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, 2019

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, 2019.

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

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

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

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

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

* Financial metrics are presented to exclude discontinued operations.

KEY FINANCIAL DATA

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

Note:

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

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

KEY OPERATIONAL DATA

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

Note:

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

BUSINESS REVIEW AND OUTLOOK

Strategic Highlights

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

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

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

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

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

Business Review and outlook

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Continuing Operations

Revenue

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

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

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

Online advertising

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

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

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

Premium subscription services and in-app purchases

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

Internet value-added services

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

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

Others

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Research and Development Expenses

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Other Income

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

Other (Losses)/Gains, Net

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

Finance Income, Net

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

Income Tax Expense

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

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

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

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

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

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

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

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

Discontinued Operations

During the year ended December 31, 2019, the Group discontinued its smartphone business as a result of the strategic cooperation agreement dated November 19, 2018 entered into between the Company and Xiaomi Corporation ("**Xiaomi**"), pursuant to which Xiaomi is fully responsible for design, research and development, production, business operation, sales and marketing of the cooperation smartphones. Meitu has licensed its brand and certain technologies to Xiaomi and is entitled to a share of the gross profits for each cooperation smartphone sold once the quantity of cooperation smartphones sold reaches a specified quantity. In July 2019, Xiaomi released its first cooperation smartphone "*Xiaomi CC9 Meitu Edition*", which used Meitu's image technology and pre-installed certain Meitu apps.

Non-controlling Interests

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

Liquidity, Financial Resources and Gearing

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

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

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

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

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the year ended December 31, 2019. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Expenditure

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

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

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

Long-term Investment Activities

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

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

Foreign Exchange Risk

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

Pledge of Assets

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

Contingent Liabilities

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

Borrowings and Gearing Ratio

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

Employee and Remuneration Policy

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

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

Significant Investments Held

As of December 31, 2019, we did not hold any significant investments in the equity interests of any other companies. Save as disclosed in this announcement, during the year ended December 31, 2019, we did not conduct any acquisitions or disposals that constituted notifiable transactions for the Company.

Future Plans for Material Investments and Capital Assets

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

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

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

On August 28, 2019, the Company and Meitu Networks entered into a transaction framework agreement to acquire an approximately 57.09% effective equity interest in Dajie Net (the "**Acquisition**"), which operates an online recruitment business in the PRC. The total consideration for the Acquisition was approximately HK$395,486,084, out of which HK$342,956,420 was satisfied by the allotment and issue of 85,739,105 consideration Shares and the remaining balance of approximately HK$52,529,664 was satisfied in cash. The Acquisition was completed on November 19, 2019.

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

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

Important Events after the Reporting Date

Save as disclosed above, there were no important events affecting the Company which occurred after December 31, 2019 and up to the date of this announcement.

FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT

	Note	Year ended December 31, 2019 RMB'000	2018* RMB'000
Continuing operations			
Revenue	3	**977,867**	947,671
Cost of sales	6	**(278,584)**	(455,541)
Gross profit		**699,283**	492,130
Selling and marketing expenses	6	**(326,457)**	(782,698)
Administrative expenses	6	**(250,826)**	(274,068)
Research and development expenses	6	**(500,589)**	(517,056)
Net impairment losses on financial assets		**(2,882)**	(1,897)
Other income	4	**49,486**	38,690
Other (losses)/gains, net	5	**(47,551)**	493,265
Finance income, net	7	**45,685**	39,656
Share of losses of investments accounted for using the equity method	10(a)	**(1,226)**	(3,382)
Loss before income tax		**(335,077)**	(515,360)
Income tax expense	8	**(8,984)**	(17,849)
Loss from continuing operations		**(344,061)**	(533,209)
Loss from discontinued operations (attributable to equity holders of the Company)	17	**(60,759)**	(709,857)
Loss for the year		**(404,820)**	(1,243,066)
(Loss)/profit attributable to:			
– Owners of the Company		**(396,522)**	(1,254,537)
– Non-controlling interests		**(8,298)**	11,471
		(404,820)	(1,243,066)
Loss per share for loss from continuing operations attributable to owners of the Company for the year (expressed in RMB per share)	9		
– Basic		**(0.08)**	(0.13)
– Diluted		**(0.08)**	(0.13)
Loss per share for loss attributable to owners of the Company for the year (expressed in RMB per share)	9		
– Basic		**(0.09)**	(0.30)
– Diluted		**(0.09)**	(0.30)

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

* The consolidated income statement for the year ended December 31, 2018 has been restated for the discontinued operations (Note 17).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

* The consolidated statement of comprehensive income for the year ended December 31, 2018 has been restated for the discontinued operations (Note 17).

CONSOLIDATED BALANCE SHEET

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property and equipment		**75,058**	153,061
Right-of-use assets		**51,455**	–
Long-term bank deposits		**110,000**	–
Intangible assets		**497,799**	203,305
Long-term investments			
– Investments in associates in the form of ordinary shares	*10(a)*	**15,521**	16,540
– Financial assets at fair value through profit or loss	*10(b)*	**502,774**	547,178
– Financial assets at fair value through other comprehensive income		**9,676**	7,296
Prepayments and other receivables		**9,467**	14,823
Deferred tax assets		**3,037**	1,203
		1,274,787	943,406
Current assets			
Inventories		**14,307**	359,439
Trade receivables	*11*	**359,965**	521,817
Prepayments and other receivables		**454,559**	569,784
Short-term bank deposits	*12(c)*	**1,646,981**	2,161,908
Cash and cash equivalents	*12(a)*	**864,611**	531,618
Restricted cash	*12(b)*	**500**	1,000
		3,340,923	4,145,566
Total assets		**4,615,710**	5,088,972
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*13*	**280**	274
Share premium	*13*	**7,133,987**	7,040,940
Reserves		**(66,455)**	(168,766)
Accumulated losses		**(3,429,954)**	(3,031,751)
Non-controlling interests		**97,342**	119,233
Total equity		**3,735,200**	3,959,930

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Trade and other payables	*14*	**85,094**	137,977
Lease liabilities		**18,647**	–
Deferred tax liabilities		**45,518**	12,171
		149,259	150,148
Current liabilities			
Borrowings		**–**	10,000
Trade and other payables	*14*	**597,486**	885,418
Lease liabilities		**30,757**	–
Income tax liabilities		**44,061**	51,094
Contract liabilities	*3*	**58,947**	32,382
		731,251	978,894
Total liabilities		**880,510**	1,129,042
Total equity and liabilities		**4,615,710**	5,088,972

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Net cash generated from/(used in) operating activities		**11,789**	(1,996,957)
Net cash generated from investing activities		**473,284**	1,802,159
Net cash used in financing activities		**(155,457)**	(638,667)
Net increase/(decrease) in cash and cash equivalents		**329,616**	(833,465)
Cash and cash equivalents at the beginning of the year	*12*	**531,618**	1,396,632
Effects of exchange rate changes on cash and cash equivalents		**3,377**	(31,549)
Cash and cash equivalents at the end of the year		**864,611**	531,618
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand	*12*	**864,611**	421,807
Short-term bank deposits with intial terms within three months	*12*	**–**	109,811
		864,611	531,618

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 a business in Hong Kong as "美圖之家" as approved by and registered with the Registrar of Companies in Hong Kong on October 28, 2016 and November 7, 2016 respectively. The address of the Company's registered office is the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

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

2.2 Changes in accounting policies

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

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

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.75%.

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as of January 1, 2019

- accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(ii) Measurement of lease liabilities

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

(iii) Measurement of right-of-use assets

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

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

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

No significant impact on the Group's loss per share for the year ended December 31, 2019 as a result of the adoption of IFRS 16.

3 Revenue and segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. Considering the Group has discontinued the business of smartphone and e-commerce operations, the Group determined that it has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially located in the PRC and substantially all of the Group's revenues are derived from the PRC. Therefore, no geographical segments are presented.

The results of the revenue for the year ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenue from continuing operations		
Online Advertising	**751,886**	620,892
Premium Subscription Services and In-App Purchases	**85,987**	13,911
Internet Value-added Services	**45,599**	37,681
Others	**94,395**	275,187
Total revenue	**977,867**	947,671
Revenue from discontinued operations *(Note 17)*	**386,715**	2,024,423

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**139,994**	312,868
Over time	**837,873**	634,803
	977,867	947,671

The major customers which contributed more than 10% of the revenue from continuing operations of the Group for the year ended December 31, 2019 and 2018 are listed as below.

	Year ended December 31,	
	2019	2018
Customer A	**14%**	11%

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

As of December 31, 2019, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

(a) Contract liabilities

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

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Continuing operations		
– Online Advertising	**32,439**	9,175
– Premium Subscription Services and In-App Purchases	**15,321**	2,217
– Others	**9,655**	6,803
Discontinued operations	**1,532**	14,187
	58,947	32,382

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Continuing operations		
– Online Advertising	**9,175**	3,440
– Premium Subscription Services and In-App Purchases	**2,217**	–
– Others	**6,803**	8,929
Discontinued operations	**14,187**	183,885
	32,382	196,254

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

4 Other income

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Government grants	**46,964**	36,723
Others	**2,522**	1,967
	49,486	38,690

5 Other (losses)/gains, net

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Fair value changes on financial assets at fair value through profit or loss *(Note 10(b))*	**(60,845)**	95,364
Goodwill impairment	**(53,537)**	–
Remeasurement gains on consideration to non-controlling shareholders of a subsidiary	**44,941**	–
Gains on short-term investments placed with banks	**18,138**	16,851
Gains on disposal of financial assets at fair value through profit or loss	**5,171**	353,142
Loss on disposals of property and equipment	**(1,235)**	(2,518)
Remeasurement gains on investment in associates	**–**	30,739
Others	**(184)**	(313)
	(47,551)	493,265

6 Expenses by nature

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Employee benefit expenses	**744,866**	766,991
Promotion and advertising expenses	**112,153**	564,146
Bandwidth and storage related costs	**82,735**	98,451
Revenue sharing fee	**79,461**	236,296
Depreciation of property and equipment	**63,079**	65,167
Depreciation of right-of-use assets	**47,711**	–
Travelling and entertainment expenses	**23,432**	36,302
Video content monitoring fee	**19,652**	34,859
Tax and levies	**16,933**	22,870
Outsourced technical services	**15,494**	34,758
Amortization of intangible assets	**15,248**	9,751
Operating lease expenses	**10,455**	57,689
Cost related to smart hardware	**8,753**	–
Utilities and office expenses	**8,424**	14,267
License fees	**8,072**	6,256
Auditor's remuneration		
– Annual audit services	**6,726**	6,775
– Non-audit services	**–**	420
Provision for inventory impairment	**3,812**	–
Impairment of property and equipment	**1,375**	659
Others	**88,075**	73,706
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**1,356,456**	2,029,363

7 Finance income, net

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**56,714**	81,218
Interest expenses	**(1,515)**	(2,024)
Foreign exchange losses, net	**(2,475)**	(32,418)
Finance charges paid/payable for lease liabilities and others	**(7,039)**	(7,120)
	45,685	39,656

8 Income tax expense

The income tax expense of the Group for the year ended December 31, 2019 and 2018 are analyzed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Current income tax:		
– PRC and overseas enterprise income tax	**7,456**	17,129
Deferred income tax	**1,528**	10,105
Income tax expense	**8,984**	27,234
Income tax expense is attributable to:		
Profit from continuing operations	**8,984**	17,849
Profit from discontinued operations	**–**	9,385
	8,984	27,234

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Loss from continuing operations before income tax:	**(335,077)**	(515,360)
Loss from discontinued operations before income tax:	**(60,759)**	(700,472)
	(395,836)	(1,215,832)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**(107,551)**	(407,229)
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	**(145)**	(3,139)
– Tax losses and temporary differences for which no deferred tax asset was recognized	**99,870**	393,811
– Change of tax rate	**956**	–
– Reversed recoverable tax losses recognized in prior periods	**–**	8,451
– Super Deduction for research and development expenses *(Note (d))*	**–**	(857)
– Expenses not deductible for income tax purposes:		
– Share-based compensation	**13,325**	33,644
– Others	**2,529**	2,553
Income tax expense	**8,984**	27,234

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As of December 31, 2019, certain PRC subsidiaries of the Group suffered operating losses for the year. Based on management's assessment, the Group did not recognize deferred income tax assets of RMB338,830,000 (2018: RMB298,566,000) in respect of losses from continuing operations amounting to RMB2,253,541,000 (2018: RMB1,769,564,000) that can be carried forward against future taxable income. Losses from continuing operations amounting to RMB172,348,000, RMB354,521,000, RMB286,212,000, RMB558,544,000 and RMB358,151,000 will expire in 2020, 2021, 2022, 2023 and 2024, respectively.

(a) ***Cayman Islands and BVI Income Tax***

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

(b) ***Hong Kong Income Tax***

Hong Kong income tax rate is 16.5%. No provision for Hong Kong profits tax has been made as the Group utilised previous unrecognized tax losses.

(c) ***Corporate income tax in other countries***

Income tax rate for subsidiaries in other jurisdictions, including the United States, Japan and Singapore were ranging from 17% to 21%. No provision for profits tax has been made as the Group did not have any assessable profits subject to these jurisdictions for the year.

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

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

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 to 2017, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). From 2018 onwards, such enterprises are entitled to claim Super Deduction at the rate of 175%.

9 Loss per share

(a) Basic

	Year ended December 31,	
	2019	2018
Loss attributable to owners of the Company *(RMB'000)*		
From continuing operations	**(335,763)**	(544,680)
From discontinued operations	**(60,759)**	(709,857)
	(396,522)	(1,254,537)
Weighted average number of ordinary shares in issue *(thousand)*	**4,208,670**	4,219,270
Basic and diluted loss per share *(in RMB/share)*		
From continuing operations	**(0.08)**	(0.13)
From discontinued operations	**(0.01)**	(0.17)
	(0.09)	(0.30)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2019 and 2018, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and restricted stock unit under the Post-IPO Share Award Scheme. As the Group incurred losses for the year ended December 31, 2019 and 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the year ended December 31, 2019 and 2018 is the same as basic loss per share.

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
As of January 1	**16,540**	28,415
Additions	**–**	12,692
Converted from an associate to a subsidiary	**–**	(22,572)
Share of losses of the associates	**(1,226)**	(3,382)
Currency translation differences	**207**	1,387
As of December 31	**15,521**	16,540

For the year ended December 31, 2019, none of the Group's investments in associates is individually material to the Group.

10 (b) Financial assets at fair value through profit or loss

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
As of January 1	**547,178**	280,863
Additions	**12,338**	455,884
Disposals	**–**	(292,560)
Changes in fair value	**(60,845)**	85,174
Currency translation differences	**4,103**	17,817
As of December 31	**502,774**	547,178

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

The Group performs assessments on the fair value of its financial assets at fair value through profit or loss periodically. Management reviews the investees' performance and forecast, and applies valuation techniques, where applicable, to determine their respective fair value. During the year ended December 31, 2019, change in fair value amounting to RMB60,845,000 was recognized as other losses in the consolidated income statement (Note 5).

11 Trade receivables

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables from contracts with customers	**362,550**	523,547
Less: loss allowance	**(2,585)**	(1,730)
	359,965	521,817

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Up to 6 months	**317,450**	479,743
6 months to 1 year	**41,341**	41,254
Over 1 year	**3,759**	2,550
	362,550	523,547

As of December 31, 2019 and 2018, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values.

12 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cash at bank and in hand	**864,611**	421,807
Short-term bank deposits with initial terms within three months	**–**	109,811
	864,611	531,618

(b) Restricted cash

As of December 31, 2019, RMB500,000 (2018: RMB1,000,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As of December 31, 2019, short-term bank deposits amounting RMB1,646,981,000 (2018: RMB2,161,908,000) were bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated both in US$ and HK$, and the weighted average effective interest rate was 3.00% per annum for the year ended December 31, 2019 (2018: 3.00%).

13 Share capital and premium

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

	Note	**Number of ordinary shares** *'000*	**Nominal value of ordinary shares** *US$'000*	**Equivalent nominal value of ordinary shares** *RMB'000*	**Share premium** *RMB'000*
Issued:					
As of January 1, 2019		**4,202,516**	**42**	**274**	**7,040,940**
Employee share option scheme under Pre-IPO ESOP					
– Shares issued and proceeds received	*(a)*	**26,748**	**–**	**2**	**5,513**
Buy-back and cancellation of shares	*(b)*	**(26,000)**	**–**	**(2)**	**(37,279)**
Consideration of business acquisition:					
– Shares issued		**85,739**	**1**	**6**	**124,813**
As of December 31, 2019		**4,289,003**	**43**	**280**	**7,133,987**
As of January 1, 2018		4,273,553	43	280	7,679,137
Employee share option scheme under Pre-IPO ESOP					
– Shares issued and proceeds received	*(a)*	19,828	–	1	4,004
Buy-back and cancellation of shares	*(b)*	(110,865)	(1)	(7)	(642,201)
Employee Share Award Scheme:					
– Shares issued	*(c)*	20,000	–	–	–
As of December 31, 2018		4,202,516	42	274	7,040,940

(a) During the year ended December 31, 2019, 26,748,000 pre-IPO share options with exercise price of US$0.03 were exercised (2018: 19,828,000 pre-IPO share options).

(b) The Company's annual general meeting approved a share buy-back mandate on June 5, 2018 and renewed the mandate on June 3, 2019, pursuant to which the Company may buy back its own issued ordinary shares, from time to time, at the discretion of the Board of Directors of the Company up to an amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company. The buy-back was effective on the date of passing the relevant shareholders' resolution up to the next annual general meeting of the Company. On May 25, 2018, the Board of Directors of the Company authorized a share buy-back plan to buy back the Company's shares up to an amount of US$100,000,000 in value of shares via on-market transactions. During the year ended December 31, 2019, the Company had bought back 26,000,000 shares at an average price of HK$1.60 for an aggregate consideration of HK$41,514,000 (equivalent to RMB37,281,000) and all the shares bought back were subsequently cancelled (2018: 110,865,000 shares at an average price of HK$6.85 for an aggregate consideration of HK$759,361,000 (equivalent to RMB642,208,000)).

(c) During the year ended December 31, 2018, the Company issued 20,000,000 new shares under the Post-IPO Share Award Scheme.

14 Trade and other payables

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Up to 1 year	**88,860**	344,681
1 to 2 years	**24,669**	10,200
Over 2 years	**4,274**	1,640
	117,803	356,521

15 Dividends

No dividends have been paid or declared by the Company during the year ended December 31, 2019 (2018: Nil).

16 Subsequent Events

The wide spread of the Novel Coronavirus (COVID-19) in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

The Group does not have other significant subsequent events.

17 Discontinued operations

As described in Note 1, in order to focus the resources of the Group on implementing its new strategy surrounding "Beauty and Social Media", the Group discontinued the manufacture and production of smartphones on April 30, 2019 and exited its e-commerce business on November 30, 2018.

Financial information relating to discontinued operations for the year ended December 31, 2019 and 2018 are set out below. The income statement and statement of cash flows distinguish discontinued operations from continuing operations and the respective comparative figures have been restated.

The results and cash flows of discontinued operations for the year ended December 31, 2019 are as follows:

	E-commerce operations *RMB'000*	**Smartphone** *RMB'000*	**Total-discontinued operations** *RMB'000*
Revenue	–	386,715	386,715
Cost of sales	–	(386,922)	(386,922)
Expenses	(817)	(71,777)	(72,594)
Other (losses)/gains, net	(101)	2,862	2,761
Other income, net	6,209	3,072	9,281
Profit/(loss) before income tax	5,291	(66,050)	(60,759)
Income tax expense	–	–	–
Profit/(loss) from discontinued operations	5,291	(66,050)	(60,759)
Net cash generated from operating activities	17,299	215,211	232,510
Net cash generated from investing activities	–	2,522	2,522
Cash flows of discontinued operations	17,299	217,733	235,032

The results and cash flows of discontinued operations for the year ended December 31, 2018 are as follows:

	E-commerce operations *RMB'000*	Smartphone *RMB'000*	Total-discontinued operations *RMB'000*
Revenue	180,635	1,843,788	2,024,423
Cost of sales	(252,655)	(1,906,593)	(2,159,248)
Expenses	(127,315)	(430,035)	(557,350)
Other losses, net	(418)	(9,900)	(10,318)
Other income, net	–	2,021	2,021
Loss before income tax	(199,753)	(500,719)	(700,472)
Income tax expense	–	(9,385)	(9,385)
Loss from discontinued operations	(199,753)	(510,104)	(709,857)
Net cash used in operating activities	(201,038)	(579,303)	(780,341)
Net cash used in investing activities	–	(2,158)	(2,158)
Cash flows of discontinued operations	(201,038)	(581,461)	(782,499)

OTHER INFORMATION

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

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

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

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

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

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

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

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, Dr. GUO Yihong and Mr. LAI Xiaoling. 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, 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of the senior management and the Company's auditor. Based on the 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, 2019.

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, 2019 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, 2019. 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, 2019.

Use of Net Proceeds from Listing

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

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

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

Note:

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

Annual General Meeting

The annual general meeting is scheduled to be held on June 3, 2020 (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

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

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, 2019 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

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

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

Hong Kong, March 26, 2020

As at the date of this announcement, the executive directors of the Company are Mr. Cai Wensheng and Mr. Wu Zeyuan (also known as Mr. Wu Xinhong); the non-executive directors of the Company are Dr. Guo Yihong and Dr. Lee Kai-fu; the independent non-executive directors of the Company are Mr. Zhou Hao, Mr. Lai Xiaoling and Mr. Zhang Ming (also known as Mr. Wen Chu).

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.