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meitu

Meitu, Inc.

美图公司

(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as “美图之家”)

(Stock Code: 1357)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board of directors (the “**Board**”) of Meitu, Inc. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company, together with (i) its subsidiaries, (ii) Xiamen Meitu Networks Technology Co., Ltd. (“**Meitu Networks**”) and its subsidiaries and (iii) Xiamen MeituEve Network Services Co., Ltd. and its subsidiaries (collectively, the “**Group**”) for the six months ended June 30, 2021.

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

1. We have successfully developed the monetization model of premium subscription into the second growth curve of Meitu’s revenue. We believe that the premium subscription model is more in line with the behaviors of users of the Meitu apps, since it can improve user experiences while monetizing, making it more native than other monetization models. This business is expanding at an alarming rate, with a year-on-year growth of 150.7% in the first half of 2021.
2. Driven by the growth of our premium subscription business, the growth rate of our operating revenue accelerated in the first half of 2021, reaching RMB806.0 million, representing a year-on-year increase of 44.6%.
3. The Company has achieved the third consecutive semi-annual profit in terms of Adjusted Net Profit⁽¹⁾. Adjusted Net Profit attributable to the Owners of the Company was RMB33.4 million for the first half of 2021.
4. On the basis of stable daily operations, we have been actively deploying in the field of beauty, such as *MeituEve*, which focuses on AI skin analysis, and Meidd, which provides cosmetic stores with enterprise resource planning (“**ERP**”) SaaS and supply chain management. Both of them are making good progress.

KEY FINANCIAL DATA

	Six months ended June 30,		Year on year change (%)
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	
Revenue	806,004	557,465	44.6%
– Online Advertising	392,622	318,508	23.3%
– Premium Subscription Services and In-app Purchases	210,880	84,128	150.7%
– Internet Value-added Services	35,339	21,340	65.6%
– Others	167,163	133,489	25.2%
Gross Profit	532,756	355,731	49.8%
Gross Margin	66.1%	63.8%	2.3p.p.
Adjusted Net Profit attributable to Owners of the Company ⁽¹⁾	33,358	24,940	33.8%

KEY OPERATIONAL DATA

	As of	As of	Change (%)
	June 30, 2021 <i>'000</i>	December 31, 2020 <i>'000</i>	
Total Monthly Active Users	245,782	261,048	-5.8%
<i>MAU breakdown by product:</i>			
– Meitu	114,101	114,718	-0.5%
– BeautyCam	62,575	61,850	1.2%
– BeautyPlus	45,299	55,141	-17.8%
– Others	23,807	29,339	-18.9%
<i>MAU breakdown by geography:</i>			
– Mainland China	162,021	163,098	-0.7%
– Overseas	83,761	97,950	-14.5%

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

STRATEGIC HIGHLIGHT AND BUSINESS REVIEW

Strategic Highlight

Success In Building New Monetization Model

We are very pleased to see the continued astonishing success of Meitu's premium subscription services and in-app purchases business model, demonstrating that we are now capable of developing and scaling new monetization model. The premium subscription segment has grown very significantly since its launch in 2019, and has become the Group's second largest revenue contributor. If this segment maintains the current strong momentum, it has the potential to grow to become the Group's first largest revenue contributor in the foreseeable future.

We have applied the premium subscription services in all our mainstream apps. The new premium subscription model provides users with more convenient tools, richer creative contents and more advanced imaging functions for better experience. We continued to expand our premium subscriber base through ongoing marketing and appropriate in-app guidance to trigger the subscription interest of users. For example, we enticed users to unlock advanced paid functions such as orthodontics, facial reshaping and teleprompter by presenting the effects of subscription benefits. In addition, we aim to improve the retention rate of users by continuously investing resources to iterate and optimize our products. For example, we will regularly unlock more distinctive premium rights for paying users, launch innovative materials (such as stickers and augmented reality filters), and upgrade more functions with high user stickiness to enhance user retention.

Long-Term Vision: Improve The Efficiency Of Beauty Industry

For long-term development, we have been focusing on further penetrating the beauty market and empowering the beauty industry. To help the beauty industry grow stronger, we aim at providing a solution for increasing productivity more effectively. We help users better understand their skin conditions and consumption preferences, enabling them to select skincare products and treatments more effectively, while also increasing the efficiency to acquire and retain customers for beauty brands and sellers. To this end, we are launching SaaS (software-as-a-service) solutions and incubating related businesses, particularly:

i. MeituEve, an AI skin analysis solution

MeituEve, as an incubated new business, provides AI skin analysis solutions to skincare brands and beauty spas globally. Powered by *MeituEve's* proprietary AI algorithms, series products can accurately identify one's skin quality and recommend customized skincare solutions. In turn, this can help our clients ultimately increase sales conversion. *MeituEve's* business has been ramping up since last year.

MeituEve's flagship panoramic skin analyzers have been deployed in over 240 cities globally and have cooperated with well-known skincare brands, beauty spas and medical aesthetic institutions. For instance, Shiseido has announced in January 2021 that its new anti-aging skincare brand, EFFECTIM, will provide personalized skincare solution for its customers based on the skin analysis results generated by *MeituEve's* panoramic skin analyzers. In addition, we have continued to deepen our cooperation with Christian Dior in the area of skin analysis since we entered into a strategic partnership with them last year. In May this year, we have added an eye age testing solution for their customers.

MeituEve has always regarded science and precision as one of the most critical criteria for product improvement and has worked closely with authorities including Dermatology Doctorates as well as leading professional and research institutions to improve testing results. For instance, *MeituEve* succeeded in inviting a professor from the Chinese Academy of Sciences as our special consultant for more advanced advice on AI skin analysis.

ii. Meidd, cosmetic stores ERP SaaS and supply chain management

One of our associate investees, Meidd Technology (Shenzhen) Co., Ltd. (“**Meidd**”), is currently providing ERP SaaS for over ten thousand cosmetic stores, covering more than 250 cities in the People’s Republic of China (the “**PRC**”). Building on that, it has expanded into providing centralized procurement services for its clients, optimizing their supply chain management efforts.

The ERP SaaS service platform of Meidd more efficiently promotes the upstream and downstream collaboration in the beauty industry. Not only can it integrate inventory and marketing data at the retail end in a timely manner to help stores carry out marketing planning, it can also further open up data silos between beauty brands and the retail end to provide brands with precise marketing services, helping them expand into the downstream market. At present, Meidd has already commenced cooperation with some well-known domestic cosmetics brands, and will also promote cooperation with emerging Internet brands and international brands in the future.

In the future, Meidd will further utilize the existing data from beauty stores for consumer behavior analysis, and integrate the omni-channel resources of consumers, stores and upstream manufacturers to prepare for future business growth such as channel customization.

Business Review

With the orderly Novel Coronavirus vaccination deployed globally, we have seen a gradual control of the pandemic and the recovery of daily business operations. Our revenue increased by 44.6% for the first half of 2021 compared to the same period last year.

As the largest revenue contributor of the Company, our advertising business increased by 23.3% year over year, which was benefited from the recovering Chinese advertising market. Our premium subscription services and in-app purchases business has been on a fast-developing track since its launch in 2019 and is still scaling up rapidly. During the first half of 2021, revenue from this sector grew by 150.7% year over year. We are pleased to see that there is a growing trend in the in-app purchase intention in customer behaviour. In June 2021, our apps had around 3 million active paying subscribers.

During the first half of 2021, we have an increasing amount in our operational expenses. On the daily operational level, we invested more resources in research and development to improve our full series of products performances. In the future, we will proactively optimize costs and expenses to keep the company operation on a more prudent basis.

Looking ahead, we expect our revenues to continue to grow, driven mostly by our premium subscription services and in-app purchases businesses, online advertising and other new business. After years of exploration in different areas and business models, we have decided to focus on empowering the beauty industry. We are now seeing some exciting progress achieved in our new businesses and we hope that with the correct monetization model, we can rapidly replicate our past success. We are cautiously optimistic about remaining profitable in terms of Adjusted Net Profit for the full year of 2021. Although some business segments may be exposed to industry competition challenges, we will generate long-term shareholder value through technological development and business innovation.

MANAGEMENT DISCUSSION AND ANALYSIS

Six months ended June 30, 2021 compared to six months ended June 30, 2020

	Unaudited Six months ended June 30, 2021 <i>RMB'000</i>	Unaudited Six Months ended June 30, 2020 <i>RMB'000</i>
Revenue	806,004	557,465
Cost of sales	<u>(273,248)</u>	<u>(201,734)</u>
Gross profit	532,756	355,731
Selling and marketing expenses	(188,246)	(134,568)
Administrative expenses	(126,215)	(101,013)
Research and development expenses	(259,456)	(188,009)
Net impairment losses on financial assets	(14,715)	(2,424)
Impairment losses on cryptocurrencies	(111,907)	–
Other income	47,073	20,399
Other gains, net	5,152	9,279
Finance income, net	1,233	21,613
Shares of (losses)/profits of investments accounted for using the equity method	<u>(877)</u>	<u>1,478</u>
Loss before income tax	(115,202)	(17,514)
Income tax expense	<u>(22,477)</u>	<u>(7,479)</u>
Loss for the period	<u>(137,679)</u>	<u>(24,993)</u>
Loss attributable to:		
– Owners of the Company	(128,666)	(15,953)
– Non-controlling interests	<u>(9,013)</u>	<u>(9,040)</u>
	<u>(137,679)</u>	<u>(24,993)</u>
Non-IFRS measure:		
Adjusted Net Profit/(Loss)⁽¹⁾		
– Owners of the Company	33,358	24,940
– Non-controlling interests	<u>(13,063)</u>	<u>(5,039)</u>
	<u>20,295</u>	<u>19,901</u>

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

Revenue

Building on our massive user 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 six months ended June 30, 2021, total revenue had a significant increase of 44.6% to RMB806.0 million from RMB557.5 million for the six months ended June 30, 2020. This increase was mainly driven by the strong growth in our major business sectors, especially in the premium subscription services and in-app purchases.

	Six months ended June 30,		2020	
	2021			
	<i>Amount</i> <i>RMB'000</i>	<i>% of total</i> <i>revenues</i>	<i>Amount</i> <i>RMB'000</i>	<i>% of total</i> <i>revenues</i>
Online Advertising	392,622	48.7%	318,508	57.1%
Premium Subscription Services and In-app Purchases	210,880	26.2%	84,128	15.1%
Internet Value-added Services	35,339	4.4%	21,340	3.8%
Others	167,163	20.7%	133,489	24.0%
Total	806,004	100%	557,465	100.0%

Online advertising

Our revenue from online advertising increased by 23.3% year on year to RMB392.6 million for the six months ended June 30, 2021. Following the recovery trend of the Chinese advertising market in the second half of last year, our advertising business continued the solid growth trend in the first half of 2021. We achieved progress in both our brand and programmatic advertisements during the period, especially in the programmatic ads business which was the largest growth contributor in this segment. Meanwhile, the number of advertisers on our platform continued to grow compared to the same period last year, thanks to our effort in exploring customers in new categories, such as e-commerce, apparel, as well as food and beverage.

It is a trend that the Internet market is being gradually standardized by external regulations. Competent authorities have focused on rectification of mobile apps this year. In order to comply with the latest regulations, we will improve the compliance of our mainstream applications and replace part of the traditional displaying advertising with more innovative displaying models. We are confident that our online advertising business will develop steadily through a series of innovative actions.

Going forward, 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 continues a strong momentum with a significant year-over-year increase of 150.7% from RMB84.1 million for the six months ended June 30, 2020 to RMB210.9 million for the six months ended June 30, 2021. Such growth was attributable to the increase in both new subscribing and retained subscribing members in domestic imaging apps, as we continued to optimize advanced functions and differentiate our product offerings.

We have applied the premium subscription service in both our overseas apps (namely *BeautyPlus* and *Airbrush*) and our domestic apps, including the *Meitu* app and *BeautyCam*. During the first half of this year, our premium subscription service in overseas apps continued a healthy growth trajectory, with a high double-digit increase compared to the same period last year. Although the domestic version of premium subscription service was introduced later than the overseas version, it still achieved a great result with growing subscriptions. We have seen a fast growth in revenue during the past few months. Leveraging on the larger user base of Meitu's app portfolio both in the PRC and overseas, as well as an increasing willingness to pay for these services by the younger generation of users, we will keep investing resources to improve the user experiences of our services, and we expect this business to grow continuously in the future.

Internet value-added services (“IVAS”)

For the six months ended June 30, 2021, revenue from our IVAS increased by 65.6% year over year to RMB35.3 million from RMB21.3 million for the six months ended June 30, 2020.

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, video and musical service, etc., for our third-party partners and we are entitled to a certain portion of revenue sharing.

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 six months ended June 30, 2021, revenue from others increased significantly by 25.2% year over year to RMB167.2 million from RMB133.5 million for the six months ended June 30, 2020.

Our Influencer Marketing Solutions (“IMS”) business made up 87.0% of this revenue line during the first half of 2021 and thus was the key contributor to the growth. Revenues generated from this business increased by 49.5% year over year to RMB145.5 million from RMB97.3 million during the first half of 2020.

The IMS business provides advertising and marketing services to advertisers across multiple online and mobile social media platforms, through online performances undertaken by third party influencers (including the key opinion leaders (KOL)/the key opinion consumers (KOC) among Meitu users). Related solutions associated with talent management such as recruiting, training, content production support, quality control and service settlement solutions are also provided in exchange for revenue sharing.

Since its incubation, the *MeituEve* business has always been a strategic business for the Group, which focuses on professional grade AI skin analysis and beauty-related solutions. The business has grown rapidly since last year, and our first-generation product has been applied by some global skin care brands, namely, Christian Dior, Shiseido, as well as others. In the first half of this year, we maintained a growing trend in customer expansion, and gradually optimized the monetization model for customers in different categories.

In the future, we will actively explore businesses globally, including increase cooperation with well-known brands, as well as penetrate the beauty salon lines to expand marketing channels. Meanwhile, based on the feedbacks of the first-generation products, we are actively investing resources to develop the second-generation products, which will provide our partners with more testing dimensions for better user experience. Besides, we will work closely with professional and research institutions to improve our testing result standards. Going forward, we are confident in the development of the *MeituEve* business.

Cost of Sales

Our cost of sales increased by 35.4% to RMB273.2 million for the six months ended June 30, 2021, compared to RMB201.7 million for the six months ended June 30, 2020. The IMS business remained the largest contributor to the increased cost of sales, with the premium subscription service business being the second largest contributor.

Gross Profit and Margin

Our gross profit increased by 49.8% to RMB532.8 million for the six months ended June 30, 2021 from RMB355.7 million for the six months ended June 30, 2020. Our gross margin increased to 66.1% for the first half of 2021, from 63.8% for the same period last year, as an increase in revenue contribution from our main business sectors such as online advertising and premium subscription services business.

Research and Development Expenses

Research and development expenses increased by 38.0% to RMB259.5 million for the six months ended June 30, 2021 from RMB188.0 million for the same period last year, primarily due to an increase in research and development employee expenses.

Selling and Marketing Expenses

Selling and marketing expenses increased by 39.8% to RMB188.2 million for the six months ended June 30, 2021, from RMB134.6 million for the six months ended June 30, 2020, primarily due to an increase in promotional expenses and staff costs.

Administrative Expenses

Administrative expenses increased by 25.0% to RMB126.2 million for the six months ended June 30, 2021 from RMB101.0 million for the same period last year, primarily due to an increase in staff costs.

Impairment on Cryptocurrencies

As of June 30, 2021, the fair values of the units of Ether and the units of Bitcoin acquired by the Group determined based on the then prevailing market prices were approximately US\$65.2 million and US\$32.2 million, respectively. In accordance with the relevant accounting standards under IFRSs, the Group accounts for the acquired cryptocurrencies as intangible assets and adopts the cost model for the measurement. Consequently, the decrease in fair value of the acquired Bitcoin as of June 30, 2021 in the amount of approximately RMB111.9 million was recognised as impairment, while the increase in fair value of the acquired Ether as of June 30, 2021 in the amount of approximately RMB94.9 million was not recognised as revaluation gain.

Notwithstanding the foregoing, the impairment in relation to the acquired Bitcoin as of June 30, 2021 is reversible (whether in whole or in part) in the Group's upcoming annual results for the year ending December 31, 2021 should there be a subsequent increase in the fair value of the Acquired Bitcoin as of the end date of the financial year.

Further details of the acquired cryptocurrencies are set out in the announcements of the Company dated March 7, 2021, March 17, 2021, April 8, 2021 and July 6, 2021.

Other Income

Other income for the six months ended June 30, 2021 increased to RMB47.1 million from RMB20.4 million for the six months ended June 30, 2020, primarily due to an increase in government grants.

Other Gains, Net

Other gains, net were RMB5.2 million for the six months ended June 30, 2021, compared to a net gain of RMB9.3 million for the six months ended June 30, 2020, primarily attributable to an increase in non-operating revenue, which was partly offset by an increase in net loss of fair value change on financial assets at fair value through profit or loss and a decrease in other financial investment income.

Finance Income, Net

Finance income, net mainly comprised of bank interest income and foreign exchange losses. Our net finance income decreased by 94.4% to RMB1.2 million for the six months ended June 30, 2021, from RMB21.6 million for the six months ended June 30, 2020, primarily due to lower bank interest income.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2021 were RMB22.5 million, compared to RMB7.5 million for the six months ended June 30, 2020. The increase in income tax expenses was primarily due to the increase in total revenue in the first half of 2021. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2021, some of our entities generated positive net profit.

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

Net loss for the six months ended June 30, 2021 significantly increased to RMB137.7 million from RMB25.0 million for the six months ended June 30, 2020, primarily due to the increase in one-off expenses resulting from the decrease in fair value of the Acquired Cryptocurrencies was recognized as impairment in accordance with the relevant accounting standards under IFRSs.

To supplement our consolidated financial statements which are presented in accordance with the IFRSs, we also use a non-IFRS financial measure, “Adjusted Net Profit/(Loss)”, as an additional financial measure, which is not required by, or presented in accordance with IFRSs. For the purpose of this 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 IFRSs.

Adjusted Net Profit attributable to the Owners of the Company was RMB33.4 million for the six months ended June 30, 2021, compared to Adjusted Net Profit of RMB24.9 million for the six months ended June 30, 2020, mainly due to the continuous rapid growth of the premium subscription services and in-app purchases business, as well as the increase in revenue from online advertising business. It is worth mentioning that revenue from premium subscription services and in-app purchases business has been achieving a double-digit sequential growth in the past quarters since its launch in 2019. From the fourth quarter of 2019, we have started to generate positive Adjusted Net Profit attributable to the Owners of the Company for consecutive fiscal reporting periods. Aiming at becoming the first company to provide a full scenario of SaaS solutions for the beauty industry, we are now incubating several new businesses that would further diversify our revenue streams, such as empowering beauty brands with sales channels expansion tools, providing overall AI skin analysis and beauty-related solutions, etc.. We have seen some great progress achieved in these businesses and we will continue to focus on maximizing the monetization opportunities on our massive users and beauty-related ecosystem, in order to maintain a healthy profitability trend.

The following table reconciles our Adjusted Net Profit/(Loss) for the six months ended June 30, 2021 and 2020 to the most directly comparable financial measure calculated and presented in accordance with IFRSs:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period	(137,679)	(24,993)
Excluding:		
Share-based compensation	28,801	25,429
Changes in fair value and impairment of long-term investments	13,491	14,237
Amortization of intangible assets and other expenses related to acquisition	12,133	13,545
Impairment losses on cryptocurrencies	111,907	–
Other one-off gains	(18,119)	(6,307)
Tax effects	9,761	(2,010)
	<hr/>	<hr/>
Adjusted Net Profit/(Loss) for the period	20,295	19,901
	<hr/>	<hr/>
Owners of the Company	33,358	24,940
Non-controlling interests	(13,063)	(5,039)
	<hr/> <hr/>	<hr/> <hr/>

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, 2021 and December 31, 2020 were as follows:

	June 30, 2021	December 31, 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	772,255	1,158,117
Short-term bank deposits and current portion of long-term bank deposits	253,572	853,450
Long-term bank deposits	40,000	150,000
Short-term investments placed with banks	41,821	20,449
	<hr/>	<hr/>
Cash and other liquid financial resources	<u>1,107,648</u>	<u>2,182,016</u>

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, short-term bank deposits, long-term bank deposits and short-term investments placed with banks are denominated in 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, 2021. 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,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property and equipment	16,448	5,096
Purchase of intangible assets	651,139	—
Total	<u>667,587</u>	<u>5,096</u>

Our capital expenditures primarily included expenditures for refurbishment of our main office building and purchases of property and equipment such as servers and computers and intangible assets such as cryptocurrencies and computer software.

The increase in capital expenditure was mainly due to the refurbishment of our main office building and purchase of cryptocurrencies.

Long-term Investment Activities

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Investment in financial assets at fair value through profit or loss	77,903	54,000
Total	<u>77,903</u>	<u>54,000</u>

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 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 for the six months ended June 30, 2021 and 2020.

Pledge of Assets

As of June 30, 2021, we pledged a restricted deposit of RMB500,000 (as of December 31, 2020: RMB500,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As of June 30, 2021, we did not have any material contingent liabilities (as of December 31, 2020: nil).

Borrowings and Gearing Ratio

As of June 30, 2021, we pledged a bank borrowing of RMB10.0 million (as of December 31, 2020: RMB5.0 million). Therefore, the gearing ratio of the Group was 0.3% as of June 30, 2021 (as of December 31, 2020: 0.1%). 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 1,909 full-time employees as of June 30, 2021 (as of December 31, 2020: 1,770), a majority of whom were based in various cities in the PRC, 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, 2021, 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% or more of the Company's total assets as of June 30, 2021.

Save as disclosed in this announcement, during the six months ended June 30, 2021, 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, 2021.

Material Acquisitions and Disposals of Subsidiaries And Affiliated Companies

During the six months ended June 30, 2021, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Important Events after the Reporting Date

There were no important events affecting the Company which occurred after June 30, 2021 and up to the date of this announcement.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	<i>Note</i>	Unaudited Six months ended June 30, 2021 <i>RMB'000</i>	Unaudited Six months ended June 30, 2020 <i>RMB'000</i>
Revenue	3	806,004	557,465
Cost of sales	4	<u>(273,248)</u>	<u>(201,734)</u>
Gross profit		532,756	355,731
Selling and marketing expenses	4	(188,246)	(134,568)
Administrative expenses	4	(126,215)	(101,013)
Research and development expenses	4	(259,456)	(188,009)
Net impairment losses on financial assets		(14,715)	(2,424)
Impairment losses on cryptocurrencies	9	(111,907)	–
Other income		47,073	20,399
Other gains, net	5	5,152	9,279
Finance income, net		1,233	21,613
Share of (losses)/profits of investments accounted for using the equity method		<u>(877)</u>	<u>1,478</u>
Loss before income tax		(115,202)	(17,514)
Income tax expense	6	<u>(22,477)</u>	<u>(7,479)</u>
Loss for the period		<u>(137,679)</u>	<u>(24,993)</u>
Loss attributable to:			
– Owners of the Company		(128,666)	(15,953)
– Non-controlling interests		<u>(9,013)</u>	<u>(9,040)</u>
		<u>(137,679)</u>	<u>(24,993)</u>
Loss per share for loss attributable to owners of the Company for the period (expressed in RMB per share)	7		
– Basic		<u>(0.03)</u>	<u>(0.004)</u>
– Diluted		<u>(0.03)</u>	<u>(0.004)</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Loss for the period	<u>(137,679)</u>	<u>(24,993)</u>
Other comprehensive (loss)/income, net of tax <i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>(13,841)</u>	<u>29,781</u>
Other comprehensive (loss)/income for the period, net of tax	<u><u>(13,841)</u></u>	<u><u>29,781</u></u>
Total comprehensive (loss)/income for the period, net of tax	<u><u>(151,520)</u></u>	<u><u>4,788</u></u>
Total comprehensive (loss)/income attributable to:		
– Owners of the Company	(142,507)	13,489
– Non-controlling interests	<u>(9,013)</u>	<u>(8,701)</u>
	<u><u>(151,520)</u></u>	<u><u>4,788</u></u>

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited June 30, 2021 RMB'000	Audited December 31, 2020 RMB'000
ASSETS			
Non-current assets			
Property and equipment	9	368,161	360,826
Right-of-use assets		35,889	29,844
Intangible assets	9	910,758	392,954
Long-term investments			
– Investments in associates in the form of ordinary shares		81,976	83,737
– Financial assets at fair value through profit or loss		599,841	559,494
– Financial assets at fair value through other comprehensive income		8,960	9,050
Prepayments and other receivables		4,132	7,890
Term deposits		40,000	150,000
Deferred tax assets		7,740	3,779
		<u>2,057,457</u>	<u>1,597,574</u>
Current assets			
Inventories		3,568	1,476
Trade receivables	10	389,673	351,017
Prepayments and other receivables		892,999	506,240
Contract costs		23,494	18,337
Short-term investments placed with banks		41,821	20,449
Term deposits		253,572	853,450
Restricted cash		500	500
Cash and cash equivalents		772,255	1,158,117
		<u>2,377,882</u>	<u>2,909,586</u>
Total assets		<u>4,435,339</u>	<u>4,507,160</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited June 30, 2021 RMB'000	Audited December 31, 2020 RMB'000
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		281	280
Share premium		7,136,550	7,135,115
Reserves		(93,502)	(107,910)
Accumulated losses		<u>(3,602,221)</u>	<u>(3,473,555)</u>
Non-controlling interests		<u>5,444</u>	<u>13,905</u>
Total equity		<u>3,446,552</u>	<u>3,567,835</u>
Liabilities			
Non-current liabilities			
Long-term payables	<i>11</i>	82,489	80,972
Lease liabilities		11,038	2,805
Deferred tax liabilities		<u>53,148</u>	<u>41,953</u>
		<u>146,675</u>	<u>125,730</u>
Current liabilities			
Borrowings		10,000	5,000
Contract liabilities		106,492	71,589
Trade and other payables	<i>11</i>	648,660	660,364
Lease liabilities		24,371	25,979
Income tax liabilities		<u>52,589</u>	<u>50,663</u>
		<u>842,112</u>	<u>813,595</u>
Total liabilities		<u>988,787</u>	<u>939,325</u>
Total equity and liabilities		<u>4,435,339</u>	<u>4,507,160</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Net cash used in operating activities		(348,349)	(79,211)
Net cash used in investing activities		(23,152)	(105,084)
Net cash used in financing activities		<u>(11,463)</u>	<u>(31,893)</u>
Net decrease in cash and cash equivalents		(382,964)	(216,188)
Cash and cash equivalents at the beginning of the period		1,158,117	864,611
Effects of exchange rate changes on cash and cash equivalents		<u>(2,898)</u>	<u>871</u>
Cash and cash equivalents at the end of the period		<u><u>772,255</u></u>	<u><u>649,294</u></u>

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 Xiamen Meitu Networks Technology Co., Ltd. (“**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.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since December 15, 2016 through an initial public offering (“**IPO**”).

The interim condensed consolidated balance sheet as of June 30, 2021, 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 25, 2021.

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, 2020, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2020, 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 2021:

Amendments to IFRS 16	Covid-19-related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

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, 2021 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, 2023
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

None of these is expected to have a significant effect on the consolidated financial statements of the Group.

(c) Accounting policies adopted for acquisitions of cryptocurrencies

Cryptocurrencies purchased and held by the Group include Ethers (“Ethers”) and Bitcoins, which are accounted for as intangible assets under the cost model. The Group has ownership of and control over the cryptocurrencies held and employs third-party custodian services to monitor them. The cryptocurrencies held by the Group are considered to have indefinite life, given there is no foreseeable limit to the period over which the relevant cryptocurrencies are expected to generate net cash inflows for the Group. They are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The impairment tests are carried out for Ethers and Bitcoins, separately. The accounting policies applied for impairment of cryptocurrencies are consistent with those for impairment of non-financial assets, as described in the annual financial statements for the year ended December 31, 2020. Cryptocurrencies that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. The increased carrying amount of cryptocurrencies attributable to a reversal of an impairment loss, which is recognized in profit or loss, will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cryptocurrencies in prior accounting periods.

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. The Group does not distinguish between markets or segments for the purpose of internal reporting.

The results of the revenue for the six months ended June 30, 2021 and 2020 are as follows:

	Unaudited Six months ended June 30, 2021 RMB’000	Unaudited Six months ended June 30, 2020 RMB’000
Online Advertising	392,622	318,508
Premium Subscription Services and In-App Purchases	210,880	84,128
Internet Value-added Services	35,339	21,340
Others	167,163	133,489
	<hr/>	<hr/>
Total revenue	806,004	557,465
	<hr/> <hr/>	<hr/> <hr/>

	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Timing of revenue recognition		
At a point in time	194,472	145,395
Over time	611,532	412,070
	<u>806,004</u>	<u>557,465</u>

No revenue from any customer exceeded 10% or more of the Group's revenue for the six months ended June 30, 2021 and 2020.

Substantially all of the Group's revenues are derived from incorporations registered in the PRC. Therefore, no geographical segments for revenue are presented.

As of June 30, 2021, the total non-current assets other than financial instruments and deferred tax assets located in the PRC and other countries or regions amounted to RMB1,313,008,000 (December 31, 2020: RMB1,212,646,000) and RMB693,388,000 (December 31, 2020: RMB223,975,000), respectively.

4 Expenses by nature

	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Employee benefit expenses	415,276	306,056
Service fees sharing to influencers	145,002	96,178
Promotion and advertising expenses	83,858	51,414
Revenue sharing fee	55,450	27,161
Bandwidth and storage related costs	36,662	30,917
Depreciation of right-of-use assets	18,299	20,525
Amortization of intangible assets (Note 9)	11,681	13,622
Tax and levies	10,484	1,753
Depreciation of property and equipment (Note 9)	9,073	19,924
Travelling and entertainment expenses	7,165	4,322
Video content monitoring fee	6,192	9,515
Operating lease expenses	4,548	3,204
Others	43,475	40,733
	<hr/>	<hr/>
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	847,165	625,324

5 Other gains, net

	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Fair value changes on short-term investments placed with banks	5,024	7,400
Fair value changes on financial assets at fair value through profit or loss	(13,491)	(4,809)
(Losses)/gains on disposal of property and equipment and intangible assets	(4,284)	1,123
Gains on disposal of a subsidiary	–	8,373
Impairment of investment in an associate	–	(9,428)
Remeasurement losses on consideration to non-controlling shareholders of a subsidiary	–	(2,066)
Others	17,903	8,686
	<hr/>	<hr/>
	5,152	9,279

6 Income tax expense

The income tax expense of the Group for the six months ended June 30, 2021 and 2020 are analyzed as follows:

	Unaudited Six months ended June 30, 2021 RMB'000	Unaudited Six months ended June 30, 2020 RMB'000
Current income tax:		
– PRC and overseas enterprise income tax	15,243	12,444
Deferred income tax	7,234	(4,965)
	<u>22,477</u>	<u>7,479</u>

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 and 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 six months ended June 30, 2021.

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.

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, 2021	Unaudited Six months ended June 30, 2020
Loss attributable to owners of the Company (<i>RMB'000</i>)	(128,666)	(15,953)
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>4,315,416</u>	<u>4,280,483</u>
Basic and diluted loss per share (<i>in RMB/share</i>)	<u>(0.03)</u>	<u>(0.004)</u>

(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, 2021 and 2020, 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, 2021 and 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, 2021 and 2020 were 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, 2021 (six months ended June 30, 2020: nil).

9 Property and equipment and intangible assets

(a) Property and equipment

	Property and Equipment <i>RMB'000</i>
As of December 31, 2020	
Cost	446,847
Accumulated depreciation and impairment	<u>(86,021)</u>
Net book amount	<u><u>360,826</u></u>
 Unaudited	
Six months ended June 30, 2021	
Opening net book amount	360,826
Additions	16,448
Disposals	(37)
Depreciation charges	(9,073)
Currency translation differences	<u>(3)</u>
Closing net book amount	<u><u>368,161</u></u>
 As of June 30, 2021	
Cost	465,918
Accumulated depreciation and impairment	<u>(97,757)</u>
Net book amount	<u><u>368,161</u></u>

(b) Intangible assets

	Crypto- currencies <i>RMB'000</i>	Goodwill <i>(Note (iv))</i> <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
As of December 31, 2020				
Cost	–	211,779	277,444	489,223
Accumulated amortization and impairment	–	(33,336)	(62,933)	(96,269)
Net book amount	<u>–</u>	<u>178,443</u>	<u>214,511</u>	<u>392,954</u>
Unaudited				
Six months ended June 30, 2021				
Opening net book amount	–	178,443	214,511	392,954
Additions <i>(Note (i))</i>	649,969	–	1,170	651,139
Disposals	–	–	(5,652)	(5,652)
Amortization charges	–	–	(11,681)	(11,681)
Impairment loss <i>(Note (ii))</i>	(111,907)	–	–	(111,907)
Currency translation differences	(3,959)	–	(136)	(4,095)
Closing net book amount	<u>534,103</u>	<u>178,443</u>	<u>198,212</u>	<u>910,758</u>
As of June 30, 2021				
Cost	646,010	211,779	256,482	1,114,271
Accumulated amortization and impairment	(111,907)	(33,336)	(58,270)	(203,513)
Net book amount	<u>534,103</u>	<u>178,443</u>	<u>198,212</u>	<u>910,758</u>

(i) The increase in intangible assets for the six months ended June 30, 2021 was primarily due to the purchase of cryptocurrencies. The Group has purchased cryptocurrencies amounting RMB649,969,000 during the six months ended June 30, 2021, which consisted of 31,000 units of Ethers at aggregate cash considerations of US\$49,484,000 (equivalent to RMB321,889,000) and 940.88522604 units of Bitcoins at aggregate cash considerations of US\$50,516,000 (equivalent to RMB328,080,000).

(ii) *Impairment tests for cryptocurrencies*

Cryptocurrencies purchased and held by the Group have been assessed based on each type of cryptocurrencies for impairment testing. The Group carries out their impairment testing by comparing the recoverable amounts of cryptocurrencies to their carrying amounts.

The carrying amounts of cryptocurrencies of the Group are presented below:

	As of June 30, 2021 RMB'000
Ethers	326,339
Bitcoins	319,671
	<hr/> 646,010 <hr/>

The recoverable amount of each type of cryptocurrencies are determined based on fair value less costs of disposal. In determining the fair values, the relevant available markets are identified by the Group, and the Group consider accessibility to, and activity within those markets in order to identify the principal cryptocurrency markets for the Group. The fair value of Ethers and Bitcoins traded in active markets (such as trading and exchange platforms) is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis. Therefore, the fair value used for assessment of recoverable amount in impairment tests is determined as quoted prices (unadjusted) in active markets for Ethers and Bitcoins (Level 1).

As of June 30, 2021, the Group carried out impairment tests for Ethers and Bitcoins, respectively. Based on these impairment tests, the carrying amount of Ethers was lower than their recoverable amount, while the carrying amount of Bitcoins exceeded their recoverable amount by US\$17,323,000 (equivalent to RMB111,907,000). Accordingly, an impairment loss of Bitcoins amounting RMB111,907,000 was recognized in profit or loss by the Group for the six months ended June 30, 2021.

(iii) Price risk on cryptocurrency investments

Due to the cryptocurrency investments made during the six months ended June 30, 2021, the Group is exposed to price risk in respect of the cryptocurrencies held by the Group.

To manage its price risk arising from cryptocurrencies, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with the limits set by the Group. Each cryptocurrency is managed by senior management on a case by case basis. In the case that the fair value of the cryptocurrencies held by the Group had increased/decreased by 10% with all other variables held constant, loss before income tax for the six months ended June 30, 2021 would have been approximately RMB20,776,000 lower/higher.

(iv) Impairment tests for goodwill

As of June 30, 2021, Goodwill was allocated to the Group's cash-generating units ("CGUs") identified as follows:

	As of June 30, 2021 RMB'000
Influencer marketing solutions business and online recruitment services	162,039
Advertising agency services	16,404
	<hr/>
	178,443
	<hr/> <hr/>

Goodwill of the Group is tested for impairment whenever there is any indication of impairment or annually at year-end. As there were no indicators for impairment of any of above CGUs, management has not updated any impairment calculations for the six months ended June 30, 2021.

10 Trade receivables

The Group grants a credit period of 30 to 120 days to its customers. As of June 30, 2021 and December 31, 2020, the aging analysis of trade receivables (net of allowance for doubtful debts) based on transaction date were as follows:

	Unaudited As of June 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Trade receivables		
Up to 6 months	329,203	307,555
6 months to 1 year	57,879	30,239
Over 1 year	2,591	13,223
	<u>389,673</u>	<u>351,017</u>

As of June 30, 2021 and December 31, 2020, the carrying amounts of trade receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates.

11 Trade and other payables

	Unaudited As of June 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Included in non-current liabilities		
Payables to non-controlling shareholders of a subsidiary	<u>82,489</u>	<u>80,972</u>
Included in current liabilities		
Payroll and welfare payables	204,425	211,580
Payables to platforms for agency services	255,192	234,491
Trade payables	96,322	107,614
Deposits payable	35,147	50,630
Other tax payables	23,784	18,835
Others	<u>33,790</u>	<u>37,214</u>
	<u>648,660</u>	<u>660,364</u>

(a) *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, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Up to 1 year	86,376	84,498
1 to 2 years	8,757	7,693
Over 2 years	<u>1,189</u>	<u>15,423</u>
	<u>96,322</u>	<u>107,614</u>

OTHER INFORMATION

Purchase, Sale or Redemption of The Company’s Listed Securities

During the six months ended June 30, 2021, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company’s shares (the “**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 of the Company (the “**Shareholders**”).

During the six months ended June 30, 2021, 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 Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended June 30, 2021.

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, 2021 after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established the audit committee 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, 2021. 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, 2021.

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2021.

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 such listing amounted to approximately RMB4,233.2 million⁽¹⁾.

As of June 30, 2021, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from the Listing ⁽¹⁾ (RMB million)	Unutilized amount as at December 31, 2020 ⁽¹⁾ (RMB million)	Utilization for the six months ended June 30, 2021 (RMB million)	Unutilized amount as at June 30, 2021 (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	939.1	258.3	77.9	180.4
Implementation of sales and marketing initiatives in both China and overseas market	864.2	–	–	–
Expansion of Internet services business	545.0	115.5	42.9	72.6
Expansion of research and development capabilities	287.8	–	–	–
General working capital	375.8	–	–	–

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 2021.

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.

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, 2021 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Shareholders on or before September 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 in 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 25, 2021

As of 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 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.