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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

The board of directors (the "**Board**") of Meitu, Inc. (the "**Company**") is pleased to announce the audited consolidated results of the Company, its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd. ("**Meitu Networks**") and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2017.

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

- Total revenue for the year ended December 31, 2017 grew 186.8% year on year to RMB4,527.5 million.
- Internet business segment accounted for 17.4% of total revenue for the year ended December 31, 2017 compare to 6.6% in 2016.
- Adjusted Net Loss for the year ended December 31, 2017 reduced by 91.5% year on year to RMB46.0 million.
- We expect to launch a major update of *Meitu* by the end of second quarter of 2018, that will transform it into a photo social platform.
- In 2018, we expect advertising will be a key profit driver, and we will expand our Internet value-added services portfolio beyond live streaming.

1 *Adjusted Net (Loss)/Profit is calculated as the (loss)/profit for the year, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation; (ii) fair value (losses)/gains on long-term investments, net of tax; and (iii) gains on disposal of long-term investments, net of tax.*

KEY FINANCIAL DATA

(in RMB'000 unless otherwise specified)	**Year ended December, 31** **2017**	2016	Year on year change (%)
Revenue	**4,527,484**	1,578,580	186.8%
— Internet Business	**787,418**	104,677	652.2%
— Smart Hardware	**3,740,066**	1,473,903	153.8%
Gross Profit	**1,044,486**	239,160	336.7%
— Internet Business	**184,993**	(57,720)	-420.5%
— Smart Hardware	**859,493**	296,880	189.5%
Gross Margin	**23.1%**	15.2%	+7.9p.p.
— Internet Business	**23.5%**	-55.1%	N/A
— Smart Hardware	**23.0%**	20.1%	+2.9p.p.
Adjusted Net Loss	**(45,950)**	(540,454)	-91.5%

BUSINESS REVIEW AND OUTLOOK

Company strategic highlights

2017 was a very fruitful year as we have laid down a strong foundation for future growth, both in terms of user base and scalable internet monetization. We achieved breakeven by the end of 2017 and generated Adjusted Net Profit for the last quarter of year 2017, according to unaudited management accounts. This demonstrates the significant progress we have made and the effectiveness of our strategy.

Business Review

Meitu's business model is to provide our users with a portfolio of products and services that satisfy their diverse demand for beauty. One of the key strategies we executed in 2017 was to broaden the application of artificial intelligence ("**AI**") technologies across our products and services. We have integrated AI into new app features such as *Andy the ArtBot* in *Meitu* and *Creative Backdrop* in *Meipai*, which drove over a billion times usage among our users. AI was also employed in our video recognition technology, helping us understand the context of the videos that were uploaded to *Meipai*. Such insights served as important inputs in our recommendation algorithms to increase user engagement. By our estimation, the improvement in our recommendation algorithms has contributed a 50% increase in per-user interactions such as comments and likes of our featured videos in the second half of 2017, as compared to the first half of 2017. We have also launched an AI-based skin detection feature in our e-commerce platform, *MeituBeauty*, which recommends skincare and cosmetic products according to one's skin conditions. Users who have used the skin detection feature showed significantly higher buying conversion and retention rates. Even on the smartphone side, we have used AI and 3D reconstruction technologies to enable users to create photos as if they are taken in a studio with professional lighting. We believe the incorporation of cutting-edge technologies will continue to differentiate Meitu's smartphones from its competitors, through generating better quality, personalized and creative photos. We will continue to invest in AI to further enhance our user engagement and monetization potential.

Building a scalable infrastructure for internet monetization was also one of our strategic focuses in 2017. We have not only worked hard to build a professional advertising team that has now over 160 people, but have also put in place the technology to serve targeted and programmatic advertisements. We have also been exploring new advertising formats such as newsfeeds to better connect brands with our users. In terms of our Internet value-added services ("**IVAS**"), revenue from live streaming has continued to increase throughout 2017. Given our audience is primarily female, the competition that our live streaming platform faces is less intense as most other live streaming platforms' audience consists primarily of male. We have continued to differentiate ourselves by giving our female users a diverse and fun experience through interesting content such as cosmetics, dancing, pets, food and travel.

One other interesting trend that we observed in 2017 was the increasing participation of female users in various online entertainment mediums, such as games and online literature, which are traditionally more male-focused. We will be launching more IVAS options to cater to these new demands.

User growth highlights

	As at December 31,		Year on year
	2017	2016	change (%)
(in '000 unless otherwise specified)			
Total MAUs	**415,789**	450,051	-7.6%
MAU[1] breakdown by product:			
Meitu	**117,100**	101,984	14.8%
BeautyCam	**96,724**	125,628	-23.0%
Meipai[2]	**98,139**	113,819	-13.8%
Others	**103,826**	108,620	-4.4%
MAU breakdown by geography:			
Mainland China	**303,919**	363,648	-16.4%
Overseas	**111,870**	86,403	29.5%

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

2 *As of December 31, 2017, the MAU of Meipai included in-app users of 29.5 million (as of December 31, 2016: 23.6 million) and mobile web users of 68.6 million (as of December 31, 2016: 90.2 million).*

The primary goal of 2017 was to build a foundation for growth in user base and engagement. To this end, we have adopted different strategies for each of our major apps, with a similar objective of increasing focus on serving their target audience. Inevitably, some of the apps experienced short-term volatility in their MAU numbers as a result of these adjustments, but all of them were much better positioned strategically entering into 2018. We are very pleased to see that total MAUs in February 2018 have rebounded to 454.7 million, and we have maintained number one position in the photo app market in terms of monthly active users.

For *Meitu*, MAU growth remained solid at 14.8% year on year in 2017. We believe there is still significant potential to grow our user base by focusing on lower-tier cities and technical optimization for lower-end devices. For *BeautyCam*, we have adjusted our strategy to focus more on serving the female user group. Although MAU on December 31, 2017 has declined 23.0% year on year, we believe it is just temporary due to such strategic shift. Importantly, the proportion of female users have increased and their engagement, measured in daily time spent, reached a historical high in early 2018. For *Meipai*, in-app MAUs increased 25.0% year on year. In 2017, we have been experimenting with converting the web MAUs into in-app MAUs. This has led to some decline in web MAUs, but has also driven a significant increase in the number of daily video viewed per user, indicating an increase in overall user engagement.

From a geographical perspective, overseas MAUs has increased significantly by 29.5%, mainly driven by the continued growth of *BeautyPlus* and *BeautyPlusMe*, as we continued to execute our localization strategies in various overseas countries, launching relevant features and interactive campaigns that are well received by our overseas users.

As of December 31, 2017, the number of accumulated unified user accounts, MTid, was 267 million, representing a growth of 33.5% from June 30, 2017.

Financial highlights

For the year ended December 31, 2017, total revenue increased 186.8% year on year to RMB4,527.5 million; revenue from the Internet business segment and smart hardware segment increased 652.2% and 153.8% year on year, respectively. Revenue contribution from the Internet business segment has continued to increase throughout 2017, accounting for 23.0% of total revenue in the second half of 2017, compared to 6.6% for the full year 2016.

Adjusted Net Loss was RMB46.0 million for the year ended December 31, 2017, representing a 91.5% reduction in loss compared to RMB540.5 million for the year ended December 31, 2016.

Business Outlook

In 2018, we will continue to focus on growing our user base through launching innovative new features as well as new apps. We aim to increase engagement level of our users through building active communities on our photo apps. In particular, we are working to transform *Meitu* into a photo social platform, where users can share their interesting lives and follow the latest trend and fashionable content. We currently expect to launch this upgrade by the end of June this year.

We will continue to invest significantly in our research and development, particularly in artificial intelligence, augmented reality, and computer vision. From a monetization perspective, we will continue to scale up our advertising business to better connect brands with our users and launch a portfolio of IVAS businesses to cater for our users' diverse demand for beauty and entertainment. For our smart hardware business, we will focus on the premium-priced T and V series, and we expect to launch two new models in June and November 2018, respectively. At the same time, we will make a foray into beauty-related smart hardware.

We generated Adjusted Net Profit for the last quarter of year 2017, according to unaudited management accounts. Assuming there is no unforeseen situation, we expect our positive business momentum will continue in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**4,527,484**	1,578,580
Cost of sales	**(3,482,998)**	(1,339,420)
Gross profit	**1,044,486**	239,160
Selling and marketing expenses	**(596,729)**	(424,845)
Administrative expenses	**(237,865)**	(198,586)
Research and development expenses	**(447,062)**	(243,261)
Other income	**49,402**	12,980
Other losses, net	**(47,191)**	(37,658)
Finance income/(costs), net	**101,187**	(981)
Fair value loss of convertible redeemable preferred shares	**—**	(5,606,109)
Share of profits/(losses) of investments accounted for using the equity method	**16**	(512)
Loss before income tax	**(133,756)**	(6,259,812)
Income tax expense	**(63,568)**	(1,068)
Loss for the year	**(197,324)**	(6,260,880)
Loss attributable to:		
— Owners of the Company	**(197,324)**	(6,260,880)
Non-IFRS measure:		
Adjusted Net Loss	**(45,950)**	(540,454)

Revenue

Our total revenue increased by 186.8% to RMB4,527.5 million for the year ended December 31, 2017, compared to RMB1,578.6 million for the year ended December 31, 2016. Revenue growth of the Internet business segment greatly exceeded that of the smart hardware business. This particularly reflected the significant progress we have made on the monetization of our massive user base.

	Year ended December 31,			
	2017		2016	
	Amount RMB'000	**% of total revenue**	Amount RMB'000	% of total revenue
Internet business	**787,418**	**17.4%**	104,677	6.6%
Smart hardware	**3,740,066**	**82.6%**	1,473,903	93.4%
Total	**4,527,484**	**100.0%**	1,578,580	100.0%

Internet business

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

	Year ended December 31,		Year on year
	2017	2016	change
	RMB'000	RMB'000	(%)
Online advertising	**307,481**	60,446	408.7%
Internet value-added services and others	**479,937**	44,231	985.1%
Total	**787,418**	104,677	652.2%

Online Advertising

Revenue from online advertising increased by more than 4 times year on year to RMB307.5 million for the year ended December 31, 2017. The significant growth was driven by strengthened sales team, enhanced advertising infrastructure and refined marketing solutions centered on servicing key accounts which are primarily comprised of quality brand advertisers. We have also launched a demand-side platform for programmatic sales as well as the *Project M* initiative that connected advertisers with key opinion leaders on *Meipai* platform. Both products have started to contribute to our advertising revenue growth in 2017. In addition, we developed new advertising solutions such as branded filters and tailored social campaign that activated *Meipai*'s community. We expect our revenue from advertising in 2018 will be subject to meaningful seasonality effect as key accounts are likely to be the main contributors in the revenue mix.

We aim to further expand our advertising business by bringing in more high quality brand advertisers, as well as providing more effective advertising solutions to drive higher advertising revenue. With the increased adoption of MTid, we have gained greater understanding of our user demographics and preferences, which improves our ability to assist our advertisers to launch interesting and interactive advertising campaigns that can enhance user experience of our app products. We also plan to rollout targeted advertising products, enabling advertisers to reach specific audience groups to achieve greater relevance, engagement and marketing effectiveness.

Internet value-added services and others

Revenue from IVAS and others increased by almost 10 times year on year to RMB479.9 million for the year ended December 31, 2017. Our IVAS business mainly composes of sales of virtual items on *Meipai*'s live streaming. Such revenue growth was driven by (i) increase of average monthly paying users, which increased to 313,571 for the year ended December 31, 2017, compared to 200,738 for the year ended December 31, 2016; and (ii) increase in average revenue per paying user. This was achieved through differentiated female-related content, effective community management as well as the introduction of new activities that promote interaction and engagement such as online claw crane machine.

We have launched our e-commerce platform focusing on cosmetics and skincare products since October 2017. The platform is embedded with an AI-empowered feature to analyze users' skin conditions and offer tailored product recommendations to drive repeat purchase behaviors and customer retention.

Smart hardware

Revenue from the smart hardware segment increased by 153.8% to RMB3,740.1 million for the year ended December 31, 2017 from RMB1,473.9 million for the year ended December 31, 2016, primarily due to an increase in both volume and average selling price ("**ASP**"). The number of smartphone units sold was 1,574,737 for the year ended December 31, 2017, as compared to 748,256 for the year ended December 31, 2016, which is in line with our expectations. During the year ended December 31, 2017, we launched 5 new models in three of our smartphone series, two models from each of the M and T series, and one model from the V series. We currently do not expect to launch as many new models in 2018 as in 2017, as we plan to focus on the more premium-priced segment. Our month-to-month revenue for this segment is highly dependent on the launch schedule of the phones. For a particular model, typically revenue will be highest during the first few months after launch, after which revenue will start to reduce.

ASP was RMB2,365 for the year ended December 31, 2017, as compared to RMB1,959 for the year ended December 31, 2016. Product mix is a key factor that drives ASP. In 2017, we introduced the premium T series and launched a model in the luxury V series. These models carried higher suggested retail prices compared to that of M Series and drove the increase in ASP.

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

Cost of Sales

Our cost of sales increased by 160.0% to RMB3,483.0 million for the year ended December 31, 2017, compared to RMB1,339.4 million for the year ended December 31, 2016, which is in line with our revenue growth.

Internet business

Segment cost for Internet business increased by 271.0% to RMB602.4 million in 2017, from RMB162.4 million in 2016. Such increase was primarily due to (i) revenue-sharing of RMB350.9 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 15.4% to RMB112.8 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 144.7% to RMB2,880.6 million in 2017, compared to RMB1,177.0 million in 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 year, increased to RMB1,743 in 2017 from RMB1,518 in 2016. The increase was mainly due to introduction of the more premium priced model Meitu T series into the business mix which used higher-priced key components as compared to the phones launched in 2016.

Gross Profit and Gross Profit Margin

Our gross profit increased by 336.7% to RMB1,044.5 million in 2017, from RMB239.2 million in 2016. Our overall gross margin increased to 23.1% in 2017, from 15.2% in 2016.

	Year ended December 31,			
	2017		2016	
	Amount	**Gross margin**	Amount	Gross margin
	RMB'000	**%**	RMB'000	%
Internet business	**184,993**	**23.5%**	(57,720)	-55.1%
Smart hardware	**859,493**	**23.0%**	296,880	20.1%
Total	**1,044,486**	**23.1%**	239,160	15.2%

Internet business

Our Internet business segment has achieved profitability at the gross level during the first financial year after our initial public offering ("**IPO**"), generating a gross profit of RMB185.0 million in 2017, compared to a gross loss of RMB57.7 million in 2016.

Gross profit margin was 23.5% for the year ended December 31, 2017, compared to a gross loss margin of 55.1% for the year ended December 31, 2016. The fast expansion of gross margin was driven by (i) the rapid growth of our advertising and IVAS businesses; and (ii) operating leverage. Two of the major costs items for IVAS, bandwidth and storage related costs and video content monitoring fee, were primarily correlated to the size and engagement of the user base of *Meipai*. Therefore, when revenue ramped up during 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 RMB859.5 million and 23.0% in 2017 from RMB296.9 million and 20.1% in 2016, primarily due to the change in product mix. The introduction of our higher-priced Meitu T series, which also carried higher gross margin, was the main driver for margin expansion of this segment.

Research and Development Expenses

Our research and development expenses increased by 83.8% to RMB447.1 million in 2017, from RMB243.3 million in 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Selling and Marketing Expenses

Selling and marketing expenses increased by 40.5% to RMB596.7 million in 2017, from RMB424.8 million in 2016, primarily due to (i) an increase in personnel related expenses which include share-based compensation; and (ii) an increase in promotion and advertising expenses that were mainly driven by our expanding businesses.

We generally do not rely on paid marketing campaigns to drive user growth of our apps, as the majority of our user growth is driven by organic downloads. However, we will typically launch paid marketing campaigns when we launch a new app, or a major upgrade of an app. If an app or a major upgrade's initial performance is better than our expectations, we may temporarily increase the scale of such paid marketing campaigns to maximize the potential of such apps' long-term growth prospect.

Administrative Expenses

Our administrative expenses increased by 19.8% to RMB237.9 million in 2017 from RMB198.6 million in 2016, primarily due to an increase in personnel related expenses which include share-based compensation.

Other Income

Other income increased by 280.6% to RMB49.4 million for the year ended December 31, 2017, from RMB13.0 million for the year ended December 31, 2016, with a main contributing factor being an increase in the amount of government grants received.

Other Losses, Net

Other losses in 2017 increased to RMB47.2 million, primarily due to recognition of net unrealized fair value losses of RMB77.4 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

Our finance income/(costs), net mainly comprised of interest income and foreign exchange gains/(losses), net. We had a net finance income of RMB101.2 million in 2017, compared to a net finance cost of RMB1.0 million in 2016, mainly due to an increase in interest income to RMB84.3 million generated by the proceeds from our IPO.

Income Tax Expense

Income tax expenses for the year ended December 31, 2017 were RMB63.6 million, compared to RMB1.1 million for the year ended December 31, 2016. Although the Group was loss-making on a consolidated level for the year ended December 31, 2017, some of our entities generated positive net profits and therefore increased our income tax expenses for the year ended December 31, 2017.

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

Our loss for the year ended December 31, 2017 decreased significantly by 96.8% year on year to RMB197.3 million, compared to RMB6,260.9 million in 2016, primarily due to a fair value loss on the convertible redeemable preferred shares of RMB5,606.1 million was recognized for the year ended December 31, 2016, but did not recur in the year ended December 31, 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 IFRSs, we also use Adjusted Net Loss as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe that this Non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the Adjusted Net Loss may not be comparable to a similarly titled measure presented by other companies. The use of this Non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRSs.

Our Adjusted Net Loss was RMB46.0 million for the year ended December 31, 2017, which represented a significant decrease of 91.5% compared to RMB540.5 million for the year ended December 31, 2016. The reduction in Adjusted Net Loss was primarily driven by strengthening business fundamentals that reflected the early success of the monetization of our businesses.

The following table reconciles our Adjusted Net Loss for the years ended December 31, 2017 and 2016 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loss for the year	**(197,324)**	(6,260,880)
Excluding:		
Fair value loss of convertible redeemable preferred shares	**—**	5,606,109
Share-based compensation	**111,095**	40,926
Fair value losses/(gains) on long-term investments, net of tax	**72,053**	(11,212)
Impairment loss on long-term investments	**—**	45,091
Gains on disposal of long-term investments, net of tax	**(31,774)**	—
One-off listing expenses	**—**	39,512
Adjusted Net Loss	**(45,950)**	(540,454)

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources (comprising cash and cash equivalents, short-term bank deposits and short- term investments placed with banks) as at December 31, 2017 and 2016 were as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,396,632**	4,508,522
Short-term bank deposits	**3,774,807**	725,229
Short-term investments placed with banks	**—**	280,820
Cash and other liquid financial resources	**5,171,439**	5,514,571

As at December 31, 2017, we had cash and other liquid financial resources of RMB5,171.4 million. The decrease in cash and other liquid financial resources was partially due to payments for long-term investments, partly offset by positive cash flow generated from operations.

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 principal-guaranteed, redeemable at any time and held with the primary objective to generate income at a yield higher than current bank deposit 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 December 31, 2017, we did not have any outstanding borrowings. Accordingly, no gearing ratio is presented.

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, 2017. 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,	
	2017	2016
	RMB'000	*RMB'000*
Purchase of property and equipment	**52,407**	60,238
Purchase of intangible assets	**2,386**	2,305
	54,793	62,543

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

Long-term Investment Activities

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Investment in associates in the form of ordinary shares	**23,940**	3,259
Investment in financial assets at fair value through profit or loss	**34,573**	141,634
Investment in available-for-sale financial assets	**6,534**	45,091
	65,047	189,984

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

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in the People's Republic of China ("**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 during the year ended December 31, 2017 (2016: None).

Pledge of Assets

As at December 31, 2017, we pledged a restricted deposit of RMB1,000,000 (2016: RMB400,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As at December 31, 2017, we did not have any material contingent liabilities (2016: None).

Employee and Remuneration Policy

The Group had a total of 2,066 full-time employees as of December 31, 2017 (2016: 1,328), primarily based in our headquarters in Xiamen, with the rest based in other parts of the PRC, Hong Kong, Singapore and the United States. Remuneration is determined with reference to market conditions and individual employees' performance, qualification and experience.

In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions). Employees of the Group are 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 have been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities.

Significant Investments Held

Save for the long term investment activities as disclosed in "Long-term Investment Activities" above, as of December 31, 2017, we did not hold any significant investments in the equity interests of any other companies.

Future Plans for Material Investments and Capital Assets

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

Save as disclosed in this announcement and in the prospectus of the Company published on December 5, 2016 (the "**Prospectus**"), the Group did not have any other plans for material investments and capital assets as at the date of this announcement.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year ended December 31, 2017, we did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Important Events after Reporting Date

There were no important events affecting the Group which occurred after December 31, 2017 and up to the date of this announcement.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**4,527,484**	1,578,580
Cost of sales	*3, 6*	**(3,482,998)**	(1,339,420)
Gross profit		**1,044,486**	239,160
Selling and marketing expenses	*6*	**(596,729)**	(424,845)
Administrative expenses	*6*	**(237,865)**	(198,586)
Research and development expenses	*6*	**(447,062)**	(243,261)
Other income	*4*	**49,402**	12,980
Other losses, net	*5*	**(47,191)**	(37,658)
Finance income/(costs), net	*8*	**101,187**	(981)
Fair value loss of convertible redeemable preferred shares	*7*	**—**	(5,606,109)
Share of profits/(losses) of investments accounted for using the equity method	*11*	**16**	(512)
Loss before income tax		**(133,756)**	(6,259,812)
Income tax expense	*9*	**(63,568)**	(1,068)
Loss for the year		**(197,324)**	(6,260,880)
Loss attributable to:			
— Owners of the Company		**(197,324)**	(6,260,880)
Loss per share attributable to owners of the Company for the year (*expressed in RMB per share*)	*10*		
— Basic		**(0.05)**	(3.03)
— Diluted		**(0.05)**	(3.03)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Loss for the year		**(197,324)**	(6,260,880)
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 placed with banks		**(820)**	431
Currency translation differences		**(295,482)**	(531,438)
Other comprehensive loss for the year, net of tax		**(296,302)**	(531,007)
Total comprehensive loss for the year, net of tax		**(493,626)**	(6,791,887)
Total comprehensive loss attributable to:			
— Owners of the Company		**(493,626)**	(6,791,887)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2017

	Note	As at December 31, 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property and equipment		**91,898**	79,647
Intangible assets		**21,298**	21,705
Long-term investments			
— Investments in associates in the form of ordinary shares	*11*	**28,415**	6,128
— Financial assets at fair value through profit or loss	*12*	**280,863**	300,279
— Available-for-sale financial assets	*13*	**6,534**	—
Deferred tax assets		**9,784**	—
Prepayments and other receivables		**64,305**	50,319
		503,097	458,078
Current assets			
Inventories		**658,416**	374,342
Trade receivables	*14*	**307,388**	86,138
Prepayments and other receivables		**160,182**	116,736
Short-term investments placed with banks	*15*	**—**	280,820
Short-term bank deposits	*16(c)*	**3,774,807**	725,229
Restricted cash	*16(b)*	**1,000**	400
Cash and cash equivalents	*16(a)*	**1,396,632**	4,508,522
		6,298,425	6,092,187
Total assets		**6,801,522**	6,550,265
EQUITY AND LIABILITIES			
Equity			
Share capital	*17*	**280**	277
Share premium	*17*	**7,679,137**	17,015,854
Reserves		**(263,065)**	(666,751)
Accumulated losses		**(1,774,312)**	(10,332,138)
Total equity		**5,642,040**	6,017,242
Liabilities			
Current liabilities			
Trade and other payables	*18*	**1,119,560**	532,166
Income tax liabilities		**39,922**	857
		1,159,482	533,023
Total liabilities		**1,159,482**	533,023
Total equity and liabilities		**6,801,522**	6,550,265

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Net cash generated from/(used in) operating activities		**35,265**	(689,340)
Net cash used in investing activities		**(3,103,375)**	(1,007,282)
Net cash (used in)/generated from financing activities		**(31)**	5,091,352
Net (decrease)/increase in cash and cash equivalents		**(3,068,141)**	3,394,730
Cash and cash equivalents at the beginning of the year		**4,508,522**	989,874
Effects of exchange rate changes on cash and cash equivalents		**(43,749)**	123,918
Cash and cash equivalents at the end of the year		**1,396,632**	4,508,522
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand		**1,066,632**	4,438,973
Short-term bank deposits with initial terms within three months		**330,000**	69,549
		1,396,632	4,508,522

NOTES TO THE 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 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, the "**Group**") are principally engaged in the provision of online advertising and other internet value added service, development, manufacture and sales of smart hardware and related accessories in the People's Republic of China (the "**PRC**"), Hong Kong and other countries and regions.

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

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, Meitu Home, has entered into the Contractual Agreements, including Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, and Powers of Attorney, 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.

As a result of the Contractual Arrangements, the Group is able to effectively control over Meitu Networks and its subsidiaries, receives variable returns from its involvement with Meitu Networks and its subsidiaries, has 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, 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**"). Upon the completion of the IPO on December 15, 2016, all of the Company's 1,686,627,880 outstanding convertible redeemable preferred shares were converted into ordinary shares on an one-to-one basis immediately as of the same date. The net proceeds to the Company from the IPO, after deducting underwriting commissions and other issuance costs paid and payable, were approximately RMB4,211,474,000. 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 consolidated financinal statements have been adjusted, where applicable, to reflect the subdivision and adjustments of the convertible redeemable preferred shares.

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

2. 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 available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) 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 following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2017:

- Recognition of Deferred Tax Assets for Unrealized Losses — Amendments to IFRS 12, and
- Disclosure initiative — amendments to IFRS 7.

- Annual Improvements to IFRS Standards 2014–2016 Cycle.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2017. They are relevant to the operations of the Group but have not been early adopted. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for set out below.

(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 reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- **Classification and measurement of financial instruments**

  Equity instrument with investment in form of ordinary shares that is currently classified as available-for-sale financial assets ("**AFS**") for which a fair value through other comprehensive income ("**FVOCI**") election is available; and equity investments in form of convertible redeemable preferred shares and ordinary shares with preference rights currently measured at fair value through profit or loss ("**FVTPL**") which will continue to be measured on the same basis under IFRS 9.

  Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified from the FVOCI reserve to retained earnings.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

- **Impairment of 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. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects increase in the loss allowance for account receivables to be insignificant given the historical default rates of the outstanding balances with customers are low.

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.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group does not intend to adopt this standard before its mandatory effective date. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

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

IFRS 15 "Revenue from contracts with customers" will replace IAS 18 "Revenue" which covers contracts for goods and services and IAS 11 "Construction contracts" which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group does not intend to adopt this standard before its effective date while a modified retrospective approach is expected to be applied upon the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Accounting for free services/benefits delivered — IFRS 15 requires the transaction price to be allocated to each separate performance obligation based on relative stand-alone selling prices of the goods or services provided to the customer. This will result in allocation of sales values to certain free advertising space given away to customers that are attached to the bundled advertising contracts, and the timing of the revenue recognition will also be affected. Nevertheless, the impacts on the deferred revenue and retained earnings are considered to be insignificant to the Group given the advertising operations of the Group were insignificant.

- Presentation of contract assets and contract liabilities in the balance sheet — IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities in relation to expected volume discounts and rights to return which are currently included in other balance sheet line items.

(iii) IFRS 16 "Lease"

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at December 31, 2017 are approximately RMB65,714,000. However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt this standard before its effective date.

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.

3. Revenue and segment information

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

— Internet Business

— Smart Hardware

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other losses, net, finance income/(costs), net, 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, revenue sharing fee, 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 year ended December 31, 2017 is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Internet Business:		
— Internet value-added services and others	**479,937**	44,231
— Online advertising	**307,481**	60,446
	787,418	104,677
Smart Hardware	**3,740,066**	1,473,903
Total revenue	**4,527,484**	1,578,580

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

	Year ended December 31, 2017		
	Internet Business	**Smart Hardware**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**787,418**	**3,740,066**	**4,527,484**
Segment cost of sales	**(602,425)**	**(2,880,573)**	**(3,482,998)**
Gross profit	**184,993**	**859,493**	**1,044,486**

The segment results for the year ended December 31, 2016 are as follows:

	Year ended December 31, 2016		
	Internet Business	Smart Hardware	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	104,677	1,473,903	1,578,580
Segment cost of sales	(162,397)	(1,177,023)	(1,339,420)
Gross (loss)/profit	(57,720)	296,880	239,160

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

	Year ended December 31,	
	2017	2016
	%	%
Smart Hardware		
Customer A	**33.6%**	36.5%
Customer B	*	12.7%

Note:

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

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 at December 31, 2017, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

The reconciliation of segment profit/loss to loss before income tax for the year ended December 31, 2017 are presented in the consolidated income statement of the Group.

4. Other income

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Government grants	**23,678**	5,398
Investment income on short-term investments placed with banks (Note 15)	**21,193**	6,654
Others	**4,531**	928
	49,402	12,980

5. Other losses, net

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Gains on disposal of long-term investments	**32,677**	—
Fair value (losses)/gains on long-term investments (Note 12)	**(77,365)**	11,212
Impairment loss on long-term investments (Note 13)	—	(45,091)
Loss on disposal of property and equipment	**(18)**	(3,325)
Others	**(2,485)**	(454)
	(47,191)	(37,658)

6. Expenses by nature

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Inventories consumed and recognized as:		
— cost of sales	**2,771,871**	1,149,753
— selling and marketing and other expenses	**28,350**	25,824
Employee benefit expenses	**636,360**	274,623
Promotion and advertising expenses	**412,733**	324,582
Revenue sharing fee	**351,221**	28,495
Bandwidth and storage related costs	**113,121**	97,731
Operating lease expenses	**48,527**	34,118
Warranty expenses	**44,700**	19,791
Depreciation of property and equipment	**40,061**	26,803
Provision for inventory impairment (Note (a))	**33,748**	712
Travelling and entertainment expenses	**28,144**	19,755
Video content monitoring fee	**27,618**	19,339
Development cost related to smartphone manufacturing equipment	**26,574**	10,087
Tax and levies	**17,684**	4,359
License fees	**17,185**	9,079
Utilities and office expenses	**14,622**	16,615
Outsourced technical services	**12,976**	6,936
Auditor's remuneration		
— annual audit services	**6,879**	1,800
— non-audit services	**335**	200
Amortization of intangible assets	**2,793**	1,736
Listing expenses	**—**	39,512
Others	**129,152**	94,262
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**4,764,654**	2,206,112

(a) During the year ended December 31, 2017, inventory write-downs of RMB33,748,000 (2016: RMB712,000) was charged to cost of sales for the obsolete raw materials and slow-moving goods.

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. Finance income/(costs), net

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Interest income	**84,259**	11,181
Foreign exchange gains/(losses), net	**17,464**	(11,796)
Issuance costs of convertible redeemable preferred shares	**—**	(42)
Others	**(536)**	(324)
	101,187	(981)

9. Income tax expense

The income tax expense of the Group for the year ended December 31, 2017 is analyzed as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
— PRC and overseas enterprise income tax	**73,352**	1,068
Deferred income tax	**(9,784)**	—
Income tax expense	**63,568**	1,068

Notes:

(a) *Cayman Islands and BVI Income Tax*

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year.

(c) Corporate income tax in other countries

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

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

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

Meitu Networks has been qualified as a "High and New Technology Enterprise" ("**HNTE**") under the EIT Law in 2016. Accordingly, it is entitled to a preferential income tax rate of 15% for three years starting from 2016 provided that it continues to be qualified as a HNTE during such period. Based on management's assessment, Meitu Networks did not meet the qualification of HNTE so it did not apply the preferential tax rate in calculating its EIT in 2017.

Meitu Home was accredited as a "software enterprise" under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "**tax holiday**"). The tax holiday period has not yet commenced as Meitu Home was in an accumulated tax loss position as of December 31, 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 year ended December 31, 2017.

*(e) PRC Withholding Tax ("**WHT**")*

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

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at December 31, 2017 (2016: None).

10. Loss per share

(a) Basic

Basic loss per share for the year ended December 31, 2017 is calculated by dividing the loss of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	**(197,324)**	(6,260,880)
Weighted average number of ordinary shares in issue (thousand)	**4,245,322**	2,065,492
Basic loss per share (expressed in RMB per share)	**(0.05)**	(3.03)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2017, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and the awarded shares under the Post-IPO Share Award Scheme. For the year ended December 31, 2016, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company before conversion to ordinary shares on December 15, 2016 and the shares options awarded under Pre-IPO ESOP. As the Group incurred losses for the year ended December 31, 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 loss per share for the year ended December 31, 2017 is the same as basic loss per share.

11. Investments in associates in the form of ordinary shares

	Year Ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At January 1	**6,128**	3,381
Additions	**26,940**	3,259
Converted from an associate to a subsidiary	**(3,795)**	—
Share of profits/(losses) of the associates	**16**	(512)
Currency translation differences	**(874)**	—
At December 31	**28,415**	6,128

12. Financial assets at fair value through profit or loss

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At January 1	**300,279**	147,922
Additions	**104,661**	142,634
Disposals	**(37,747)**	(2,000)
Changes in fair value	**(77,365)**	11,212
Currency translation differences	**(8,965)**	511
At December 31	**280,863**	300,279

13. Available-for-sale financial assets

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At January 1	**—**	—
Additions	**6,534**	45,091
Provision for impairment	**—**	(45,091)
At December 31	**6,534**	—

14. Trade receivables

The Group allows a credit period of 30 to 90 days to its customers. An aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Up to 3 months	**287,434**	69,807
3 to 6 months	**16,056**	6,765
6 months to 1 year	**3,358**	9,566
1 to 2 years	**540**	—
	307,388	86,138

As at December 31, 2017, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

15. Short-term investments placed with banks

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At January 1	**280,820**	170,389
Additions	**3,442,260**	465,000
Disposals	**(3,722,260)**	(355,000)
Change in fair value	**20,373**	7,085
Investment income recognized in profit or loss	**(21,193)**	(6,654)
At December 31	**—**	280,820

The short-term investments placed with banks, which are denominated in RMB, are redeemable any time with expected rates of return ranging from 3.23% to 4.49% per annum for the year ended December 31, 2017. The return of these investments are not guaranteed; therefore, the Group designated them as available-for-sale financial assets.

16. Cash and bank balances

(a) Cash and cash equivalents

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Cash at bank and in hand	**1,066,632**	4,438,973
Short-term bank deposits with initial terms within three months	**330,000**	69,549
	1,396,632	4,508,522

(b) Restricted cash

As at December 31, 2017, RMB1,000,000 (2016: RMB400,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As at December 31, 2017, short-term bank deposits amounting RMB3,774,807,000 (2016: RMB725,229,000) are bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated in US$ and the weighted average effective interest rate was 1.97% per annum for the year ended December 31, 2017 (2016: 1.17%).

17. Share capital and premium

	Note	**Number of ordinary shares** ***'000***	**Nominal value of ordinary shares** ***US$'000***	**Number of preferred shares** ***'000***	**Nominal value of preferred shares** ***US$'000***
Authorized:					
As at January 1 and December 31, 2017		6,000,000	60	—	—
As at January 1, 2016		445,653	45	154,347	15
Reclassification and re-designation on issuance of Series D Preferred Shares		(14,316)	(2)	14,316	2
Cancellation and re-authorization		168,663	17	(168,663)	(17)
Effect of share subdivision	*(b)*	5,400,000	—	—	—
As at December 31, 2016		6,000,000	60	—	—

	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 at January 1, 2017		4,227,295	43	277	17,015,854
Employee share option scheme under Pre-IPO ESOP					
— Shares issued and proceeds received		36,258	—	3	7,326
Employee Share Award Scheme:					
— Shares issued		10,000	—	—	—
Share premium set off the accumulated losses	*(a)*	—	—	—	(9,344,043)
As at December 31, 2017		4,273,553	43	280	7,679,137
Issued:					
As at January 1, 2016		196,667	20	121	—
Conversion of preferred shares into ordinary shares		168,663	17	117	12,804,419
Effect of share subdivision	*(b)*	3,287,965	—	—	—
Issuance of new shares upon IPO		574,000	6	39	4,211,435
As at December 31, 2016		4,227,295	43	277	17,015,854

Notes:

(a) On March 24, 2017, the Directors passed a resolution that the sum of approximately of US$1,348,561,000 standing to the credit of the share premium account of the Company was applied to set off the accumulated losses of the Company. Accordingly, the balance of share premium was reduced by RMB9,344,043,000.

(b) On November 25, 2016, the Company's shareholders resolved, among other things that, subject to the completion of initial public offering and fulfilment of certain other conditions, all the issued and unissued preferred shares will be re-classified and re-designated as ordinary shares of US$0.0001 par value each, following which each issued and unissued ordinary share of US$0.0001 par value each of the Company will be subdivided into 10 Shares of US$0.00001 par value each such that the authorized share capital of the Company shall be US$60,000 divided into 6,000,000,000 shares of par value US$0.00001 each and the issued share capital (including those preferred shares to be re-classified and re-designated as ordinary shares on the listing date) shall be US$36,532.95 divided into 3,653,294,550 shares of US$0.00001 par value each.

18. Trade and other payables

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

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Up to 3 months	**680,871**	388,173
3 to 6 months	**26,367**	3,792
6 months to 1 year	**9,716**	1,971
1 to 2 years	**2,219**	791
Over 2 years	**365**	93
	719,538	394,820

19. Dividends

No dividends have been paid or declared by the Company during the year ended December 31, 2017 (2016: None).

OTHER INFORMATION

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

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's or any of its subsidiaries' listed securities.

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 year ended December 31, 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 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 the Directors' dealings in the securities of the Company. Having made specific enquiry of 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, 2017.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the year ended December 31, 2017 after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As 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 annual results announcement and the audited financial statements of the Group for the year ended December 31, 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 Company's auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2017.

The consolidated financial statements of the Group have been audited by the Company's auditor, in accordance with International Standards on Auditing.

Scope of Work of the Company's auditor

The figures contained in this announcement of our Group's consolidated results for the year ended December 31, 2017 have been agreed by the Company's auditor, to the figures set out in the audited consolidated financial statements of our Group for the year ended December 31, 2017. The Company's auditor performed this work in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The work performed by the Company's auditor in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Company's auditor on this announcement.

Final Dividend

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2017.

Use of Proceeds

Our shares were listed on the Stock Exchange on December 15, 2016 and the net proceeds raised during our initial public offering were approximately RMB4,211.5 million. As at December 31, 2017, the Group had:

- used approximately RMB1,221.3 million for component and raw material sourcing to produce smartphones;
- used approximately RMB65.0 million to invest in or acquire businesses that are complementary to our business;
- used approximately RMB569.6 million to implement sales and marketing initiatives in both China and overseas market;
- used approximately RMB140.7 million to expand Internet services business;
- used approximately RMB278.0 million to expand research and development capabilities.
- used approximately RMB379.0 million as general working capital.

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

Annual General Meeting

The annual general meeting is scheduled to be held on June 4, 2018 (the "**AGM**"). A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

Closure of Register of Members

In order to determine the entitlement to attend and vote at the AGM, the register of members will be closed from May 25, 2018 to June 4, 2018, both dates inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on May 24, 2018.

Publication of Annual Results and Annual Report

This annual 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 annual report of the Group for the year ended December 31, 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, we would like to express our sincere gratitude to all our users. We 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. We are also thankful for the continued support and trust from our shareholders and stakeholders. We will strive to inspire more people in expressing their beauty.

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

Hong Kong, March 26, 2018

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 Professor ZHANG Shoucheng.

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 realized 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.