Meitu, Inc.
美图公司
(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as "美圖之家")
(Stock Code: 1357)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors (the "**Board**") of Meitu, Inc. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd. ("**Meitu Networks**") and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2020.

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

KEY HIGHLIGHTS

- We are pleased to report an Adjusted Net Profit from Continuing Operations attributable to Owners of the Company of RMB24.9 million for the first half of 2020. Growing revenues, vigilant cost control and a focused strategy all contributed to the continued profitable trend since the fourth quarter of 2019.

- Revenues growth accelerated during the first half of 2020 to 20.1%, reaching RMB557.5 million. Although the COVID-19 pandemic has affected our advertising revenues to a certain extent, such effect was more than compensated by the growth in our premium subscription business. The Influencer Marketing Solutions business, a business under incubation, has also gathered momentum during the first half of 2020.

- Gross profit in the first half of 2020 grew 15.5% year over year to RMB355.7 million. Gross margin in the first half of 2020 was 63.8%, approximately 2.6 points lower than that of the first half of 2019. The slightly lower gross margin was mainly due to a shift in business mix, as the Influencer Marketing Solutions business grew significantly in revenues but its gross margin was relatively lower.

- Total monthly active users ("**MAU**") across all of our apps were 295.4 million in June 2020, up 4.6% from December 2019. The average daily time spent of the *Meitu* App's social users reached 15.4 minutes in the first half of 2020, up 13.2% compared to the second half of 2019.

KEY FINANCIAL DATA

	Six months ended June 30,		Year on year
	2020	2019	change
	RMB'000	*RMB'000*	*(%)*
Revenue	**557,465**	464,024	20.1%
– Online Advertising	**318,508**	362,264	–12.1%
– Premium Subscription Services and In-App Purchases	**84,128**	27,212	209.2%
– Internet Value-added Services	**21,340**	15,544	37.3%
– Others	**133,489**	59,004	126.2%
Gross Profit	**355,731**	308,070	15.5%
Gross Margin	**63.8%**	66.4%	–2.6p.p.
Adjusted Net Profit/(Loss) from Continuing Operations attributable to Owners of the Company(1)	**24,940**	(173,783)	–114.4%

KEY OPERATIONAL DATA

	As of June 30,	As of December 31,	
	2020	2019	Change
	'000	*'000*	*(%)*
Total MAU	**295,440**	282,472	4.6%
MAU breakdown by product:			
Meitu	**121,337**	116,429	4.2%
BeautyCam	**65,964**	66,809	–1.3%
BeautyPlus	**78,086**	66,143	18.1%
Meipai	**5,628**	7,057	–20.2%
Others	**24,425**	26,034	–6.2%
MAU breakdown by geography:			
Mainland China	**175,650**	173,631	1.2%
Overseas	**119,790**	108,841	10.1%

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

STRATEGIC HIGHLIGHT AND BUSINESS REVIEW

Strategic Highlight

We have remained focused on laying down the foundation to achieve our vision, "to empower the beauty industry and make beauty more accessible to our users", during the first half of 2020. The Novel Coronavirus ("**COVID-19**") has some impact to the progress of some of our initiatives, yet we have also achieved a great deal during this period, in particular:

i) In order to reinforce the beauty-related positioning of social App *Meitu* by adding more beauty-related content, we have launched the Influencer Marketing Solutions ("**IMS**") business during the first half of 2020. The IMS business focuses on providing clients with influencers (including the key opinion leaders (KOL)/the key opinion consumers (KOC)) social advertising and marketing services across the multiple social platforms, leveraging Meitu's abundant user resources and leading position in image and short video content creation utility market. The IMS business also provides related solutions such as recruiting, training, content production support, quality control and service settlement solutions. We believe this business will provide monetization opportunities for both Meitu and our influencers, and will also promote the production and creation of quality content on the *Meitu* platform.

   Additionally, from the product side we have also launched new features to facilitate content creation such as "Derivatives", a convenient process for users to obtain the filter of a photo or video they saw on the *Meitu* platform, and apply it to their own.

ii) During the first half of 2020, Meitu's business division dedicated to AI skin analysis and beauty-related solutions entered into a strategic cooperation with Christian Dior in the People's Republic of China ("**PRC**"). PRC users of the *Meitu* App can analyze their skin condition via a selfie and receive recommended Dior skincare products based on their results.

iii) We have also conducted some testing in e-commerce live streaming during the first half of 2020. We expect to conduct more testing in the second half of 2020. We believe this service will complement our strategy well as more and more users are buying beauty products through live-streaming.

Business Review

The spread of the COVID-19 pandemic has impacted us and brought us challenges and opportunities.

On the positive side, the user size of our App portfolio has increased, as reflected by our MAUs reaching 295.4 million in June 2020, 4.6% higher than that of December 2019. In addition, the user engagement of our social App *Meitu* has continued to rise, as the average daily time spent of the social users grew to 15.4 minutes in the first half of 2020, compared to 13.6 minutes in the second half of 2019.

Our advertising business was affected by the pandemic, as its revenues declined 12.1% year over year. The pandemic coupled with the negative seasonality due to the Chinese New Year, has sent our advertising revenues to a low point in February 2020, although it had subsequently recovered much as the pandemic situation within Mainland China continued to alleviate. Fortunately, growth of our Premium Subscription Services and In-App Purchases business, which is underpinned by our overseas App, has remained solid throughout the first half of 2020 despite the worsening pandemic situation in several overseas countries. On the other hand, the pandemic has also caused disruptions in the progress of some of our initiatives, such as the remote dermatologist consultation service. We will only scale up this service when we complete fine-tuning this product and the associated user experience.

We have continued to optimize costs and expenses throughout the first half of 2020, and in particular we have completed an optimization of our server and cloud infrastructure that has led to a meaningful reduction in our server and bandwidth cost. In terms of expenses, we have also reduced selling and marketing, research and development and administrative expenses by 21.2%, 25.5% and 21.5% respectively.

Looking ahead, we expect our revenues to continue to grow, driven mostly by our new IMS, Premium Subscription Services and In-App Purchases businesses. However, the outlook of our advertising business remains uncertain as it depends on the development of the global pandemic. Although we have consistently generated Adjusted Net Profit from Continuing Operations attributable to the Owners of the Company over the past three quarters, the absolute dollar amount of Adjusted Net Profit from Continuing Operations is still relatively small compared to our cost base. While we are cautiously optimistic about remaining profitable for the full year of 2020, we note that volatilities in our revenues may change such outlook, and such volatilities may be inevitable amidst the pandemic and uncertain geopolitical environment. That said, with our strong cash and other liquid financial resources balance of over RMB2.5 billion, we can make continuous investment in technological innovation and business development. We will continue to remain vigilant and nimble, striving to realize our vision, and generate long-term shareholder value.

MANAGEMENT DISCUSSION AND ANALYSIS

Six months ended June 30, 2020 compared to six months ended June 30, 2019

	Unaudited Six months ended June 30, 2020	Unaudited Six Months ended June 30, 2019
	RMB'000	*RMB'000*
Continuing operations		
Revenue	**557,465**	464,024
Cost of sales	**(201,734)**	(155,954)
Gross profit	**355,731**	308,070
Selling and marketing expenses	**(134,568)**	(170,785)
Administrative expenses	**(101,013)**	(128,736)
Research and development expenses	**(188,009)**	(252,383)
Net impairment losses on financial assets	**(2,424)**	(1,417)
Other income	**20,399**	7,920
Other gains/(losses), net	**9,279**	(34,724)
Finance income, net	**21,613**	22,736
Share of profits/(losses) of investments accounted for using the equity method	**1,478**	(950)
Loss before income tax	**(17,514)**	(250,269)
Income tax expense	**(7,479)**	(8,589)
Loss from continuing operations	**(24,993)**	(258,858)
Loss from discontinued operations (attributable to equity holders of the Company)	**–**	(119,221)
Loss attributable to:		
– Owners of the Company	**(15,953)**	(371,231)
– Non-controlling interests	**(9,040)**	(6,848)
	(24,993)	(378,079)
Non-IFRS measure:		
Adjusted Net Profit/(Loss) from continuing operations		
– Owners of the Company	**24,940**	(173,783)
– Non-controlling interests	**(5,039)**	(4,741)
	19,901	(178,524)

Continuing Operations

Revenue

Our total revenue primarily consists of Internet business, as we discontinued our smartphone business in early 2019. Accordingly, we adjusted the way we present revenue to align with our key business focus. We derive our revenues from (i) online advertising; (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 periods presented.

Our total revenue increased significantly by 20.1% to RMB557.5 million for the six months ended June 30, 2020, compared to RMB464.0 million for the six months ended June 30, 2019, mainly driven by the strong growth in premium subscription services and in-App purchases and our IMS business, partly offset by a moderate decline in advertising business.

	Six months ended June 30,			
	2020		2019	
	Amount RMB'000	**% of total revenues**	*Amount RMB'000*	% of total revenues
Online Advertising	**318,508**	**57.1%**	362,264	78.1%
Premium Subscription Services and In-App Purchases	**84,128**	**15.1%**	27,212	5.9%
Internet Value-added Services	**21,340**	**3.8%**	15,544	3.3%
Others	**133,489**	**24.0%**	59,004	12.7%
Total	**557,465**	**100.0%**	464,024	100.0%

Online advertising

Our revenue from online advertising decreased by 12.1% year on year to RMB318.5 million for the six months ended June 30, 2020, primarily due to the impact from the COVID-19 outbreak. Such impact is particularly pronounced during the first quarter, but as the outbreak gradually becomes under control within Mainland China, our advertising revenue gradually picked up from the low point in February. Our advertising revenue from overseas markets also hit a trough in April but has stabilized subsequently. Meanwhile, although advertising revenue contributed by the Indian market is negligible, the recent Indian ban on Chinese mobile applications in July is likely to impact our future revenue growth in that market. We believe advertisers are generally taking a wait-and-see approach before they ramp up their marketing activities again amidst the global pandemic and uncertain economic outlook. As such, we do not expect an immediate reacceleration of growth in our advertising business.

Notwithstanding the slightly weaker revenue performance in the first half of 2020, we remain confident in our marketing efforts in the long term. In fact, before the COVID-19 pandemic, we have been able to increase our ads fill-rate and new client acquisition consistently for many quarters due to enhanced ads performance, continued refining of our unique beauty-related proposition as well as optimized auction algorithm. We will continue to build on this strength, and take advantage of this shelter-in-place period to: i) drive higher user page views, and hence advertising inventories, through building out the influencer ecosystem surrounding our social Apps; and ii) introducing new advertising products that enhance the ability for the brands to engage with their audience. As such, when the economic environment normalizes, we will be in an even stronger position to capture advertisers' budgets.

Premium subscription services and in-App purchases

Revenue from premium subscription services and in-App purchases continued a strong momentum with a significant year-over-year increase of 209.2% to RMB84.1 million for the six months ended June 30, 2020, compared to RMB27.2 million for the six months ended June 30, 2019. This business has also recorded double-digit sequential growth in the second quarter of 2020 against the first quarter of 2020, thanks to effective user acquisition and improving monthly subscriber retention. We have also upgraded our analytics infrastructure during the first half of 2020 to better measure and estimate return on investment ("**ROI**") of user acquisition for this business, such that we will be able to identify regions and/or campaigns that can generate positive ROI and ramp up our investment in these areas to further drive growth in this business.

*Internet value-added services ("**IVAS**")*

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.

For the first half of 2020, revenue from our IVAS increased by 37.3% from year over year to RMB21.3 million from RMB15.5 million for the six months ended June 30, 2019, as we improved the click through rate and conversion rate through optimized user experience and more accurate recommendation.

Others

Others include businesses that are currently in incubation as well as legacy businesses that do not fall directly under our strategic goals. For the first half of 2020, revenue from others increased significantly by 126.2% year over year to RMB133.5 million from RMB59.0 million for the six months ended June 30, 2019.

Our newly incubated IMS business contributed primarily to this significant growth, as it represented approximately 72.9% of this revenue line during the first half of 2020. There were no such revenues generated during the first half of 2019. As a leader in image and video content creation utility, Meitu has amassed numerous users who are proficient in creating quality content. The COVID-19 pandemic has driven many of Meitu's users to make their foray into becoming influencers. The IMS business focuses on providing clients with influencers (including the key opinion leaders (KOL)/the key opinion consumers (KOC)) social advertising and marketing services across the multiple social platforms, leveraging Meitu's abundant user resources and leading position in image and short video content creation utility market. The IMS business also provides related solutions such as recruiting, training, content production support, quality control and service settlement solutions. We believe this business will provide monetization opportunities for both Meitu and our influencers, and will also promote the production and creation of quality content on the *Meitu* platform.

One other notable business currently under incubation is our MeituEve business, which focuses on AI skin analysis and beauty solutions. Our flagship product, a medical-grade panoramic skin analyzer (also carries the name of MeituEve), has received a lot of interests from leading skincare brands as well as beauty spas. In terms of business model, we are currently experimenting with a combination of hardware sales and premium subscription.

Cost of Sales

Our cost of sales increased by 29.4% to RMB201.7 million for the six months ended June 30, 2020, compared to RMB156.0 million for the six months ended June 30, 2019.

Gross Profit and Margin

Our gross profit increased by 15.5% to RMB355.7 million for the six months ended June 30, 2020, from RMB308.1 million for the six months ended June 30, 2019. Our gross margin slightly decreased to 63.8% for the six months ended June 30, 2020, from 66.4% for the six months ended June 30, 2019, due to an increasing revenue contribution from our IMS business which had a much lower margin than advertising business and premium subscription service.

Research and Development Expenses

Research and development expenses decreased by 25.5% to RMB188.0 million for the six months ended June 30, 2020, from RMB252.4 million for the six months ended June 30, 2019, primarily due to more effective cost control in employee expenses.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 21.2% to RMB134.6 million for the six months ended June 30, 2020, from RMB170.8 million for the six months ended June 30, 2019, primarily due to more effective cost control in both promotional expenses and staffing costs.

Administrative Expenses

Administrative expenses decreased by 21.5% to RMB101.0 million for the six months ended June 30, 2020, from RMB128.7 million for the six months ended June 30, 2019, primarily due to more effective cost control.

Other Income

Other Income for the six months ended June 30, 2020 increased to RMB20.4 million, from RMB7.9 million for the six months ended June 30, 2019, due to an increase in government grants and disposal income of selling some properties and equipments.

Other Gains/(Losses), Net

Other gains, net were RMB9.3 million for the six months ended June 30, 2020, compared to net losses of RMB34.7 million for the six months ended June 30, 2019, primarily attributable to: (i) an increase in the net gains on disposal of long-term investments and (ii) the net loss from the fair value change and impairment loss of certain long-term investments of RMB14.2 million, compared to a net loss of RMB43.6 million in the first half of 2019.

Finance Income, Net

Our net finance income mainly comprised of bank interest income and foreign exchange gains. Our net finance income decreased slightly by 4.9% to RMB21.6 million for the six months ended June 30, 2020, from RMB22.7 million for the six months ended June 30, 2019, primarily due to a decrease of bank interest income compared to the same period last year.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2020 were RMB7.5 million, compared to RMB8.6 million for the six months ended June 30, 2019. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2020, some of our entities generated positive net profits.

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

Net loss from continuing operations for the six months ended June 30, 2020 decreased significantly to RMB25.0 million from RMB258.9 million for the six months ended June 30, 2019, primarily due to the combined positive effect of gross profit growth and expenses reduction.

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

Adjusted Net Profit from Continuing Operations attributable to the Owners of the Company was RMB24.9 million for the six months ended June 30, 2020, compared to Adjusted Net Loss from Continuing Operations attributable to the Owners of the Company of RMB173.8 million for the six months ended June 30, 2019, mainly due to the growth in gross profits from premium subscription service and cost reduction from our expense optimization plan. As we mentioned in the 2019 annual report, we had been vigilant in cost management and the Adjusted Net Loss from Continuing Operations had been narrowed significantly in 2019, and we started to make a positive Adjusted Net Profit from Continuing Operations attributable to the Owners of the Company in the fourth quarter of 2019. In spite of the unforeseen adverse impact from COVID-19, we still managed to continue with such profitability trend due to rising revenues and vigilant cost and expense control.

The following table reconciles our Adjusted Net Profit/(Loss) from Continuing Operations for the six months ended June 30, 2020 and 2019 to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the period:

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Loss from continuing operations	**(24,993)**	(258,858)
Excluding:		
Share-based compensation	**25,429**	23,864
Changes on fair value of long-term investments	**14,237**	43,603
Net effect of goodwill impairment and remeasurement gain on consideration to non-controlling shareholders of a subsidiary	**2,066**	2,759
Gains on disposal of long-term investments	**(8,373)**	(5,171)
Amortisation of intangible assets and other expenses related to acquisition	**13,545**	7,530
Other one-off expenses	**–**	5,104
Tax effects	**(2,010)**	2,645
Adjusted Net Profit/(Loss) from continuing operations	**19,901**	(178,524)
– Owners of the Company	**24,940**	(173,783)
– Non-controlling interests	**(5,039)**	(4,741)

Discontinued Operations

The Group discontinued its smartphone business in 2019 and exited its e-commerce business in 2018 to fully focus on its Internet-based business.

Non-controlling Interests

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

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources as of June 30, 2020 and December 31, 2019 were as follows:

	June 30, 2020 *RMB'000*	December 31, 2019 *RMB'000*
Cash and cash equivalents	**649,294**	864,611
Short-term bank deposits	**1,735,017**	1,646,981
Long-term bank deposits	**120,000**	110,000
Short-term investments placed with banks	**20,151**	–
Cash and other liquid financial resources	**2,524,462**	2,621,592

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

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

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the six months ended June 30, 2020. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Expenditure

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Purchase of property and equipment	**5,096**	6,264

Our capital expenditures primarily included expenditures for purchases of leasehold improvements.

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

Long-term Investment Activities

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

For the six months ended June 30, 2020, the Group had long-term investments classified as financial assets at fair value through profit and loss, where no individual investment constituted 5% or more of the Group's total assets as at June 30, 2020.

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency for the six months ended June 30, 2020 and 2019.

Pledge of Assets

As of June 30, 2020, we pledged a restricted deposit of RMB500,000 (as of December 31, 2019: RMB500,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As of June 30, 2020, we did not have any material contingent liabilities (as of December 31, 2019: nil).

Borrowings And Gearing Ratio And Borrowings

As of June 30, 2020, we did not have any pledged bank borrowings (as of December 31, 2019: nil). Therefore the gearing ratio of the Group was 0% as of June 30, 2020 (as of December 31, 2019: 0%). The gearing ratio is calculated as the total borrowings divided by the total equity on the respective reporting date. 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 1,558 full-time employees as of June 30, 2020 (as of December 31, 2019: 1,840) a majority of whom were based in various cities in China, including Xiamen (headquarters), Beijing, Shenzhen and Shanghai. Remuneration is determined with reference to market conditions and individual employees' performance, qualifications and experience.

Significant Investments Held

As of June 30, 2020, we did not hold any significant investments in the equity interests of any other companies.

Save as disclosed in this announcement, during the six months ended June 30, 2020, 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. Appropriate disclosures will be made by the Company when it becomes necessary 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 June 30, 2020.

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

On April 24, 2020, the Group disposed approximately 3.32% of the issued share capital of a subsidiary, PressLogic Holdings Limited ("**PressLogic**"), to PressLogic and other third parties at a cash consideration of HK$12,000,000 (equivalent to approximately RMB10,964,000). After the completion of the disposal transactions, the Group's shareholding in PressLogic reduced from approximately 51.04% to 47.72% and the Group no longer have control over PressLogic. The Group's remaining shareholdings in PressLogic were recognized as investment in associates. Further details of the disposal transactions can be found in the announcement of the Company published on April 24, 2020.

Save as disclosed above, we did not conduct any material acquisition or disposal of subsidiaries and/or affiliated companies during the six months ended June 30, 2020.

Important Events after the Reporting Date

There were no important events affecting the Company which occured after June 30, 2020 and up to the date of this announcement.

FINANCIAL INFORMATION
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Note	**Unaudited Six months ended June 30, 2020** *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Continuing operations			
Revenue	*3*	**557,465**	464,024
Cost of sales	*4*	**(201,734)**	(155,954)
Gross profit		**355,731**	308,070
Selling and marketing expenses	*4*	**(134,568)**	(170,785)
Administrative expenses	*4*	**(101,013)**	(128,736)
Research and development expenses	*4*	**(188,009)**	(252,383)
Net impairment losses on financial assets		**(2,424)**	(1,417)
Other income		**20,399**	7,920
Other gains/(losses), net	*5*	**9,279**	(34,724)
Finance income, net		**21,613**	22,736
Share of profits/(losses) of investments accounted for using the equity method		**1,478**	(950)
Loss before income tax		**(17,514)**	(250,269)
Income tax expense	*6*	**(7,479)**	(8,589)
Loss from continuing operations		**(24,993)**	(258,858)
Loss from discontinued operations (attributable to equity holders of the Company)	*11*	**–**	(119,221)
Loss for the period		**(24,993)**	(378,079)
Loss attributable to:			
– Owners of the Company		**(15,953)**	(371,231)
– Non-controlling interests		**(9,040)**	(6,848)
		(24,993)	(378,079)
Loss per share for loss from continuing operations attributable to owners of the Company for the period (expressed in RMB per share)	*7*		
– Basic		**(0.004)**	(0.06)
– Diluted		**(0.004)**	(0.06)
Loss per share for loss attributable to owners of the Company for the period (expressed in RMB per share)	*7*		
– Basic		**(0.004)**	(0.09)
– Diluted		**(0.004)**	(0.09)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited Six months ended June 30, 2020** *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Loss for the period		**(24,993)**	(378,079)
Other comprehensive income/(loss), net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**29,781**	(13,215)
Other comprehensive income/(loss) for the period, net of tax		**29,781**	(13,215)
Total comprehensive income/(loss) for the period, net of tax		**4,788**	(391,294)
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**13,489**	(384,279)
– Non-controlling interests		**(8,701)**	(7,015)
		4,788	(391,294)
Total comprehensive income/(loss) for the period attributable to owners of the Company arises from:			
Continuing operations		**13,489**	(265,058)
Discontinued operations		**–**	(119,221)
		13,489	(384,279)

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited June 30, 2020** *RMB'000*	Audited December 31, 2019 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**26,398**	75,058
Right-of-use assets		**36,812**	51,455
Intangible assets		**405,287**	497,799
Term deposits		**120,000**	110,000
Long-term investments			
– Investments in associates in the form of ordinary shares		**87,256**	15,521
– Financial assets at fair value through profit or loss		**555,433**	502,774
– Financial assets at fair value through other comprehensive income		**9,819**	9,676
Prepayments and other receivables		**9,759**	9,467
Deferred tax assets		**3,037**	3,037
		1,253,801	1,274,787
Current assets			
Inventories		**4,337**	14,307
Trade receivables	*9*	**356,587**	359,965
Prepayments and other receivables		**413,861**	454,559
Short-term investments placed with banks		**20,151**	–
Short-term bank deposits		**1,735,017**	1,646,981
Restricted cash		**500**	500
Cash and cash equivalents		**649,294**	864,611
		3,179,747	3,340,923
Total assets		**4,433,548**	4,615,710

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	Unaudited June 30, 2020 RMB'000	Audited December 31, 2019 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**280**	280
Share premium		**7,134,687**	7,133,987
Reserves		**13,180**	(66,455)
Accumulated losses		**(3,445,120)**	(3,429,954)
		3,703,027	3,637,858
Non-controlling interests		**25,690**	97,342
Total equity		**3,728,717**	3,735,200
Liabilities			
Non-current liabilities			
Trade and other payables		**–**	85,094
Lease liabilities		**7,821**	18,647
Deferred tax liabilities		**34,498**	45,518
		42,319	149,259
Current liabilities			
Contract liabilities		**47,564**	58,947
Trade and other payables	*10*	**537,843**	597,486
Lease liabilities		**27,755**	30,757
Income tax liabilities		**49,350**	44,061
		662,512	731,251
Total liabilities		**704,831**	880,510
Total equity and liabilities		**4,433,548**	4,615,710

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited Six months ended June 30, 2020** ***RMB'000***	Unaudited Six months ended June 30, 2019 *RMB'000*
Net cash used in operating activities		**(79,211)**	(64,747)
Net cash (used in)/generated from investing activities		**(105,084)**	653,361
Net cash used in financing activities		**(31,893)**	(85,262)
Net (decrease)/increase in cash and cash equivalents		**(216,188)**	503,352
Cash and cash equivalents at the beginning of the period		**864,611**	531,618
Effects of exchange rate changes on cash and cash equivalents		**871**	1,183
Cash and cash equivalents at the end of the period		**649,294**	1,036,153
Analysis of balances of cash and cash equivalents			
Cash at bank and in hand		**245,435**	424,773
Short-term bank deposits with initial terms within three months		**403,859**	611,380
		649,294	1,036,153

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

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

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

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**").

The interim condensed consolidated balance sheet as of June 30, 2020, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "**Interim Financial Information**") of the Group have been approved for issue by the Board of Directors ("**Board**") on August 26, 2020.

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

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

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2019, as described in those annual financial statements.

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

(a) The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of these new and amended standards does not have significant impact on the Interim Financial Information of the Group.

(b) The following new standards, amendments, improvement and interpretation have been issued but are not effective for the financial year beginning January 1, 2020 and have not been early adopted:

New standards, amendments, improvement and interpretation		**Effective for accounting periods beginning on or after**
Amendments to annual improvements project	Annual improvements 2018-2020 cycle	January 1, 2022
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	January 1, 2022
IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
IAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 3 (Amendments)	Reference to the Conceptual Framework	January 1, 2022
IFRS 17	Insurance contracts	January 1, 2023
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

Management is in the process of making an assessment of the impact of these new standards, amendments, improvement and interpretation in the period of initial application.

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 incorporations registered in the PRC. Therefore, no geographical segments are presented.

The results of the revenue for the six months ended June 30, 2020 and 2019 are as follows:

	Unaudited Six months ended June 30, 2020 *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Revenue from continuing operations		
Online Advertising	**318,508**	362,264
Premium Subscription Services and In-App Purchases	**84,128**	27,212
Internet Value-added Services	**21,340**	15,544
Others *(Note (a))*	**133,489**	59,004
Total revenue	**557,465**	464,024
Revenue from discontinued operations *(Note 11)*	**–**	203,704

(a) Others mainly include a newly-developed business, influencer marketing solutions business, in which the Group provides influencer content marketing solutions for multi-channel networks. Revenue is recognized upon the acceptance of the influencer content marketing solutions.

	Unaudited Six months ended June 30, 2020	Unaudited Six months ended June 30, 2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**145,395**	74,548
Over time	**412,070**	389,476
	557,465	464,024

No revenue from any customer exceeded 10% or more of the Group's revenue for the six months ended June 30, 2020. The major customer which contributed more than 10% of the revenue from continuing operations of the Group for the six months ended June 30, 2019 is listed as below.

	Unaudited Six months ended June 30, 2020	Unaudited Six months ended June 30, 2019
Customer A	*	16%

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

4 Expenses by nature

	Unaudited Six months ended June 30, 2020 *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Employee benefit expenses	**306,056**	363,656
Remuneration paid to influencers	**96,178**	–
Promotion and advertising expenses	**51,414**	64,062
Bandwidth and storage related costs	**30,917**	44,736
Revenue sharing fee	**27,161**	49,988
Depreciation of right-of-use assets	**20,525**	23,417
Depreciation of property and equipment	**19,924**	33,762
Amortization of intangible assets	**13,622**	6,954
Video content monitoring fee	**9,515**	11,552
Travelling and entertainment expenses	**4,322**	11,087
Auditors' remuneration	**3,361**	3,187
Operating lease expenses	**3,204**	1,217
Tax and levies	**1,753**	10,597
Impairment of prepayments	**–**	30,971
Others	**37,372**	52,672
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**625,324**	707,858

5 Other gains/(losses), net

	Unaudited Six months ended June 30, 2020 *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Gains on disposal of a subsidiary	**8,373**	–
Fair value changes on short-term investments placed with banks	**7,400**	6,726
Gains/(losses) on disposal of property and equipment	**1,123**	(422)
Goodwill impairment	**–**	(33,336)
Remeasurement (losses)/gains on consideration to non-controlling shareholders of a subsidiary	**(2,066)**	30,577
Fair value changes on financial assets at fair value through profit or loss	**(4,809)**	(43,603)
Impairment of investment in an associate	**(9,428)**	–
Others	**8,686**	5,334
	9,279	(34,724)

6 Income tax expense

The income tax expense of the Group for the six months ended June 30, 2020 and 2019 are analyzed as follows:

	Unaudited Six months ended June 30, 2020 *RMB'000*	Unaudited Six months ended June 30, 2019 *RMB'000*
Current income tax:		
– PRC and overseas enterprise income tax	**12,444**	9,748
Deferred income tax	**(4,965)**	(1,159)
	7,479	8,589
Income tax expense is attributable to:		
Profit from continuing operations	**7,479**	8,589
Profit from discontinued operations	**–**	–

(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 utilized 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 period.

(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.

7 Loss per share

(a) Basic

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

	Unaudited Six months ended June 30, 2020	Unaudited Six months ended June 30, 2019
Loss attributable to owners of the Company *(RMB'000)*		
From continuing operations	**(15,953)**	(252,010)
From discontinued operations	**–**	(119,221)
	(15,953)	(371,231)
Weighted average number of ordinary shares in issue *(thousand)*	**4,280,483**	4,189,638
Basic and diluted loss per share *(in RMB/share)*		
From continuing operations	**(0.004)**	(0.06)
From discontinuing operations	**–**	(0.03)
	(0.004)	(0.09)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended June 30, 2020 and 2019, 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 six months ended June 30, 2020, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2020 is the same as basic loss per share.

8 Dividends

No dividends had been paid or declared by the Company during the six months ended June 30, 2020 (six months ended June 30, 2019: nil).

9 Trade receivables

The Group grants a credit period of 30 to 120 days to its customers. As of June 30, 2020 and December 31, 2019, the aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date were as follows:

	Unaudited As of June 30, 2020 ***RMB'000***	Audited As of December 31, 2019 *RMB'000*
Trade receivables		
Up to 6 months	**287,946**	317,450
6 months to 1 year	**68,169**	41,027
Over 1 year	**472**	1,488
	356,587	359,965

As of June 30, 2020 and December 31, 2019, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates.

10 Trade and other payables

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

	Unaudited As of June 30, 2020 ***RMB'000***	Audited As of December 31, 2019 *RMB'000*
Up to 1 year	**65,523**	88,860
1 to 2 years	**17,057**	24,669
Over 2 years	**16,034**	4,274
	98,614	117,803

11 Discontinued operations

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 smartphones and e-commerce business for the period to the date of disposal during the six months ended June 30, 2019 is set out below. The condensed consolidated statement of profit or loss and statement of cash flows distinguish discontinued operations from continuing operations.

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

OTHER INFORMATION

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

During the six months ended June 30, 2020, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares.

Compliance with the Corporate Governance Code

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

During the six months ended June 30, 2020, 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 Directors' dealings in the securities of the Company. Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended June 30, 2020.

The Board has also established written guidelines to regulate dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted for the six months ended June 30, 2020 after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. As of the 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 unaudited interim financial statements of the Group for the six months ended June 30, 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Group's unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended June 30, 2020.

Dividends

The Board resolved not to declare or recommend an interim dividend for the six months ended June 30, 2020.

Use of Net Proceeds from Listing

The Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on December 15, 2016. The net proceeds from the listing amounted to approximately RMB4,211.5 million.

As of June 30, 2020, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from the Listing *(RMB million)*	**Utilization for the six months June 30, 2020** *(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	1,022.2	60.7	357.3
Implementation of sales and marketing initiatives in both China and overseas market	890.7	–	–
Expansion of Internet services business	593.2	40.3	175.0
Expansion of research and development capabilities	296.6	–	–
General working capital	409.1	409.1	–

Note:

(1) The figures were based on an average of the prevailing exchange rates of RMB against a foreign currency in the first half of 2020.

The remaining balance of the net proceeds was placed with banks. There is a delay to the timeline on the application of the net proceeds from the listing as previously disclosed in the Company's prospectus dated December 5, 2016. The Company expects to fully utilize the remaining net proceeds by the end of 2022.

Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.meitu.com. The interim report of the Company for the six months ended June 30, 2020 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders on or before September 30, 2020.

APPRECIATION

Finally, on behalf of everyone at Meitu, I would like to express our sincere gratitude to all of our users. I would also like to thank all our employees and management team for demonstrating Meitu's core values in every day's work, and executing 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, August 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, Dr. Lee Kai-fu and Mr. Chen Jiarong; the independent non-executive directors of the Company are Mr. Zhou Hao, Mr. Lai Xiaoling, Mr. Zhang Ming (also known as Mr. Wen Chu) and Ms. Kui Yingchun.

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.