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, 2020

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, 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 the first full-year profitability in terms of Adjusted Net Profit[(1)] since the initial public offering of the Company on December 15, 2016 ("**IPO**"). For the year ended December 31, 2020, we generated an Adjusted Net Profit from Continuing Operations attributable to Owners of the Company of RMB60.9 million. The turn to profitability in terms of Adjusted Net Profit[(1)] is a result of a focused strategy that drove both revenues and gross profits to grow.

- Meitu's ability to scale up new monetization model is evidenced by the strong year over year revenue growth of 22.1%, to RMB1.194 billion in 2020, despite the impact from the COVID-19 pandemic. More importantly, premium subscription services and in-app purchases has become our second biggest monetization model after online advertising, and it is growing significantly by 140.1% year over year in 2020.

- Daily active users ("**DAU**") of *Meitu*, our flagship app, has reached a historical peak of over 31 million during Lunar New Year in 2021, 13% higher than the peak achieved in 2020. Successful implementation of the "*Meitu Template*" functionality was the main driver.

- Total monthly active users ("**MAU**") in December 2020 was 261.0 million, down 7.6% year over year. The vast majority of this decline was driven by the MAU decline in India, as some of our apps were banned by the Indian government. Excluding such impact, MAU had remained relatively stable year over year. This event had limited impact on us financially as revenue contribution from India was historically minimal. However, we have taken this opportunity to adjust our overseas strategy to drive high-value user growth as opposed to headline user growth, and focus on countries with monetization potential. We are pleased to report that revenues generated by our apps overseas have continued to grow significantly in 2020.

KEY FINANCIAL DATA

	Year ended December 31, 2020 RMB'000	2019 RMB'000	Year on year change (%)
Revenue	**1,194,020**	977,867	22.1%
– Online Advertising	**680,709**	751,886	-9.5%
– Premium Subscription Services and In-app Purchases	**206,489**	85,987	140.1%
– Internet Value-added Services	**45,211**	45,599	-0.9%
– Others	**261,611**	94,395	177.1%
Gross Profit	**793,871**	699,283	13.5%
Gross Margin	**66.5%**	71.5%	-5.0p.p.
Loss from continuing operations	**(60,132)**	(344,061)	-82.5%
Adjusted Net Profit/(Loss) from Continuing Operations attributable to Owners of the Company[1]	**60,892**	(190,813)	-131.9%

Note:

(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".

KEY OPERATIONAL DATA

	As of December 31, 2020 '000	2019 '000	Year on year change (%)
Total MAU	**261,048**	282,472	-7.6%
MAU breakdown by product:			
– Meitu	**114,718**	116,429	-1.5%
– BeautyCam	**61,850**	66,809	-7.4%
– BeautyPlus	**55,141**	66,143	-16.6%
– Others	**29,339**	33,091	-11.3%
MAU breakdown by geography:			
– Mainland China	**163,098**	173,631	-6.1%
– Overseas	**97,950**	108,841	-10.0%

BUSINESS REVIEW

Dear Shareholders,

THE FIRST FULL-YEAR PROFITABILITY IN TERMS OF ADJUSTED NET PROFIT SINCE IPO

We are pleased to report the first full-year profitability in terms of Adjusted Net Profit since IPO.

For the year ended December 31, 2020, we generated an Adjusted Net Profit from Continuing Operations attributable to Owners of the Company of RMB60.9 million. The turn to profitability in terms of Adjusted Net Profit is a result of a focused strategy that drove both revenues and gross profits to grow.

SUCCESS IN BUILDING NEW MONETIZATION MODEL

Revenues in 2020 were RMB1.194 billion, an increase of 22.1% year over year. Online advertising was our first major monetization model and hence it is not surprising that it remained as the largest revenue contributor in 2020. However, our premium subscription services and in-app purchases business have grown very significantly since its launch in 2019, and had become the second largest revenue contributor in 2020. This is strong evidence that Meitu is now capable of developing and scaling new monetization models.

Revenues from premium subscription services and in-app purchases were RMB206.5 million, growing 140.1% year over year. We rolled out this monetization model initially on our overseas image app, *AirBrush* and *BeautyPlus*. After receiving initial success, we have quickly replicated this monetization model to our flagship Chinese apps, *Meitu* and *BeautyCam*, during the second half of 2020. In December 2020, we have more than 1.7 million active paying subscribers across these apps.

BREAKTHROUGH IN SOCIAL DROVE HISTORICAL HIGH DAU DURING LUNAR NEW YEAR IN 2021

We have reached a historical peak DAU for our *Meitu* app of over 31 million during the 2021 Lunar New Year, which was 13% higher than the peak that we achieved in 2020. Successful implementation of the "*Meitu Template*" (previously translated as "*Derivatives*") functionality was the main driver. With this new feature, users can now conveniently save every step of their image editing process in a "template", which can then be shared on social platforms enabling other users to apply it to their own images. This feature fits very well with the positioning of *Meitu* as an image editing app, yet enabling a lot of social interactions.

In addition, this feature also has ample monetization potential as it can attract designers and artists to create professional artwork such as stickers and photo frames which can become premium content of our subscription services. In addition, after witnessing our success in the 2021 Lunar New Year, many brand advertisers have expressed interest in working with designers on our platform to accumulate fans and launch advertising campaigns that can better communicate their brand messages.

The user engagement of our social app *Meitu* has continued to rise, as the average daily time spent of the social users grew to 16.1 minutes in the second half of 2020, compared to 13.6 minutes in the second half of 2019. However, in terms of strategy, we are moving away from maximizing the average daily time spent of the *Meitu* app. This is because we believe that as our premium subscription business continues to ramp up, we do not need to rely solely on driving time spent to generate advertising revenues. We can, conversely, work on enabling users to get to their desired image editing outcome using the least amount of time, which ultimately will enhance user experience.

SWIFT ADAPTATION TO THE INDIAN BAN OF CHINESE APPS

In mid-2020, the Indian government has banned a large number of Chinese apps and some of our apps were affected. As a result, the MAU of these apps have declined during 2020, becoming by far the single most important reason behind the decline in total MAU by 7.6% year on year. Excluding the impact from India, overall MAU have remained roughly stable year over year. This event has minimal financial impact on us as revenue contribution from India was historically minimal.

However, we have also taken this opportunity to adopt a change of strategy, from focusing on headline user growth to high-value user growth that could ultimately bring in profitability. In particular, we have combined the expertise of our marketing team and data team to build an analytic platform to track the ROI ("**return on investment**") of our user acquisition efforts, such that we can effectively monitor and allocate our marketing budget to acquire users that are more likely to convert into paid subscribers, hence driving revenues and profitability. As such, we are also focusing more in countries that have higher monetization potential. This new strategy is already paying off as our revenues generated by overseas users have continued to grow despite the MAU decline.

On the other hand, we will also explore the potential to grow users in countries within The Belt and Road Initiative.

ONE STEP CLOSER TO OUR VISION: SAAS FOR THE BEAUTY INDUSTRY

Our vision is to empower the beauty industry and make beauty more accessible to our users. To this end, we are launching SaaS ("**software-as-a-service**") solutions to empower the beauty industry, and in particular, cosmetic and skin-care brands and medical aesthetics providers. We identified three areas which we believe we have the ability to add value for the industry, namely, artificial intelligence ("**AI**") technology, marketing and customer reach, as well as supply chain management.

AI technology

Under the *MeituEve* brand, we provide AI skin analysis solutions to skin care brands and beauty spas globally. *MeituEve*'s full range of product offerings cover professional-grade panoramic skin analyzer, hand-held skin analyzer, tablet and mobile phone-based solutions that can suit the needs of different clients globally. Powered by *MeituEve*'s proprietary AI algorithms, *MeituEve*'s products are able to accurately identify one's skin quality and condition, and recommend skincare solutions to users to improve their skin conditions. In turn, this can help our clients to get more customer insight and ultimately increase sales conversion.

Currently, *MeituEve*'s flagship panoramic skin analyzers have been deployed in over 200 cities globally, and many leading global cosmetic and skincare brands have expressed interest in working with *MeituEve*. Notably in 2020, Christian Dior has entered into a strategic cooperation with us 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 such results. Separately, Shiseido has also announced in January 2021 that its new anti-aging skin care brand, EFFECTIM, will provide personalized skincare solution for its customers based on the skin analysis results generated by *MeituEve*'s panoramic skin analyzers.

Marketing and customer reach

With our significant user base of image apps, it is no surprise that we are able to assist our clients to reach a broad audience who are actively looking to become more beautiful. Apart from traditional display advertising, we have launched two services that are able to help brands to accumulate fans and drive conversion to sales.

Firstly, through our Influencer Marketing Solutions ("**IMS**") business, we are able to provide advertisers with social advertising and marketing services across multiple online and mobile social media platforms through the online performance undertaken by third party influencers (including the key opinion leaders ("**KOL**")/the key opinion consumers ("**KOC**")), leveraging Meitu's abundant user resources and leading position in image and short video content creation utility market. Secondly, we have also launched a new feature in the *Meitu* app to help brands to distribute product samples to targeted users, ultimately aiming to drive sales conversion.

In early 2021, we have also built a team specifically servicing the medical aesthetic industry to reach potential customers and drive sales conversion. This service is still in testing phase but initial results were very encouraging, as the click-through-rate ("**CTR**") is significantly higher than that of traditional display advertising.

Supply chain management

One of our associate investees, Meidd, is currently providing enterprise resource planning ("**ERP**") SaaS for over ten thousand cosmetic stores in the PRC. Building on that, it has recently also expanded into providing centralized procurement services for its clients, optimizing their supply chain management efforts.

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2020 compared to year ended December 31, 2019

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Continuing operations		
Revenue	**1,194,020**	977,867
Cost of sales	**(400,149)**	(278,584)
Gross profit	**793,871**	699,283
Selling and marketing expenses	**(287,517)**	(326,457)
Administrative expenses	**(205,902)**	(250,826)
Research and development expenses	**(404,213)**	(500,589)
Net impairment losses on financial assets	**(5,020)**	(2,882)
Other income	**38,521**	49,486
Other gains/(losses), net	**39**	(47,551)
Finance income, net	**29,556**	45,685
Shares of profits/(losses) of investments accounted for using the equity method	**4,561**	(1,226)
Loss before income tax	**(36,104)**	(335,077)
Income tax expense	**(24,028)**	(8,984)
Loss from continuing operations	**(60,132)**	(344,061)
Loss from discontinued operations (attributable to equity holders of the Company)	**–**	(60,759)
Loss for the year	**(60,132)**	(404,820)
Loss attributable to:		
– Owners of the Company	**(40,970)**	(396,522)
– Non-controlling interests	**(19,162)**	(8,298)
	(60,132)	(404,820)
Adjusted Net Profit/(Loss) from continuing operations attributable to:		
– Owners of the Company	**60,892**	(190,813)
– Non-controlling interests	**(12,037)**	(3,533)
	48,855	(194,346)

Revenue

Building on our massive users base, we are launching SaaS solutions for beauty and wellness industries, allowing both the consumer users and enterprise users to obtain various beauty-related products and service on our multiple platforms. 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. For the year ended December 31, 2020, total revenue had a significant increase of 22.1% to RMB1,194.0 million from RMB977.9 million for the year ended December 31, 2019. This increase, which was partly offset by a moderate decline in advertising business, was mainly driven by the strong growth in premium subscription services and in-app purchases and our IMS business.

	Year ended December 31,			
	2020		2019	
	Amount ***RMB'000***	**% of total revenues**	Amount *RMB'000*	% of total revenues
Online Advertising	**680,709**	**57.0%**	751,886	76.9%
Premium Subscription Services and In-app Purchases	**206,489**	**17.3%**	85,987	8.8%
Internet Value-added Services	**45,211**	**3.8%**	45,599	4.7%
Others	**261,611**	**21.9%**	94,395	9.6%
Total	**1,194,020**	**100%**	977,867	100%

Online advertising

Our revenue from online advertising declined by 9.5% year on year to RMB680.7 million for the year ended December 31, 2020, primarily due to the impact from the COVID-19 pandemic. The negative impact was more concentrated in the first half of 2020, afterwards Chinese advertising market continued to recover during the second half of 2020 and our advertising businesses gradually stabilized with a solid sequential growth in the fourth quarter. Such improvement was more pronounced for programmatic advertisements compared to brand advertisements. The number of advertisers on our platform continued to grow year over year, as opposed to the same period last year, thanks to our effort to explore new customers outside the typical categories that Meitu has advantage in, namely, cosmetics and skincare. As a result, we achieved a significant revenue growth from non-cosmetic key account clients, such as ecommerce, apparel and food and beverage.

To keep abreast with the market trends, the Company continued to add more video-based content and launched creative marketing products such as *Meitu Creative Platform* (MCP) that encourage more creative content production from artists and designers. Furthermore, we are introducing Free Sample Trials plan as a marketing service to help brands promote their products and also charge users based on a subscription model. Despite the uncertainty associated with the COVID-19 pandemic and advertisers' timeline to fully regain marketing resource, we will continue to reinforce our competitiveness in delivering more beauty-related products and service to our users and empower the participants in the beauty industry.

Premium subscription services and in-app purchases

Revenue from premium subscription services and in-app purchases continued to show robust, sustained growth, leading to a significant year-over-year increase of 140.1% from RMB86.0 million for the year ended December 31, 2019 to RMB206.5 million for the year ended December 31, 2020. Such growth was attributable to the increase in both new subscribing members and user retention rate, as we continued to introduce new features and differentiate our product offerings to attract new subscribers.

As the premium subscription service provided in overseas apps (namely *BeautyPlus* and *AirBrush*) has been on a strong growth trajectory since its inception, we have also introduced a similar service across our domestic apps, including the *Meitu* app and *BeautyCam*, in the fourth quarter of 2020. While non-subscribing users can use most of the app features, subscribing members have full access to all the premium beautifying and photo-editing functions as well as special effects. The domestic version of the premium subscription service has yielded an outstanding result and we have seen an exponential growth in the past few months since its rollout. Going forward, we expect this business to grow continuously due to the large user base of Meitu's app portfolio both in the PRC and overseas, and an increasing willingness to pay for these premium services especially by the younger generation of users.

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 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 year ended December 31, 2020, revenue from our IVAS largely remained flat with a 0.9% decline year over year to RMB45.2 million from RMB45.6 million for the year ended December 31, 2019.

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 year ended December 31, 2020, revenue from others increased significantly by 177.1% year over year to RMB261.6 million from RMB94.4 million for the year ended December 31, 2019.

Our IMS business made up 71.1% of this revenue line during the year ended December 31, 2020 and thus it is the key contributor to this remarkable growth. Revenues generated from this business during the year ended December 31, 2019 were negligible.

The IMS business provides advertising and marketing services to advertisers across multiple online and mobile social media platforms, through the online performance undertaken by third party influencers (including the KOL/KOC among Meitu users). Related solutions associated with the talent management such as recruiting, training, content production support, quality control and service settlement solutions are also provided in exchange of revenue sharing. It generated a relatively thin gross margin for the year ended December 31, 2020, as the IMS business has just started. But we are confident that monetization rate will increase as we continue to scale up this business and provide more comprehensive service.

MeituEve business is another newly incubated business, which focuses on professional grade AI skin analysis and beauty-related solutions and products. Our first-generation product was well received among global skincare brands and beauty salons. We are now researching and developing a second-generation product that aims to provide better user experience and more precise analysis so that it will differentiate from existing competitors in the market. The revenue from this business was minimal in 2019, but had grown rapidly in the past year. It became the second largest revenue line of the Others segment for the year ended December 31, 2020.

Cost of Sales

Our cost of sales increased by 43.6% to RMB400.1 million for the year ended December 31, 2020, compared to RMB278.6 million for the year ended December 31, 2019. IMS business contributed to the incremental cost of sales. Total cost of sales excluding that incurred from IMS business decreased year over year, as bandwidth and storage related cost had declined year over year due to efficiency enhancement and cost reduction.

Gross Profit and Margin

Our gross profit increased by 13.5% to RMB793.9 million for the year ended December 31, 2020, from RMB699.3 million for the year ended December 31, 2019. Our gross margin decreased to 66.5% for the year ended December 31, 2020, from 71.5% for the year ended December 31, 2019, as a significant increase of revenue contribution from IMS business dragged down the overall gross margin.

Research and Development Expenses

Research and development expenses decrease by 19.3% to RMB404.2 million for the year ended December 31, 2020 from RMB500.6 million for the year ended December 31, 2019, primarily due to more effective cost control in employee expense.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 11.9% to RMB287.5 million for the year ended December 31, 2020, from RMB326.5 million for the year ended December 31, 2019, primarily due to more effective cost control in staffing costs.

Administrative Expenses

Administrative expenses decreased by 17.9% to RMB205.9 million for the year ended December 31, 2020 from RMB250.8 million for the year ended December 31, 2019, primarily due to more effective cost control.

Other Income

Other income for the year ended December 31, 2020 decreased to RMB38.5 million from RMB49.5 million for the year ended December 31, 2019, primarily due to a decrease in government grants.

Other Gains/(Losses), Net

Other gains was RMB0.04 million for the year ended December 31, 2020, compared to a net loss of RMB47.6 million for the year ended December 31, 2019, primarily attributable to a decrease in goodwill impairment and a decrease in net loss from fair value changes on financial assets at fair value through profit or loss, partly offset by a decrease in net remeasurement gains on consideration to non-controlling shareholders of a subsidiary.

Finance Income, Net

Our net finance income mainly comprised of bank interest income and foreign exchange losses. Our net finance income decreased by 35.2% to RMB29.6 million for the year ended December 31, 2020 from RMB45.7 million for the year ended December 31, 2019, primarily due to a lower interest income.

Income Tax Expense

Income tax expenses for the year ended December 31, 2020 were RMB24.0 million, compared to RMB9.0 million for the year ended December 31, 2019. Although the Group was loss-making on a consolidated level for the year ended December 31, 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 year ended December 31, 2020 decreased significantly to RMB60.1 million from RMB344.1 million for the year ended December 31, 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 RMB60.9 million for the year ended December 31, 2020, compared to adjusted net loss of RMB190.8 million for the year ended December 31, 2019, mainly due to the growth in gross profits from premium subscription service and cost reduction from our expense optimization plan. As mentioned in the Company's 2019 annual report published on April 22, 2020, 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 in terms of Adjusted Net Profit due to rising revenues and vigilant cost and expense control.

As an outlook for 2021, as the premium subscription services and in-app purchases business continue to ramp up, we expect our revenues will continue to grow. At the same time, given the exciting opportunities in various SaaS models for the beauty industry, we expect to continue investing in both technology and human resources, both of which will increase our expenses. With the COVID-19 pandemic still lingering in many countries globally, we will continue to remain vigilant and nimble, striving to realize our vision and generate long-term shareholder value.

The following table reconciles our Adjusted Net Profit/(Loss) for the years ended December 31, 2020 and 2019 to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Loss from the continuing operations for the year	**(60,132)**	(344,061)
Excluding:		
Share-based compensation	**46,730**	57,962
Changes in fair value of long-term investments	**53,152**	60,845
Net effect of goodwill impairment and remeasurement gain on consideration to non-controlling shareholders of a subsidiary	**(13,788)**	8,596
Gains on disposal of long-term investments	**(8,373)**	(5,171)
Amortization of intangible assets and other expenses related to acquisition	**25,819**	15,760
Other one-off expenses	**–**	5,103
Tax effects	**5,447**	6,620
Adjusted Net Profit/(Loss) from continuing operations attributable to:	**48,855**	(194,346)
– Owners of the Company	**60,892**	(190,813)
– Non-controlling interests	**(12,037)**	(3,533)

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 businesses.

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 December 31, 2020 and 2019 were as follows:

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,158,117**	864,611
Short-term bank deposits	**853,450**	1,646,981
Long-term bank deposits	**150,000**	110,000
Short-term investment placed with banks	**20,449**	–
Cash and other liquid financial resources	**2,182,016**	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 year ended December 31, 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

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Purchase of property and equipment	**351,557**	12,749
Purchase of intangible assets	**946**	–
Total	**352,503**	12,749

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

On September 2, 2020, Xiamen Home Meitu Technology Co., Ltd.(廈門美圖之家科技有限公司)("**Meitu Home**") entered into a set of property acquisition agreements with Xiamen Torch Group Company Limited(廈門火炬集團有限公司), pursuant to which Xiamen Torch Group Company Limited has agreed to sell and Meitu Home has agreed to purchase an office building in Xiamen at an aggregate cash consideration of approximately RMB359.19 million (the "**Property Acquisition**"). Further details of the Property Acquisition can be found in the announcement of the Company dated September 2, 2020.

The increase in capital expenditure was mainly due to our purchase of an office building property in year 2020.

Long-term Investment Activities

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Investment in financial assets at fair value through profit or loss	**115,160**	12,338
Investment in financial assets at fair value through other comprehensive income	**–**	2,259
Total	**115,160**	14,597

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 the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency during the years ended December 31, 2020 and 2019.

Pledge of Assets

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

Contingent Liabilities

Saved as disclosed in this announcement, we did not have any material contingent liabilities as of December 31, 2020 (2019: nil).

Borrowings and Gearing Ratio

As of December 31, 2020, we pledged a bank borrowing of RMB5.0 million (as of December 31, 2019: nil). Therefore, the gearing ratio of the Group was 0.5% as of December 31, 2020 (as of December 31, 2019: 0.0%). The gearing ratio was 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 1,770 full-time employees as of December 31, 2020 (2019: 1,840), the 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, 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 ("**Pre-IPO ESOP**"), Post-IPO Share Option Scheme, and Post-IPO Share Award Scheme. During the year under review, the relationship between the Group and our employees have been stable. We did not experience any strikes or other labor disputes which materially affected our business activities.

Significant Investments Held

As of December 31, 2020, we did not hold any significant investments in the equity interests of any other companies, including any investment in an investee company with a value of 5 percent. or more of the Company's total assets as of December 31, 2020.

Save as disclosed in this announcement, during the year ended December 31, 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. 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, 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 approximately 47.72% and the Group no longer has 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 dated April 24, 2020.

Save as disclosed above, we did not conduct any material acquisition or disposal of subsidiaries and/or affiliated companies during the year ended December 31, 2020.

Important Events after the Reporting Date

1. Due to the change of one of the nominee shareholders of Meitu Networks from Ms. Cai Shuting (蔡舒婷) ("**Ms. Cai**") to Xiamen Hongtian Chuangfu Technology Co., Ltd.(廈門鴻天創富科技有限公司)("**Xiamen Hongtian**") (the "**Equity Transfer**"), a company owned by Mr. Wu Zeyuan (吳澤源) ("**Mr. Wu**") (also known as: Mr. Wu Xinhong (吳欣鴻)) as to 99% and by Ms. Chen Cuie(陳翠娥) as to 1%, in January 2021, Meitu Home, Meitu Networks, Mr. Wu and Xiamen Hongtian entered into the New Contractual Arrangements (as defined in the announcement of the Company dated March 17, 2021 (the "**VIE Change Announcement**")) with the Contractual Arrangements (as defined in the VIE Change Announcement) terminated simultaneously. Under the New Contractual Arrangements, the nominee shareholders of Meitu Networks are Mr. Wu as to 51% and Xiamen Hongtian as to 49%. The consideration for the Equity Transfer was a payment of RMB1.00 by Xiamen Hongtian to Ms. Cai.

   The New Contractual Arrangements, having their terms and conditions substantially the same as those of the Contractual Arrangements, were cloned from the Contractual Arrangements, except for changes to the dates of the relevant agreements relating to the Contractual Arrangements and the parties to those agreements – where Xiamen Hongtian replaced Ms. Cai as a nominee shareholder of Meitu Networks.

   The New Contractual Arrangements were entered into for the purposes of (i) ensuring better administrative efficiency of Meitu Networks and maximum alignment of the interests of the Company's shareholders with those of the nominee shareholders of Meitu Networks and (ii) reducing the likelihood of cloning a new series of contractual arrangements as a result of any future changes in the nominee individual shareholder of Meitu Networks by designating Xiamen Hongtian as one of the nominee shareholders.

   Further details of the New Contractual Arrangements are set out in the VIE Change Announcement.

2. In March 2021, Mr. Yu Minhong(俞敏洪), Ms. Cai and 米林隆領投資有限公司 (Milin Longling Investment Co., Ltd.) owning, respectively, 4.04%, 3.44% and 2.67% in the equity interest of Beijing Dajie Zhiyuan Information Technology Co., Ltd.(北京大杰致遠信息技術有限公司)(the "**Onshore Target Company**") transferred all of their equity interests (the "**Dajie Equity Transfers**") in the Onshore Target Company to Meitu Networks, thereby increasing its equity interest in the Onshore Target Company from approximately 75.37% to approximately 85.52%. The Dajie Equity Transfers involved no consideration.

   The VIE Agreements (as defined in the VIE Change Announcement) were terminated and the New Dajie VIE Agreements, the terms of which were cloned from the VIE Agreements except for changes to the dates and the parties to those agreements, were entered into between the New Dajie Relevant Shareholders, as Mr. Yu Minhong(俞敏洪), Ms. Cai and 米林隆領投資有限公司 (Milin Longling Investment Co., Ltd.) ceased to be the registered shareholders of the Onshore Target Company following the Dajie Equity Transfers.

   The New Dajie VIE Agreements were entered into for the purposes of ensuring better administrative efficiency of the Onshore Target Company and maximum alignment of the interests of the Company's shareholders with those of the nominee shareholders of the Onshore Target Company.

   Further details of the New Dajie VIE Agreements are set out in the VIE Change Announcement.

3. On March 5, 2021, the Group had, pursuant to the plan to make a net purchase of up to US$100,000,000 worth of cryptocurrencies, financed by the existing cash reserves other than any remaining proceeds from the IPO, as more particularly set out in the announcement of the Company dated March 7, 2021 (the "**Cryptocurrency Investment Plan**"), purchased 15,000 units of Ether and 379.1214267 units of Bitcoin, both cryptocurrencies, in open market transactions at an aggregate consideration of approximately US$22,100,000 (equivalent to approximately RMB143,438,000) and US$17,900,000 (equivalent to approximately RMB116,178,000) respectively, which were accounted for as intangible assets under cost model (the "**Previous Cryptocurrencies Acquisition**"). Further details of the Previous Cryptocurrencies Acquisition can be found in the announcement of the Company dated March 7, 2021.

   On March 17, 2021, the Group had, pursuant to the Cryptocurrency Investment Plan, purchased an additional 16,000 units of Ether and 386.08581655 units of Bitcoin, both cryptocurrencies, in open market transactions at an aggregate consideration of approximately US$28,400,000 (equivalent to approximately RMB184,538,000) and US$21,600,000 (equivalent to approximately RMB140,352,000) respectively, which were accounted for as intangible assets under cost model (the "**Further Cryptocurrencies Acquisition**"). Further details of the Further Cryptocurrencies Acquisition can be found in the announcement of the Company dated March 17, 2021.

   Save as disclosed above, there were no important events affecting the Company which occurred after December 31, 2020 and up to the date of this announcement.

FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Continuing operations			
Revenue	*3*	**1,194,020**	977,867
Cost of sales	*6*	**(400,149)**	(278,584)
Gross profit		**793,871**	699,283
Selling and marketing expenses	*6*	**(287,517)**	(326,457)
Administrative expenses	*6*	**(205,902)**	(250,826)
Research and development expenses	*6*	**(404,213)**	(500,589)
Net impairment losses on financial assets		**(5,020)**	(2,882)
Other income	*4*	**38,521**	49,486
Other gains/(losses), net	*5*	**39**	(47,551)
Finance income, net	*7*	**29,556**	45,685
Share of profits/(losses) of investments accounted for using the equity method	*10(a)*	**4,561**	(1,226)
Loss before income tax		**(36,104)**	(335,077)
Income tax expense	*8*	**(24,028)**	(8,984)
Loss from continuing operations		**(60,132)**	(344,061)
Loss from discontinued operations (attributable to equity holders of the Company)	*16*	**–**	(60,759)
Loss for the year		**(60,132)**	(404,820)
Loss attributable to:			
– Owners of the Company		**(40,970)**	(396,522)
– Non-controlling interests		**(19,162)**	(8,298)
		(60,132)	(404,820)
Loss per share for loss from continuing operations attributable to owners of the Company for the year (expressed in RMB per share)	*9*		
– Basic		**(0.01)**	(0.08)
– Diluted		**(0.01)**	(0.08)
Loss per share for loss attributable to owners of the Company for the year (expressed in RMB per share)	*9*		
– Basic		**(0.01)**	(0.09)
– Diluted		**(0.01)**	(0.09)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Loss for the year		**(60,132)**	(404,820)
Other comprehensive (loss)/income, net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**(115,241)**	25,552
Other comprehensive (loss)/income for the year, net of tax		**(115,241)**	25,552
Total comprehensive loss for the year, net of tax		**(175,373)**	(379,268)
Total comprehensive loss attributable to:			
– Owners of the Company		**(156,550)**	(371,253)
– Non-controlling interests		**(18,823)**	(8,015)
Total comprehensive loss for the year attributable to owners of the Company arises from:			
– Continuing operations		**(156,550)**	(310,494)
– Discontinued operations		**–**	(60,759)

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

CONSOLIDATED BALANCE SHEET

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property and equipment		**360,826**	75,058
Right-of-use assets		**29,844**	51,455
Long-term bank deposits		**150,000**	110,000
Intangible assets		**392,954**	497,799
Long-term investments			
–Investments in associates in the form of ordinary shares	*10(a)*	**83,737**	15,521
–Financial assets at fair value through profit or loss	*10(b)*	**559,494**	502,774
–Financial assets at fair value through other comprehensive income		**9,050**	9,676
Prepayments and other receivables		**7,890**	9,467
Deferred tax assets		**3,779**	3,037
		1,597,574	1,274,787
Current assets			
Inventories		**1,476**	14,307
Trade receivables	*11*	**351,017**	359,965
Prepayments and other receivables		**506,240**	454,559
Contract costs	*3*	**18,337**	–
Short-term investments placed with banks		**20,449**	–
Short-term bank deposits	*12(c)*	**853,450**	1,646,981
Cash and cash equivalents	*12(a)*	**1,158,117**	864,611
Restricted cash	*12(b)*	**500**	500
		2,909,586	3,340,923
Total assets		**4,507,160**	4,615,710
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*13*	**280**	280
Share premium	*13*	**7,135,115**	7,133,987
Reserves		**(107,910)**	(66,455)
Accumulated losses		**(3,473,555)**	(3,429,954)
Non-controlling interests		**13,905**	97,342
Total equity		**3,567,835**	3,735,200

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Trade and other payables	*14*	**80,972**	85,094
Lease liabilities		**2,805**	18,647
Deferred tax liabilities		**41,953**	45,518
		125,730	149,259
Current liabilities			
Borrowings		**5,000**	–
Trade and other payables	*14*	**660,364**	597,486
Lease liabilities		**25,979**	30,757
Income tax liabilities		**50,663**	44,061
Contract liabilities	*3*	**71,589**	58,947
		813,595	731,251
Total liabilities		**939,325**	880,510
Total equity and liabilities		**4,507,160**	4,615,710

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Year ended December 31, 2020** *RMB'000*	2019 *RMB'000*
Net cash generated from operating activities		**89,207**	11,789
Net cash generated from investing activities		**273,437**	473,284
Net cash used in financing activities		**(43,473)**	(155,457)
Net increase in cash and cash equivalents		**319,171**	329,616
Cash and cash equivalents at the beginning of the year	*12*	**864,611**	531,618
Effects of exchange rate changes on cash and cash equivalents		**(25,665)**	3,377
Cash and cash equivalents at the end of the year	*12*	**1,158,117**	864,611
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand	*12*	**1,128,117**	864,611
Short-term bank deposits with initial terms within three months	*12*	**30,000**	–
		1,158,117	864,611

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

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 and Beijing Dajie Zhiyuan Information Technology Co., Ltd. ("**Dajie Zhiyuan**") and its subsidiaries, collectively, 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.

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.

Similar to Meitu Networks, a series of contractual arrangements were also executed for Dajie Zhiyuan and its subsidiaries. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

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**").

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**") and the requirements of the Hong Kong Companies Ordinance Cap. 622. 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, 2020:

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

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(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, 2020 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, 2020, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending December 31, 2020.

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
IFRS 16 (Amendments)	Covid-19-related Rent Concessions	June 1, 2020

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 year ended December 31, 2020 and 2019 are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Revenue from continuing operations		
Online Advertising	**680,709**	751,886
Premium Subscription Services and In-app Purchases	**206,489**	85,987
Internet Value-added Services	**45,211**	45,599
Others	**261,611**	94,395
Total revenue	**1,194,020**	977,867
Revenue from discontinued operations *(Note 16)*	**–**	386,715

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
At a point in time	**306,088**	139,994
Over time	**887,932**	837,873
	1,194,020	977,867

No revenue from any customer exceeded 10% or more of the Group's revenue for the year ended December 31, 2020. The major customer which contributed more than 10% of the revenue from continuing operations of the Group for the year ended December 31, 2019 is listed as below.

	Year ended December 31,	
	2020	2019
Customer A	*	14%

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

(a) Contract costs and liabilities

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

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Contract costs:		
From continuing operations:		
– Premium Subscription Services and In-app Purchases	**18,337**	–
Contract liabilities:		
From continuing operations:		
– Online Advertising	**3,240**	32,439
– Premium Subscription Services and In-app Purchases	**58,388**	15,321
– Others	**9,961**	9,655
From discontinued operations:	**–**	1,532
	71,589	58,947

(ii) No impairment of contract costs was recognized by the Group as of December 31, 2020 (2019: Nil).

(iii) 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,	
	2020	2019
	RMB'000	*RMB'000*
Continuing operations		
– Online Advertising	**11,095**	9,175
– Premium Subscription Services and In-app Purchases	**15,321**	2,217
– Others	**9,655**	6,803
Discontinued operations	**–**	14,187
	36,071	32,382

Carried-forward contract liabilities amounting RMB21,344,000 were reclassified as deposits payable as of December 31, 2020, pursuant to certain contract arrangement.

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,	
	2020	2019
	RMB'000	*RMB'000*
Government grants	**32,845**	46,964
Others	**5,676**	2,522
	38,521	49,486

5 Other gains/(losses), net

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Gains on short-term investments placed with banks	**15,410**	18,138
Remeasurement gains on consideration to non-controlling shareholders of a subsidiary, net	**13,788**	44,941
Gains on disposal of a subsidiary	**8,373**	–
Gains on reversal of provision relating to payables to suppliers	**8,260**	–
Gains/(losses) of disposals of property and equipment	**1,269**	(1,235)
Fair value changes on financial assets at fair value through profit or loss *(Note 10(b))*	**(43,724)**	(60,845)
Impairment of investment in associates *(Note 10(a))*	**(9,428)**	–
Goodwill impairment	**–**	(53,537)
Others	**6,091**	4,987
	39	(47,551)

6 Expenses by nature

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Employee benefit expenses	**635,136**	744,866
Service fees sharing to influencers	**186,424**	–
Promotion and advertising expenses	**127,829**	112,153
Bandwidth and storage related costs	**64,847**	82,735
Revenue sharing fee	**61,540**	79,461
Depreciation of right-of-use assets	**39,211**	47,711
Depreciation of property and equipment	**30,525**	63,079
Amortization of intangible assets	**25,581**	15,248
Video content monitoring fee	**15,751**	19,652
Travelling and entertainment expenses	**13,803**	23,432
Outsourced technical services	**12,356**	15,494
Tax and levies	**9,217**	16,933
Cost related to smart hardware	**9,156**	8,753
Operating lease expenses	**7,120**	10,455
License fees	**6,481**	8,072
Auditor's remuneration	**6,000**	6,726
Utilities and office expenses	**5,504**	8,424
Provision for inventory impairment	**–**	3,812
Impairment of property and equipment	**–**	1,375
Others	**41,300**	88,075
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**1,297,781**	1,356,456

7 Finance income, net

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Interest income	**41,902**	56,714
Interest expenses	**(585)**	(1,515)
Foreign exchange losses, net	**(4,141)**	(2,475)
Finance charges paid/payable for lease liabilities and others	**(7,620)**	(7,039)
	29,556	45,685

8 Income tax expense

The income tax expense of the Group for the year ended December 31, 2020 and 2019 are analyzed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Current income tax:		
– PRC and overseas enterprise income tax	**22,279**	7,456
Deferred income tax	**1,749**	1,528
Income tax expense from continuing operations	**24,028**	8,984

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,	
	2020	2019
	RMB'000	*RMB'000*
Loss from continuing operations before income tax:	**(36,104)**	(335,077)
Loss from discontinued operations before income tax:	**–**	(60,759)
	(36,104)	(395,836)
Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions	**1,936**	(107,551)
Tax effects of:		
– Preferential income tax rates applicable to subsidiaries	**1,755**	(145)
– Tax losses and temporary differences for which no deferred tax asset was recognized	**10,902**	99,870
– Change of tax rate	**–**	956
– Super Deduction for research and development expenses *(Note (d))*	**(1,039)**	–
– Expenses not deductible for income tax purposes:		
– Share-based compensation	**11,658**	13,325
– Others	**(1,184)**	2,529
Income tax expense	**24,028**	8,984

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, 2020, 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 RMB395,501,000 (2019: RMB338,830,000) in respect of losses from continuing operations amounting to RMB2,705,712,000 (2019: RMB2,253,541,000) that can be carried forward against future taxable income. Losses from continuing operations amounting to RMB346,775,000, RMB274,531,000, RMB884,821,000, RMB631,622,000 and RMB149,860,000 will expire in 2021, 2022, 2023, 2024 and 2025, 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.

Beijing Dajie Zhiyuan Information Technology Co., Ltd. ("**Zhiyuan**") has been qualified as a "High and New Technology Enterprise" ("**HNTE**") under the EIT Law in 2016. Accordingly, it is entitled to a preferential income tax rate of 15% for three years starting from 2019 provided that it continues to be qualified as a HNTE during such period. Zhiyuan met the qualification of HNTE and applied the preferential tax rate in calculating its EIT for the year ended December 31, 2020.

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities were entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**").

9 Loss per share

(a) Basic

	Year ended December 31,	
	2020	2019
Loss attributable to owners of the Company *(RMB'000)*		
From continuing operations	**(40,970)**	(335,763)
From discontinued operations	**–**	(60,759)
	(40,970)	(396,522)
Weighted average number of ordinary shares in issue *(thousand)*	**4,290,395**	4,208,670
Basic and diluted loss per share *(in RMB/share)*		
From continuing operations	**(0.01)**	(0.08)
From discontinued operations	**–**	(0.01)
	(0.01)	(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 year ended December 31, 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 year ended December 31, 2020 and 2019, 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, 2020 and 2019 is the same as basic loss per share.

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

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
As of January 1	**15,521**	16,540
Conversion from a subsidiary to an associate due to loss of control	**79,692**	–
Share of profits/(losses) of the associates	**4,561**	(1,226)
Impairment charge	**(9,428)**	–
Currency translation differences	**(6,609)**	207
As of December 31	**83,737**	15,521

For the year ended December 31, 2020, 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,	
	2020	2019
	RMB'000	*RMB'000*
As of January 1	**502,774**	547,178
Additions	**115,160**	12,338
Changes in fair value	**(43,724)**	(60,845)
Currency translation differences	**(14,716)**	4,103
As of December 31	**559,494**	502,774

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, 2020, change in fair value amounting to RMB43,724,000 was recognized as other losses in the consolidated income statement (Note 5).

11 Trade receivables

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables from contracts with customers	**355,656**	362,550
Less: loss allowance	**(4,639)**	(2,585)
	351,017	359,965

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

	As of December 31,	
	2020	2019
	RMB'000	*RMB'000*
Up to 6 months	**308,312**	317,450
6 months to 1 year	**31,066**	41,341
Over 1 year	**16,278**	3,759
	355,656	362,550

As of December 31, 2020 and 2019, 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,	
	2020	2019
	RMB'000	*RMB'000*
Cash at bank and in hand	**1,128,117**	864,611
Short-term bank deposits with initial terms within three months	**30,000**	–
	1,158,117	864,611

(b) Restricted cash

As of December 31, 2020, RMB500,000 (2019: RMB500,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

(c) Short-term bank deposits

As of December 31, 2020, short-term bank deposits amounting RMB853,450,000 (2019: RMB1,646,981,000) 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 2.74% per annum for the year ended December 31, 2020 (2019: 3.00%).

13 Share capital and premium

As of December 31, 2020 and 2019, 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, 2020		**4,289,003**	**43**	**280**	**7,133,987**
Employee share option scheme under Pre-IPO ESOP					
– Shares issued and proceeds received	*(a)*	**5,490**	**–**	**–**	**1,128**
Post-IPO Share Award Scheme:					
– Shares issued	*(b)*	**20,000**	**–**	**–**	**–**
As of December 31, 2020		**4,314,493**	**43**	**280**	**7,135,115**
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	*(c)*	(26,000)	–	(2)	(37,279)
Consideration of business acquisition:					
– Shares issued	*(d)*	85,739	1	6	124,813
As of December 31, 2019		4,289,003	43	280	7,133,987

(a) During the year ended December 31, 2020, 5,490,000 pre-IPO share options with exercise price of US$0.03 were exercised (2019: 26,748,000 pre-IPO share options).

(b) During the year ended December 31, 2020, the Company issued 20,000,000 new shares under the Post-IPO Share Award Scheme.

(c) 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.

(d) During the year ended December 31, 2019, the Group allotted and issued 85,739,000 shares as part of the consideration for an acquisition. The fair value of 85,739,000 shares (RMB125,793,000) was based on the published share price on November 19, 2019 of HK$1.64 per share (equivalent to RMB1.47 per share). Issue costs of RMB974,000 which were directly attributable to the issue of the shares have been debited to the share premium.

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,	
	2020	2019
	RMB'000	*RMB'000*
Up to 1 year	**84,498**	88,860
1 to 2 years	**7,693**	24,669
Over 2 years	**15,423**	4,274
	107,614	117,803

15 Dividends

No dividends have been paid or declared by the Company during the year ended December 31, 2020 (2019: Nil).

16 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 year ended December 31, 2019 is set out below. The consolidated statement of profit or loss and statement of cash flows distinguish discontinued operations from continuing operations.

	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

17 Subsequent Events

(a) Due to the change of one of the nominee shareholders of Meitu Networks in January 2021, Meitu Home, Meitu Networks and its existing nominee shareholders entered into the new contractual arrangements ("**New Contractual Arrangements**") with the Contractual Arrangements terminated simultaneously. The New Contractual Arrangements, having their terms and conditions substantially the same as those of the Contractual Arrangements, were cloned from the Contractual Arrangements, except for changes to the dates of the relevant agreements relating to the Contractual Arrangements and the parties to those agreements due to the change of nominee shareholders of Meitu Networks.

Similar to Meitu Networks, contractual arrangements were also rearranged for Dajie Zhiyuan in March 2021, due to the change of nominee shareholders of Dajie Zhiyuan.

After the above rearrangement of contractual arrangements, all these PRC operating companies will continue to be treated as controlled structured entities of the Company and their financial statements will continuously be consolidated by the Company.

(b) The Group purchased 15,000 units of Ether and 379.1214267 units of Bitcoin, both of which are cryptocurrencies, in an open market on March 5, 2021 and further acquired 16,000 units of Ether and 386.08581655 units of Bitcoin on March 17, 2021, at aggregate considerations of approximately US$90,000,000 (equivalent to approximately RMB584,506,000). These cryptocurrencies acquired are accounted for as intangible assets of the Group under the cost model and they were kept in the custody of a third party exchange.

Save as disclosed above, there were no other material subsequent events during the period from December 31, 2020 to the approval date of this announcement by the Board of Directors on March 25, 2021.

OTHER INFORMATION

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

During the year ended December 31, 2020, 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, 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**").

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, 2020.

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, 2020 after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established an audit committee ("**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, 2020. 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, 2020.

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, 2020 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, 2020. 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, 2020.

Use of Net Proceeds from Listing

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

As at December 31, 2020, 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, 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	1,001.6	121.8	275.5
Implementation of sales and marketing initiatives in both China and overseas market	864.2	–	–
Expansion of Internet services business	581.2	80.2	123.2
Expansion of research and development capabilities	287.8	–	–
General working capital	400.8	400.8	–

Note:

(1) The figures were based on an average of the prevailing exchange rates of RMB against a foreign currency in 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 prospectus of the Company dated December 5, 2016. The Company expects to fully utilize the remaining net proceeds by the end of 2022.

Annual General Meeting

The annual general meeting is scheduled to be held on June 2, 2021 (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 28, 2021 to June 2, 2021, 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 2, 2021. All transfers of shares of the Company 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 27, 2021.

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 www.meitu.com. The annual report of the Group for the year ended December 31, 2020 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders by April 30, 2021.

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, March 25, 2021

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.