Meitu, Inc.
美图公司

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

(Stock Code: 1357)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

The board of directors (the "**Board**") of Meitu, Inc. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2017 (**"Period"**). These interim results have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and reviewed by PricewaterhouseCoopers, the independent auditor of the Company (the "**Auditor**"), in accordance with International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the "**Audit Committee**").

In this announcement, "we", "us", and "our" refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

KEY HIGHLIGHTS

- For the six months ended June 30, 2017, total revenues increased by 272.3% year on year to RMB2,179.8 million; revenues from Internet services and others segment grew 762.0% year on year to RMB246.8 million. This segment's revenue accounted for 11.3% of total revenues for the six months ended June 30, 2017, compared to 4.9% for the six months ended June 30, 2016.

- Adjusted Net Loss* for the six months ended June 30, 2017 decreased significantly by 87.0% year on year to RMB33.2 million, mainly due to strong revenue growth and associated operating leverage. Net loss for the six months ended June 30, 2017 also decreased significantly by 94.0% year on year to RMB131.8 million, mainly because we did not have any fair value loss from convertible redeemable preferred shares in the first half of 2017 following their conversion to ordinary shares in December 2016.

- According to unaudited monthly management accounts, the Group generated positive net profits in two of the six months during the first half of 2017, namely March and May, demonstrating our ability to achieve profitability.

KEY FINANCIAL DATA

	Six months ended June 30, **2017**	2016	Year on year change (%)
(RMB'000)			
Revenue	**2,179,791**	585,477	272.3%
— Internet Services and Others	**246,790**	28,630	762.0%
— Smart Hardware	**1,933,001**	556,847	247.1%
Gross Profit	**435,252**	74,481	484.4%
— Internet Services and Others	**38,918**	(34,227)	N/A
— Smart Hardware	**396,334**	108,708	264.6%
Gross Margin	**20.0%**	12.7%	+7.3 p.p.
— Internet Services and Others	**15.8%**	-119.5%	N/A
— Smart Hardware	**20.5%**	19.5%	+1.0 p.p.
Adjusted Net Loss*	**(33,176)**	(255,190)	-87.0%

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

BUSINESS REVIEW AND OUTLOOK

In the first half of 2017, we continued to carry out our mission to empower our users to become more beautiful. We are making progress in our platformization effort, as reflected by growing our accumulated unified registered accounts, MTid, to approximately 200 million as of June 30, 2017. In addition, we have also rolled out a unique device identifier system that enables us to gain better insight into our users' preferences across different apps, whether or not they are logged in with the MTid.

On the technology side, we have started to incorporate our artificial intelligence ("**AI**") technologies into various products. For example, the "Creative Backdrop" (百變背景) filter on *Meipai* employed an AI-based video segmentation technology to remove the background from a user-generated video in real-time. This not only empowered user to create a lot of fun and creative videos, but also opened doors for *Meipai* to work with advertisers in creating branded backdrop filters for more interactive marketing. In addition, we upgraded our recommendation algorithms in early 2017, which were one of the key drivers for *Meipai's* significantly increased in-app traffic. We also plan to apply this recommendation engine to serve targeted advertisements in the future.

Our Internet services and others segment generated RMB246.8 million of revenues for the six months ended June 30, 2017, representing growth of 762.0% year on year. Online advertising and Internet value-added services ("**IVAS**") were the two primary growth drivers for this segment. We are pleased to report that the Internet services and others segment has turned profitable at the gross level, generating a gross profit margin of 15.8% for the six months ended June 30, 2017, compared to a gross loss margin of 119.5% for the six months ended June 30, 2016. Operating leverage was the main reason for the quick turnaround in profitability and gross margin expansion.

In addition, according to our unaudited monthly management accounts, we generated positive net profits in two of the six months during the first half of 2017, namely March and May, demonstrating our ability to achieve profitability. However, we believe that in order to maximize long-term shareholder value, it is necessary to accelerate investment, mostly in terms of expenses, in the second half of 2017, of our people, technology and user growth. As a result, we expect to incur a net loss for the year ending December 31, 2017, an outlook that is unchanged from what we have discussed in the prospectus of the Company dated December 5, 2016 (the "**Prospectus**").

KEY OPERATIONAL DATA

	As at June 30, 2017	2016	Year on year change (%)
(in '000 unless otherwise specified)			
Total MAUs	**481,344**	446,359	7.8%
MAU[1] breakdown by product:			
Meitu	**112,570**	102,618	9.7%
BeautyCam	**114,320**	112,862	1.3%
Meipai[2]	**152,129**	141,037	7.9%
Others	**102,325**	89,842	13.9%
MAU breakdown by geography:			
Mainland China	**387,601**	377,369	2.7%
Overseas	**93,743**	68,990	35.9%

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

2. *As at June 30, 2017, the MAU of Meipai includes in-app users of 32.8 million (as at June 30, 2016: 24.6 million) and mobile web users of 119.3 million (as at June 30, 2016: 116.4 million).*

The user trend of our first platform product, *Meipai*, was encouraging. As at June 30, 2017, in-app MAU grew 33.3% year on year, indicating much higher user engagement. We have been very focused on building *Meipai's* ecosystem, aiming at incentivizing content creators to produce more videos. Firstly, we have upgraded our recommendation algorithms to not only match user with videos of their interests, but also to predict and cultivate new interests for them. Secondly, we have also rolled out a number of initiatives to help content creators to monetize their talents. This in turn starts a virtuous cycle to incentivize them financially to create more contents. For example, through the launch of the "Project M" platform, KOLs (or key opinion leaders, i.e. content creators with a large number of followers) are efficiently matched with brand advertisers, so they can earn money by producing videos that incorporate marketing elements from those brand advertisers.

For our photo apps, we have focused most of our product development resources in preparation of their platformization, as opposed to launching multiple utility features to fuel user growth in the first half of 2017. As a result, MAU growth rate of *Meitu* and *BeautyCam* has moderated to 9.7% and 1.3% year on year, respectively. However, we see this as a necessary investment phase for the long-term prospects of these apps. By transforming these photo apps into platforms, we will be able to increase the engagement and retention of users, as well as generate more monetization opportunities through better understanding of our user preferences.

MANAGEMENT DISCUSSION AND ANALYSIS

Six months ended June 30, 2017 Compared to six months ended June 30, 2016

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Revenue	**2,179,791**	585,477
Cost of sales	**(1,744,539)**	(510,996)
Gross profit	**435,252**	74,481
Selling and marketing expenses	**(240,398)**	(196,760)
Administrative expenses	**(95,175)**	(70,424)
Research and development expenses	**(199,133)**	(90,511)
Other income	**18,322**	4,498
Other gains/(losses), net	**(65,122)**	(418)
Finance income/(costs), net	**47,811**	2,069
Fair value loss of convertible redeemable preferred shares	**—**	(1,912,208)
Share of profits/(losses) of investments accounted for using the equity method	**302**	(351)
Loss before income tax	**(98,141)**	(2,189,624)
Income tax expense	**(33,640)**	(115)
Loss for the period	**(131,781)**	(2,189,739)
Loss attributable to:		
— Owners of the Company	**(131,781)**	(2,189,739)
Non-IFRS measure:		
Adjusted Net Loss	**(33,176)**	(255,190)

Revenue

Total revenue increased by 272.3% year on year to RMB2,179.8 million for the six months ended June 30, 2017, compared to RMB585.5 million for the six months ended June 30, 2016. Revenue growth of the Internet services and others segment greatly exceeded that of the smart hardware business, as a result, the Internet services and others segment accounted for 11.3% of total revenues in the first half of 2017, compared to 4.9% in the first half of 2016.

	Six months ended June 30,			
	2017		2016	
	Amount *RMB'000*	**% of total revenues**	Amount *RMB'000*	% of total revenues
Internet services and others	**246,790**	**11.3%**	28,630	4.9%
Smart hardware	**1,933,001**	**88.7%**	556,847	95.1%
Total	**2,179,791**	**100.0%**	585,477	100.0%

Internet services and others

The breakdown of segment revenue of Internet services and others is as follows:

	Six months ended June 30,		Year on year
	2017	2016	change (%)
(RMB'000)			
Online advertising	**82,630**	25,903	219.0%
Internet value-added services and others	**164,160**	2,727	5,919.8%
Total	**246,790**	28,630	762.0%

Online advertising

Although the most important factor driving advertising revenue growth was an increase in the number of brand advertisers, we are still adopting the strategy of quality over quantity, prioritizing large brand advertisers to launch innovative marketing campaigns over driving the business through high volume of advertisers. We aim to further grow our advertising business through (i) increasing our advertising inventory fill rate through bringing in more quality advertisers; (ii) launching new advertising format such as branded filters and stickers; (iii) introducing promoted feed advertisements to *Meipai*, and other products after platformization; and (iv) introducing targeted advertisement products to enable advertisers to reach specific audience group base on their demographics or preferences.

Internet value-added services and others

Revenue from IVAS and others increased by more than 59 times year on year to RMB164.2 million for the six months ended June 30, 2017. Our IVAS business mainly composes of sales of virtual items on *Meipai's* live streaming. Such revenue growth was driven by both an increase of (i) average monthly paying users, which increased to 324,773 for the first half of 2017, compared to 58,000 for the first half of 2016; as well as (ii) an increase in average revenue per paying user. *Meipai's* live streaming continued to differentiate itself from other live streaming products through its diversified, lifestyle-related content offerings.

We have also launched a beta test of our ecommerce platform in the second quarter of 2017, gaining tremendous insight into our users' spending preferences and experience in e-commerce operations such as logistics, sourcing and marketing.

Smart hardware

Revenue from the smart hardware segment increased by 247.1% year on year to RMB1,933.0 million for the six months ended June 30, 2017, from RMB556.8 million for the six months ended June 30, 2016 due to an increase in both volume and average selling price ("**ASP**"). The number of smartphone units sold was 847,090 for the six months ended June 30, 2017, as compared to 289,079 for the six months ended June 30, 2016. Timing of new product launch significantly impacts the sales volume of our smartphones in a particular financial period, as typically the monthly sales volume of a new model will be highest in the few months immediately after its launch, and gradually decreases over its product lifecycle. In the first half of 2017, we launched two new models, *Meitu T8* and *Meitu M8* in February and May respectively. We currently do not expect to launch as many new models in the second half of 2017.

ASP was RMB2,272 for the six months ended June 30, 2017, as compared to RMB1,903 for the six months ended June 30, 2016. Product mix is a key factor that drives ASP. In February 2017, we introduced *Meitu T8*, a model with a suggested retail price of RMB3,299, which is higher priced compare to the M Series. *Meitu T8* accounted for a meaningful portion of revenues for the first half of 2017. We expect the proportion of sales of the higher priced *Meitu T8* model to reduce in the second half of 2017 as compared to the first half of 2017.

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

Cost of Sales

Our cost of sales increased by 241.4% year on year to RMB1,744.5 million for six months ended June 30, 2017, compared to RMB511.0 million for the six months ended June 30, 2016.

Internet services and others

Segment cost for Internet services and others increased by 230.7% year on year to RMB207.9 million for the six months ended June 30, 2017, primarily due to (i) revenue-sharing of RMB115.7 million with content creators on the sale of virtual gifts on *Meipai*, a business which we commenced in June 2016; and (ii) an increase in bandwidth and storage related costs by 28.6% to RMB58.5 million, which is primarily correlated to the size and engagement level of our user base on *Meipai.*

Smart hardware

Segment cost for smart hardware increased by 242.9% to RMB1,536.7 million for the six months ended June 30, 2017, from RMB448.1 million ended June 30, 2016, primarily due to the increase in the number of smartphone units sold. The average cost per smartphone, calculated by dividing the total cost of smartphone components by the number of units sold during the period, increased to RMB1,717 for the six months ended June 30, 2017 from RMB1,518 for the six months ended June 30, 2016. The increase was mainly due to introduction of the more premium priced model *Meitu T8* into the business mix which used higher-priced key components as compared to the phones launched in the first half of 2016.

Gross Profit and Margin

Our gross profit increased by 484.4% to RMB435.3 million for the six months ended June 30, 2017, from RMB74.5 million for the six months ended June 30, 2016. Our overall gross margin increased to 20.0% for the six months ended June 30, 2017, from 12.7% for the six months ended June 30, 2016.

	Six months ended June 30,			
	2017		2016	
	Amount *RMB'000*	**Gross margin %**	Amount *RMB'000*	Gross margin %
Internet services and others	**38,918**	**15.8%**	(34,227)	(119.5%)
Smart hardware	**396,334**	**20.5%**	108,708	19.5%
Total	**435,252**	**20.0%**	74,481	12.7%

Internet services and others

Our Internet services and others segment has achieved profitability at the gross level for the first time since our initial public offering ("**IPO**"), generating a gross profit of RMB38.9 million for the six months ended June 30, 2017, compared to a gross loss of RMB34.2 million for the six months ended June 30, 2016.

Gross profit margin was at 15.8% for the six months ended June 30, 2017, compared to gross loss margin of 119.5% for the six months ended June 30, 2016. Operating leverage was the primary reason for the fast expansion of gross margin. Two of the major costs items for this segment, (i) bandwidth and storage related costs and (ii) video content monitoring fee, were primarily correlated to the size and engagement of the user base of *Meipai*. As a result, when revenues ramped up during the first half of 2017, these costs did not grow as fast, thereby generating strong operating leverage.

Smart hardware

Gross profit and margin of our smart hardware segment increased to RMB396.3 million and 20.5% for the six months ended June 30, 2017, from RMB108.7 million and 19.5% for the six months ended June 30, 2016, respectively. Similar to ASP, gross margin of this segment is primarily driven by product mix. The introduction of our higher-priced *Meitu T8*, which also carried a higher gross margin, was the main driver for margin expansion of this segment.

Selling and Marketing Expenses

Selling and marketing expenses increased by 22.2% to RMB240.4 million for the six months ended June 30, 2017, from RMB196.8 million for the six months ended June 30, 2016, primarily due to an increase in personnel related expenses which include share-based compensation. There was no significant fluctuation in the overall promotion and advertising expenses between the two periods.

Research and Development Expenses

Research and development expenses increased by 120.0% to RMB199.1 million for the six months ended June 30, 2017, from RMB90.5 million for the six months ended June 30, 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Administrative Expenses

Administrative expenses increased by 35.1% to RMB95.2 million for the six months ended June 30, 2017, from RMB70.4 million six months ended June 30, 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Other Income

Other income increased by 307.3% to RMB18.3 million for the six months ended June 30, 2017, from RMB4.5 million for six months ended June 30, 2016, primarily due to (i) an increase in investment income generated from short-term investments placed with banks; and (ii) an increase in the amount of government grants received during the first half of 2017. The short-term investments placed with banks are redeemable at any time and are principal-guaranteed.

Other Gains/(Losses), Net

Other losses for the six months ended June 30, 2017 increased to RMB65.1 million for the six months ended June 30, 2017, from RMB0.4 million for the six months ended June 30, 2016, primarily due to recognition of net unrealized fair value losses of RMB97.6 million on several early-stage investments. Their financial performances and liquidity positions were below expectation and were therefore written down to their estimated recoverable amount. Such fair value losses were partially offset by the realized gains on disposal of long-term investments of RMB32.7 million, which were also early-stage investments.

Finance Income/(Costs), Net

Finance income/(costs), net mainly comprised of bank interest income and foreign exchange gains/(losses). Our net finance income increased by 2,210.8% to RMB47.8 million for the six months ended June 30, 2017, from RMB2.1 million for the six months ended June 30, 2016, primarily due to an increase in interest income to RMB38.1 million generated by the proceeds from our IPO.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2017 were RMB33.6 million, compared to RMB115,000 for the six month ended June 30, 2016. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2017, some of our entities generated positive net profits and therefore increased our income tax expenses for the Period.

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

Net loss for the six months ended June 30, 2017 decreased significantly by 94.0% year on year to RMB131.8 million, compared to RMB2,189.7 million for the six months ended June 30, 2016, mainly because a fair value loss on the convertible redeemable preferred shares of RMB1,912.2 million was recognized for the six months ended June 30, 2016, but did not recur in the six months ended June 30, 2017, as the convertible redeemable preferred shares were automatically converted into ordinary shares upon listing in December 2016.

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

Adjusted Net Loss decreased by 87.0% to RMB33.2 million for the six months ended June 30, 2017, compared to RMB255.2 million for the six months ended June 30, 2016, primarily due to strengthening business fundamentals. The following table reconciles our Adjusted Net Profit/(Loss) for the six months ended June 30, 2017 and 2016 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the period:

	Six months ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Loss for the period	**(131,781)**	(2,189,739)
Excluding:		
Fair value loss of convertible redeemable preferred shares	**—**	1,912,208
Share-based compensation	**33,651**	19,911
Changes in fair value on long-term investments	**97,631**	—
Gains on disposal of long-term investments	**(32,677)**	—
One-off listing expenses	**—**	2,430
Adjusted Net Loss	**(33,176)**	(255,190)

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources as at June 30, 2017 and December 31, 2016 were as follows:

	June 30,	December 31,
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,284,560**	4,508,522
Short-term bank deposits	**4,008,412**	725,229
Short-term investments placed with banks	**—**	280,820
Cash and other liquid financial resources	**5,292,972**	5,514,571

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

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

As at June 30, 2017, we did not have any outstanding borrowings. Accordingly, no gearing ratio is presented.

Capital Expenditure

	Six months ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Purchase of property and equipment	**24,163**	20,804
Purchase of intangible assets	**650**	964
Total	**24,813**	21,768

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

Long-term Investment Activities

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 at such early stage, and while successful investments could generate substantial financial returns, unsuccessful ones may need to be impaired or written-off.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in the People's Republic of China (the "**PRC**") and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency for the six months ended June 30, 2017 and 2016.

Pledge of Assets

As at June 30, 2017, we pledged a restricted deposit of RMB1.4 million (as at December 31, 2016: RMB0.4 million) to guarantee payment of certain operating expenses.

Contingent Liabilities

As at June 30, 2017, we did not have any material contingent liabilities (as at December 31, 2016: nil).

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Note	**Unaudited Six months ended June 30, 2017** *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Revenue	*4*	**2,179,791**	585,477
Cost of sales	*5*	**(1,744,539)**	(510,996)
Gross profit		**435,252**	74,481
Selling and marketing expenses	*5*	**(240,398)**	(196,760)
Administrative expenses	*5*	**(95,175)**	(70,424)
Research and development expenses	*5*	**(199,133)**	(90,511)
Other income		**18,322**	4,498
Other gains/(losses), net	*6*	**(65,122)**	(418)
Finance income/(costs), net		**47,811**	2,069
Fair value loss of convertible redeemable preferred shares	*7*	**—**	(1,912,208)
Share of profits/(losses) of investments accounted for using the equity method		**302**	(351)
Loss before income tax		**(98,141)**	(2,189,624)
Income tax expense	*8*	**(33,640)**	(115)
Loss for the period		**(131,781)**	(2,189,739)
Loss attributable to:			
— Owners of the Company		**(131,781)**	(2,189,739)
Loss per share (expressed in RMB per share)	*9*		
— Basic		**(0.03)**	(1.11)
— Diluted		**(0.03)**	(1.11)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited Six months ended June 30, 2017** *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Loss for the period		**(131,781)**	(2,189,739)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets			
— short-term investments		**(820)**	(259)
— long-term investments		**—**	(4,432)
Currency translation differences		**(121,352)**	(130,706)
Other comprehensive loss for the period		**(122,172)**	(135,397)
Total comprehensive loss for the period, net of tax		**(253,953)**	(2,325,136)
Total comprehensive loss attributable to:			
— Owners of the Company		**(253,953)**	(2,325,136)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited June 30, 2017** *RMB'000*	Audited December 31, 2016 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**84,802**	79,647
Intangible assets		**21,174**	21,705
Long-term investments			
— Investments in associates in the form of ordinary shares		**29,575**	6,128
— Financial assets at fair value through profit or loss		**239,802**	300,279
Prepayments and other receivables		**46,732**	50,319
		422,085	458,078
Current assets			
Deferred tax assets		**12,288**	—
Inventories		**648,513**	374,342
Trade receivables	*11*	**236,299**	86,138
Prepayments and other receivables		**175,514**	116,736
Short-term investments placed with banks		**—**	280,820
Short-term bank deposits		**4,008,412**	725,229
Restricted cash		**1,400**	400
Cash and cash equivalents		**1,284,560**	4,508,522
		6,366,986	6,092,187
Total assets		**6,789,071**	6,550,265
EQUITY AND LIABILITIES			
Equity			
Share capital		**278**	277
Share premium		**7,675,978**	17,015,854
Reserves		**(182,364)**	(666,751)
Accumulated losses		**(1,692,784)**	(10,332,138)
Total equity		**5,801,108**	6,017,242
Liabilities			
Current liabilities			
Trade payables	*12*	**665,181**	394,820
Other payables and accruals		**284,017**	137,346
Income tax liabilities		**38,765**	857
		987,963	533,023
Total liabilities		**987,963**	533,023
Total equity and liabilities		**6,789,071**	6,550,265

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Net cash used in operating activities	**(58,372)**	(277,236)
Net cash used in investing activities	**(3,124,947)**	(1,121,829)
Net cash (used in)/generated from financing activities	**(5,256)**	879,878
Net decrease in cash and cash equivalents	**(3,188,575)**	(519,187)
Cash and cash equivalents at the beginning of the period	**4,508,522**	989,874
Exchange (losses)/gains	**(35,387)**	27,835
Cash and cash equivalents at the end of the period	**1,284,560**	498,522
Analysis of balances of cash and cash equivalents:		
Cash at bank and in hand	**1,230,191**	432,034
Short-term bank deposits with initial terms within three months	**54,369**	66,488
	1,284,560	498,522

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

Meitu, Inc. (the "**Company**"), was incorporated in the Cayman Islands under the name of "Meitu, Inc. 美图公司" on July 25, 2013 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and carries on 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 Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in provision of Internet services, and developing, manufacturing and sales of smart hardware and others in the People's Republic of China (the "**PRC**"), Hong Kong and other countries and regions.

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

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 IPO. Upon the completion of the IPO, all of the Company's outstanding convertible redeemable preferred shares were converted into ordinary shares on a one-to-one basis. Concurrently, each issued and unissued ordinary share, of US$0.0001 par value each, of the Company was subdivided into 10 shares of US$0.00001 par value each. Accordingly, all shares, share options, awarded shares, and per share amounts in this interim condensed financial information have been adjusted, where applicable, to reflect the subdivision and adjustments of the convertible redeemable preferred shares.

The interim condensed consolidated balance sheet as at June 30, 2017, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "**Interim Financial Information**") of the Group have been approved for issue by the Board on August 24, 2017.

This condensed consolidated interim financial information is presented in Renminbi ("**RMB**"), unless otherwise stated.

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

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended June 30, 2017 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, as described in those annual financial statements, except for the adoption of amendments to IFRSs effective for the financial year ending December 31, 2017.

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

(a) Amendments to IFRSs effective for the financial year ending December 31, 2017 do not have a material impact on the Group.

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

(i) IFRS 9, "Financial instruments"

IFRS 9, "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018.

The major financial assets held by the Group are equity investments currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under IFRS 9. Accordingly, while the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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

IFRS 15, "Revenue from contracts with customers" replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. Revenue is recognised when a customer obtains control of a goods or service and thus has the ability to direct the use and obtain the benefits from the goods or service. IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard is not expected to apply until the financial year of 2018.

Management is currently assessing the effects of applying the new standard on the Group's financial statements. The Company has set up an implementation team that is currently in the process of analyzing each of revenue streams in accordance with the new revenue standard to determine the impact on the Group's consolidated financial statements. The Company plans to continue the evaluation, analysis, and documentation of its adoption of IFRS 15 throughout 2017 as the Company works towards the implementation and finalizes its determination of the impact that the adoption will have on the Group's consolidated financial statements.

(iii) IFRS 16, "Leases"

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The Group is a lessee of various properties which are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. As for the financial performance impact in the income statement, the operating lease expenses will decrease, while depreciation and amortization and the interest expense will increase. The new standard is not expected to apply until the financial year of 2019. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at June 30, 2017 are approximately RMB101,528,000, with the minimum lease payments due less than one year amounting to approximately RMB47,573,000, and those due more than one year and less than five years amounting to approximately RMB53,955,000.

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

4 Segment information

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

— Internet Services and Others

— Smart Hardware

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

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of sales primarily comprises cost of inventories consumed, cost of revenue-sharing with content creators, bandwidth and storage related costs, salary and compensation expenses, video content monitoring fee and warranty expenses, and others.

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

The revenue segment information reported to CODM for the six months ended June 30, 2017 is as follows:

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Internet Services and Others:		
— Online advertising	**82,630**	25,903
— Internet value-added services and others	**164,160**	2,727
	246,790	28,630
Smart Hardware	**1,933,001**	556,847
Total revenue	**2,179,791**	585,477

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

	Unaudited Six months ended June 30, 2017		
	Internet Services and Others *RMB'000*	**Smart Hardware** *RMB'000*	**Total** *RMB'000*
Segment revenue	**246,790**	**1,933,001**	**2,179,791**
Segment cost of sales	**(207,872)**	**(1,536,667)**	**(1,744,539)**
Gross profit	**38,918**	**396,334**	**435,252**

The segment results for the six months ended June 30, 2016 are as follows:

	Audited Six months ended June 30, 2016		
	Internet Services and Others *RMB'000*	Smart Hardware *RMB'000*	Total *RMB'000*
Segment revenue	28,630	556,847	585,477
Segment cost of sales	(62,857)	(448,139)	(510,996)
Gross (loss)/profit	(34,227)	108,708	74,481

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

	Unaudited Six months ended June 30, 2017 %	Audited Six months ended June 30, 2016 %
Smart Hardware		
Customer A	**35.0%**	50.5%
Customer B	*	10.7%

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

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

As June 30, 2017 and December 31, 2016, substantially all of the non-current assets of the Group other than long term investments classified as financial assets at fair value through profit or loss were located in the PRC.

The reconciliation of segment gross profit/loss to loss before income tax for the six months ended June 30, 2017, is presented in the interim condensed consolidated statement of income of the Group.

5 Expenses by nature

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Inventories consumed and recognized as:		
— cost of sales	**1,467,586**	449,862
— selling and marketing expenses	**12,911**	11,848
Employee benefit expenses	**279,823**	108,952
Promotion and advertising expenses	**158,805**	156,610
Cost of revenue-sharing with content creators	**115,709**	38
Bandwidth and storage related costs	**58,467**	45,455
Operating lease expense	**22,767**	16,289
Inventory write-downs (Note (a))	**19,334**	560
Depreciation of property and equipment	**18,641**	12,146
Warranty expenses	**15,206**	4,500
Video content monitoring fee	**12,647**	10,003
Utilities and office expenses	**12,088**	6,849
Development costs related to smartphone manufacturing equipment	**12,040**	2,707
Travelling and entertainment expenses	**11,667**	6,845
Amortization of intangible assets	**1,181**	741
Others	**60,373**	35,286
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**2,279,245**	868,691

(a) During the six months ended June 30, 2017, inventory write-downs of RMB19,334,000 (June 30, 2016: RMB560,000) was charged to cost of sales for the obsolete raw materials and slow-moving goods.

6 Other gains/(losses), net

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Changes in fair value on long-term investments	**(97,631)**	—
Gains on disposal of long-term investments	**32,677**	—
Others	**(168)**	(418)
	(65,122)	(418)

7 Fair value loss of convertible redeemable preferred shares

Upon the completion of the Company's IPO on December 15, 2016, all the convertible redeemable preferred shares were automatically converted to ordinary shares. All preference rights entitled to the preferred shares holders lapsed. There was no further fair value change charged to profit or loss thereafter.

8 Income tax expense

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

	Unaudited Six months ended June 30, 2017 *RMB'000*	Audited Six months ended June 30, 2016 *RMB'000*
Current income tax:		
— PRC and overseas enterprise income tax	**45,928**	115
Deferred income tax	**(12,288)**	—
	33,640	115

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%.

*(c) PRC Enterprise Income Tax (“**EIT**”)*

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

Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司) (“**Meitu Networks**”) was qualified as “High and New Technology Enterprises” (“**HNTEs**”) under the EIT Law in 2013 and renewed in 2016. Therefore, Meitu Networks is entitled to a preferential income tax rate of 15% on their estimated assessable profits for the period ended June 30, 2017 (2016: 15%).

Xiamen Home Meitu Technology Co., Ltd. (廈門美圖之家科技有限公司) (“**Meitu Home**”) was accredited as a “software enterprise” under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the “**tax holiday**”). Since Meitu Home was in accumulated tax loss position as at June 30, 2017, the respective tax holiday had not commenced as at June 30, 2017.

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits for the period ended June 30, 2017.

*(d) PRC Withholding Tax (“**WHT**”)*

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

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at June 30, 2017 (December 31, 2016: nil).

9 Loss per share

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the period ended June 30, 2017 has been retroactively adjusted for the share subdivision (Note 1).

(a) Basic

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

	Unaudited Six months ended June 30, 2017	Audited Six months ended June 30, 2016
Loss attributable to owners of the Company *(RMB'000)*	**(131,781)**	(2,189,739)
Weighted average number of ordinary shares in issue *(thousand)*	**4,233,390**	1,966,667
Basic loss per share *(in RMB/share)*	**(0.03)**	(1.11)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and awarded shares under the Post-IPO Share Award Scheme. For the six months ended June 30, 2016, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company and the shares options awarded under Pre-IPO ESOP. As the Group incurred losses for the six months ended June 30, 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the six months ended June 30, 2017 is the same as basic loss per share of the respective periods.

10 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2017 (2016: nil).

11 Trade receivables

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

	Unaudited As at June 30, 2017 *RMB'000*	Audited As at December 31, 2016 *RMB'000*
Trade receivables		
Up to 3 months	**202,208**	69,807
3 to 6 months	**32,984**	6,765
6 months to 1 year	**940**	9,566
1 to 2 years	**167**	—
	236,299	86,138

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

(b) As of June 30, 2017, trade receivables of RMB42,942,000 were past due but not impaired (December 31, 2016: RMB13,692,000). These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, management believes the overdue amounts can be recovered.

12 Trade payables

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

	Unaudited As at June 30, 2017 *RMB'000*	Audited As at December 31, 2016 *RMB'000*
Up to 3 months	**620,773**	388,173
3 to 6 months	**27,825**	3,792
6 months to 1 year	**14,582**	1,971
1 to 2 years	**1,970**	791
Over 2 years	**31**	93
	665,181	394,820

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares for the six months ended June 30, 2017.

Compliance With the Corporate Governance Code

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

During the six months ended June 30, 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Compliance With the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code for the six months ended June 30, 2017.

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

Audit Committee and Review of Financial Statements

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. Zhou Hao, Mr. Ko Chun Shun Johnson and Dr. Guo Yihong. Mr. Zhou Hao is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended June 30, 2017. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's unaudited interim financial statements were prepared in accordance with applicable accounting standards.

Interim Dividend

The Board does not declare an interim dividend for the six months ended June 30, 2017.

Use of Proceeds

Our shares were listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on December 15, 2016 and the net proceeds raised during our IPO were approximately RMB4,211.5 million. As at June 30, 2017, the Group had:

- deployed approximately RMB1,283 million as working capital for component and raw material sourcing to produce smartphones;

- used approximately RMB33.7 million to invest in or acquire businesses that are complementary to our business;

- used approximately RMB228.9 million to implement sales and marketing initiatives in both China and overseas market;

- used approximately RMB71.1 million to expand Internet services business;

- used approximately RMB185.2 million to expand research and development capabilities.

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

Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at corp.meitu.com. The interim report of the Group for the six months ended June 30, 2017 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

APPRECIATION

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

By order of the Board
Meitu, Inc.
Cai Wensheng
Chairman

Hong Kong, August 24, 2017

As at the date of this announcement, the Executive Directors are Mr. Cai Wensheng and Mr. Wu Zeyuan; the Non-Executive Directors are Dr. Guo Yihong and Dr. Lee Kai-Fu; the Independent Non-Executive Directors are Mr. Ko Chun Shun Johnson, Mr. Zhou Hao and Ms. Lo Po Man.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.