjusted net (loss)/profit from continuing operations is calculated as the (loss)/profit for the year from continuing operations, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation; (ii) fair value (losses)/gain on long-term investments, net of tax; and (iii) gains on disposal of long-term investments, net of tax
"AGM"	the annual general meeting of the Company to be held on June 3, 2020
"Articles" or "Articles of Association"	the amended articles of association of the Company adopted on November 25, 2016 and effected on December 15, 2016 (the Listing Date), as amended from time to time
"Audit Committee	the audit committee of the Company
"Auditor	PricewaterhouseCoopers, the auditor of the Company
"Baolink Capital"	Baolink Capital Ltd, a company incorporated under the laws of the BVI on June 29, 2007, which is wholly-owned by Mr. Cai and is deemed interested in approximately 11.75% of the issued share capital of our Company as at the Latest Practicable Date
"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

Definitions

"Company", "our Company", "the Company", "Meitu", "we" or "us"	Meitu, Inc. 美图公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on July 25, 2013 and carries on business in Hong Kong as "美圖之家" (in Chinese) as approved and registered with the Registrar of companies in Hong Kong on October 28 and November 7, 2016, respectively. "Meitu" may also refer to the Company's brand if the context so requires. "Meitu", when italicized, refers to the Company's first product, *Meitu*
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Concert Group"	Mr. Wu, Mr. Cai and Ms. Wang (including, where applicable, any entities directly or indirectly controlled by them that directly holds the Shares) until November 29, 2019
"Concert Party Agreement"	the agreement entered into among the Concert Group on August 17, 2016, pursuant to which the Concert Group has undertaken to, among other things, vote unanimously for any resolutions proposed at Board meetings and Shareholder meetings (as applicable) of our Company and has confirmed that its members have acted in concert since the incorporation of our Company and at any prior period of time where any member of the Concert Group held interests in any companies or entities that now comprise our Group, which was terminated on November 29, 2019
"Contractual Arrangements"	the series of contractual arrangements entered into between Mr. Wu, Ms. Cai, Meitu Home and Meitu Networks (as applicable), details of which are described in the section headed "Contractual Arrangements" in this annual report
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, means Mr. Wu, Mr. Cai, Xinhong Capital, Longlink Capital and Baolink Capital until the Concert Party Agreement was terminated on November 29, 2019

Definitions

"Dajie Group"	Dajie Net, the Onshore Target Company, and their respective subsidiaries
"Dajie HK"	Dajie Net Hong Kong Limited (大街網香港有限公司), a limited liability company duly incorporated under the laws of Hong Kong and a company that will wholly own the WFOE upon its establishment
"Dajie Net"	Dajie Net Investment Holdings Ltd., a limited liability company incorporated under the laws of the Cayman Islands and a holding company that directly wholly owns Dajie HK, which in turn wholly own the WFOE
"Dajie Relevant Shareholders"	Meitu Networks holding approximately 75.37% equity interest in the Onshore Target Company and the other shareholders of the Onshore Target Company as follows: (a) 北京融薈企業管理合夥企業(有限合夥) (Beijing Ronghui Enterprise Management Partnership (Limited Partnership)) as to approximately 10.28%; (b) Ms. Wang Xiujuan (王秀娟) as to approximately 4.20%; (c) Mr. Yu Minhong (俞敏洪) as to approximately 4.04%; (d) Ms. Cai Shuting (蔡舒婷) as to approximately 3.44%; and (e) 米林隆領投資有限公司 (Milin Longling Investment Co., Ltd.) as to approximately 2.67%
"Director(s)"	the director(s) of our Company
"Dreamscape Horizon Limited"	a company incorporated under the laws of the BVI, and an indirect wholly-owned subsidiary of Leyou
"Foreign Investment Law"	"The People's Republic of China Foreign Investors Investment Law《中華人民共和國外商投資法》" adopted by the NPC on March 15, 2019
"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

Definitions

"ICP"	Internet content provider
"ICP License"	Value-added Telecommunications Service Operating Permit for Internet information service
"IFRS"	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
"IVAS"	Internet value-added services
"Latest Practicable Date"	April 15, 2020, being the latest practicable date prior to the bulk printing and publication of this annual report
"Leyou"	Leyou Technologies Holdings Limited, a company listed on the Stock Exchange (stock code: 1089) and an independent third party
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Listing Date"	December 15, 2016, the date on which the Shares were listed on the Stock Exchange
"Longlink Capital"	Longlink Capital Ltd, a company incorporated under the laws of the BVI on January 11, 2007, which is wholly-owned by Longlink Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Cai and is deemed interested in approximately 14.38% of the issued share capital of our Company as at the Latest Practicable Date
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange

"MAUs"	monthly active users
"Meipai Global"	Meipai Global Limited (美拍網絡有限公司), a limited liability company incorporated under the laws of Hong Kong on June 19, 2015, and our indirectly subsidiary
"Meitu HK"	Meitu (China) Limited (美圖(中國)有限公司), a limited liability company incorporated in Hong Kong on August 12, 2013, and our directly wholly-owned subsidiary
"Meitu Holdings"	Meitu Holdings Ltd, an exempted company with limited liability incorporated under the laws of Cayman Islands on June 2, 2015, and our directly wholly-owned subsidiary
"Meitu Home"	Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司), a company established in the PRC on October 14, 2013, and our indirectly wholly-owned subsidiary
"Meitu Investment"	Meitu Investment Ltd, a BVI business company incorporated under the laws of the BVI on January 30, 2015, and our directly wholly-owned subsidiary
"Meitu Mobile"	Xiamen Meitu Mobile Technology Co., Ltd. (廈門美圖移動科技有限公司), a company established in the PRC on March 1, 2013 and our indirectly wholly-owned subsidiary
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (formerly known as Xiamen Shuzi Qingyuan Networks Technology Co. Ltd. (廈門數字情緣網科技有限公司) and Xiamen Networks Zhiyuan Xinxi Technology Co. Ltd (廈門網之源信息科技有限公司)), a company established in the PRC on June 18, 2003, owned by Mr. Wu and Ms. Cai as 51% and 49%, respectively, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
"Meitu Technology"	Meitu Technology, Inc., formerly known as MagicV, Inc., and MIXVID, Inc., a limited liability company incorporated under the laws of the State of Delaware, on August 29, 2014, and our indirectly wholly-owned subsidiary

Definitions

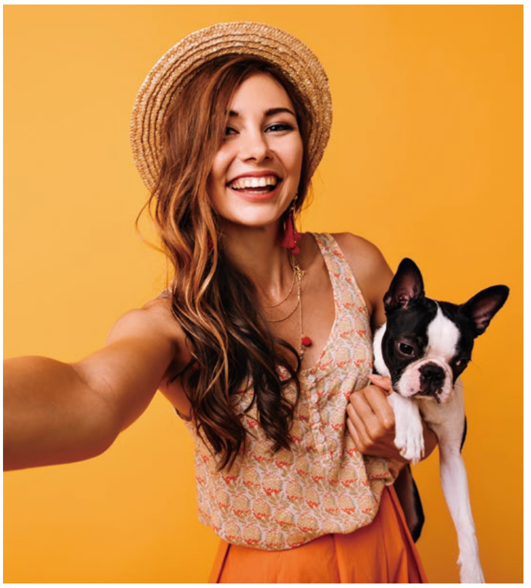
"Meitu Technology (US)"	Meitu Techonology (US), LLC, formerly known as Commsource, LLC, a limited liability company incorporated under the laws of the State of California, on April 1, 2015, and our indirectly wholly-owned subsidiary
"MIIT"	the Ministry of Industry and Information Technology of the PRC（中華人民共和國工業和信息化部）(formerly known as the Ministry of Information Industry)
"MOC"	the Ministry of Culture of the PRC（中華人民共和國文化部）
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Mr. Cai"	Mr. CAI Wensheng（蔡文胜）, our founder, chairman, executive Director 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 and executive Director
"Mr. Ngan"	Mr. NGAN King Leung Gary, our Chief Financial Officer, our company secretary and an authorized representative
"Ms. Cai"	Ms. CAI Shuting, the daughter of Mr. Cai and Ms. Wang
"Ms. Wang"	Ms. WANG Baoshan, the spouse of Mr. Cai
"NASDAQ"	the National Association of Securities Dealers Automated Quotations
"Nomination Committee"	the nomination committee of the Company
"NPC"	the National People's Congress of the PRC
"NYSE"	the New York Stock Exchange
"Onshore Target Company"	北京大杰致遠信息技術有限公司 (Beijing Dajie Zhiyuan Information Technology Co., Ltd.), a limited liability company incorporated under the laws of the PRC
"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

Definitions

"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on November 25, 2016 which complies with the provisions of Chapter 17 of the Listing Rules
"Pre-IPO ESOP"	the employees' share option plan of the Company as approved by the Board on February 15, 2014 and amended by the Board on November 18, 2015
"PRC 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
"Prospectus"	the prospectus of the Company dated December 5, 2016
"Remuneration Committee"	the remuneration committee of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of PRC
"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
"Undertaking"	the undertaking given by Mr. Wu and Mr. Cai, jointly and severally, on November 25, 2016 to the Company pursuant to which, inter alias, during the subsistence of the Contractual Arrangements, Mr. Wu and Mr. Cai would use their best efforts to do and procure the Company and Mr. Wu to do all such acts as are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of the Group's PRC Operating Entities as a result of any impact due to the promulgation and implementation of any new foreign investment law in the PRC and other future laws and regulations relating to foreign investments in the PRC, which was terminated on November 29, 2019

Definitions

"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
"VIE Agreements"	a series of contracts to be entered into between the WFOE, the Onshore Target Company and the Dajie Relevant Shareholders that will allow the WFOE to exercise control over the operations of the Onshore Target Company and enjoy the economic benefits generated by the Onshore Target Company and its subsidiaries via the contractual arrangements, including the Dajie Exclusive Option Agreement, the Dajie Exclusive Business Cooperation Agreement, the Dajie Equity Pledge Agreement and the Dajie Power of Attorney
"WFOE"	Tianjin Meijie Technology Co., Ltd.（天津美街科技有限公司）, a wholly foreign-owned enterprise set up by Dajie HK under the laws of the PRC
"Xinhong Capital"	Xinhong Capital Limited, a company incorporated under the laws of the BVI on June 13, 2013, which is wholly-owned by Easy Prestige Limited, which in turn is held by Lion Trust (Singapore) Limited as trustee for the benefit of Mr. Wu and is deemed interested in approximately 13.14% of the issued share capital of our Company as at the Latest Practicable Date
"%"	per cent



Meitu, Inc.
美图公司