

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

**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)

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016**

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 and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2016.

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

### **KEY HIGHLIGHTS**

- Total revenues for the year ended December 31, 2016 increased by 112.8% year on year to RMB1,578.6 million.
- For the Internet services and others segment, revenue grew 40.1% year on year in 2016. Importantly, revenue in the second half of 2016 was more than double that of the second half of 2015, implying a significant acceleration of revenue growth. For the Smart hardware segment, revenue growth year on year was even stronger at 120.9%, underpinned by both increasing sales volume and average selling prices (“**ASPs**”).
- Adjusted Net Loss<sup>1</sup> for the year ended December 31, 2016 reduced significantly by 23.9% year on year to RMB540.5 million, mainly due to an increase in gross profit and a reduction in promotion and advertising expenses without compromising user growth.
- Our photo apps processed more than 68 billion photos in 2016, positioning us well to capture the massive opportunities in the field of computer vision and artificial intelligence.
- The strong foundation we built in 2016 is starting to bear fruit: overall monthly active users (“**MAUs**”) reached a historical high of approximately 520 million in January 2017, representing approximately 32% year on year growth.

<sup>1</sup> Adjusted Net Loss is calculated as the loss for the year, excluding the impact from certain non-cash or non-recurring expenses including: (i) fair value loss of convertible redeemable preferred shares; (ii) share-based compensation; (iii) fair value gain and impairment loss of long-term investments; and (iv) one-off listing expenses incurred in connection with the initial public offering and listing of our shares on The Stock Exchange of Hong Kong Limited in December 2016.

## KEY FINANCIAL DATA

	Year ended December, 31		Year on year
	2016	2015	change (%)
<i>(RMB '000)</i>			
Revenue	1,578,580	741,813	112.8%
— Internet Services and Others	104,677	74,691	40.1%
— Smart Hardware	1,473,903	667,122	120.9%
Gross Profit	239,160	100,490	138.0%
Gross Margin	15.2%	13.5%	12.6%
Adjusted Net Loss	(540,454)	(710,488)	-23.9%

## BUSINESS REVIEW AND OUTLOOK

2016 was the year in which Meitu became a public company. We really appreciate the support from our users, shareholders, partners and employees.

“*What is Meitu’s business model?*” is one of the most frequently asked questions we received from the investment community since our listing. Indeed, our business portfolio is multi-faceted: we have launched a number of photo and video apps, operate a short-form video and live streaming community, develop and sell smartphones, and have started personalized imprinting services, among others. While seemingly independent, these products and services are all related — everything we do here at Meitu is focused on our mission to make the world a more beautiful place, while creating shareholder value at the same time. With over one billion unique users on our platform, we are realizing our vision step-by-step: creating an ecosystem around beauty so that everyone can be a user of Meitu products.

To this end, we have set out three strategic directions, namely, platformization, globalization and monetization. We have made significant progress in all these three directions in 2016.

### Platformization

We are very pleased to see our user base continue to grow in 2016, reaching 450 million total MAUs in December 2016, representing a growth of 21% year on year. Most importantly, we have built a very strong foundation to capture further user growth opportunities: our total MAUs reached a historical high of approximately 520 million in January 2017, representing approximately 32% year on year growth.

*Meipai*, our short-form video and live streaming community, has seen increasing engagement statistics across the board. By the end of 2016, more than 510 million videos had been uploaded by our users, which encompass individuals, key opinion leaders, production teams, organizations, corporations and so on. Average time spent per user on *Meipai* was approximately 28–36 minutes per day in 2016, compared to 15–27 minutes in 2015. During the fourth quarter of 2016, we revamped the front-page of *Meipai* and upgraded the recommendation algorithm, resulting in more efficient traffic distribution and higher user engagement. Apart from technological upgrades, we have also introduced a lot of fun features on the *Meipai* platform, such as real-time augmented-

reality stickers and “10-seconds Dynamic Posters”. With the strong foundation we built in 2016, *Meipai*’s MAUs have continued to grow, reaching approximately 160 million<sup>1</sup> in January 2017. We believe *Meipai* is well positioned to ride the short-form video mega-trend and become an even more successful social media platform in China.

We believe that data is the essence of the development of artificial intelligence, and our photo apps processed more than 68 billion photos in 2016, positioning us well to capture the massive opportunities in the field of computer vision and artificial intelligence. We will continue to leverage such enormous amount of data to further strengthen our beautification algorithms, build new functionalities, and develop and try new business models using Meitu’s artificial intelligence, while remaining in strict compliance with applicable data privacy laws.

We have also made progress in the platformization of our other photo apps, such as introducing beauty and makeup related feeds on *MakeupPlus*, following its version 3.0 upgrade in the fourth quarter of 2016. Ultimately, our strategy is to integrate the *Meitu Account* system with all our apps, and add social elements, media content and/or cloud services according to the user preferences of different apps, in order to raise user engagement and further explore monetization opportunities.

## **Globalization**

Both our overseas user base and global influence have been growing.

We repeatedly ranked among the top eight iOS non-game developers by downloads throughout 2016, together with global Internet giants such as Alibaba, Apple, Baidu, Facebook, Google, Microsoft and Tencent. As of December 31, 2016, our apps have attracted over 500 million accumulated users outside of Mainland China, with at least 10 million accumulated users in each of Brazil, India, Indonesia, Japan, Malaysia, Philippines, South Korea, Taiwan, Thailand, the United States and Vietnam. Approximately 27% of our daily new users originated from overseas countries and regions in 2016, compared to 22% in 2015.

Our global influence has also been growing. For example, the “Dimensional Camera” feature on the *Meitu* app, which turns a normal selfie into a hand-drawn art piece through an artificial intelligence based algorithm, went viral on social media in the United States shortly after its launch in January 2017. Such phenomenon was subsequently featured by some of the most influential print and online media in the United States, Europe as well as Asia. Beyond the technology sector, Meitu brand’s influence has also been growing among the global fashion community. For example, the “Ultimate Beauty Destination” event we organized during the London Fashion Week 2017 was a smashing success, attracting over 700 global supermodels, reality TV stars, movie stars, celebrity singers and influencers under one roof to meet and greet, as well as experience Meitu’s latest apps and smartphone products. The event was featured by more than 25 international publications, generating tens of millions of impressions worldwide.

With the success we had in 2016, we will continue to grow our global user base, in order to realize our vision of making everyone in the world a user of Meitu products.

<sup>1</sup> The MAU of *Meipai* in January 2017 includes in-app users of 35 million and mobile web users of 125 million.

## **Monetization**

For the year ended December 31, 2016, total revenues increased to RMB1,578.6 million from RMB741.8 million in the year ended December 31, 2015, representing growth of 112.8% year on year. The average monthly revenue per MAU was RMB0.292 in 2016, growing 75.9% year on year from RMB0.166 in 2015.

### ***Internet services and others segment***

Within the Internet services and others segment, revenue grew to RMB104.7 million in 2016, compared to RMB74.7 million in 2015, representing a year on year growth of 40.1%. Importantly, revenues in the second half of 2016 was more than double that of the second half of 2015, representing a significant acceleration in revenue growth; this was mainly due to (i) a strong ramp up in advertising revenue following the completion of the restructuring our advertising business; and (ii) significant growth in the revenues generated from virtual item sales on *Meipai*.

We have also started generating e-commerce revenues from *Meitu Personalized*, a service that enables users to have their photos imprinted on various merchandise, in order to display their personality. In 2016, we tested the service with T-shirts and the result was very encouraging. We aim to roll out a broader selection of merchandise in 2017. In addition, we are on track to launch *Pushion*, our fashion-focused social e-commerce platform in the first half of 2017, adding another avenue to e-commerce monetization.

### ***Smart hardware segment***

We are also very pleased with the results of the Smart hardware segment, revenues from which reached RMB1,473.9 million in 2016, growing 120.9% compared to 2015. The strong revenue growth was driven by both ASPs and volume growth. Building upon the strengthening Meitu brand, we launched the new “T Series” of Meitu smartphones in February 2017. The Meitu T8 is not only a more premium-priced series compared to the “M Series”, but is also our first smartphone product that employs both artificial intelligence and dual-pixel technology to generate DSLR-quality (digital single lens reflex camera) selfies. We believe our strong brand recognition, technological innovation and uncompromising pursuit of user experience will continue to underpin the future success of our smart hardware business.

## KEY OPERATIONAL DATA

	As at December 31,		Year on year
	2016	2015	change (%)
<i>(in '000 unless otherwise specified)</i>			
Total MAUs	<b>450,051</b>	372,454	20.8%
<i>MAU breakdown by product:</i>			
<i>Meitu</i>	<b>101,984</b>	91,406	11.6%
<i>BeautyCam</i>	<b>125,628</b>	89,723	40.0%
<i>Meipai<sup>1</sup></i>	<b>113,819</b>	126,305	-9.9%
Others	<b>108,620</b>	65,020	67.1%
<i>MAU breakdown by geography:</i>			
Mainland China	<b>363,648</b>	324,250	12.2%
Overseas	<b>86,403</b>	48,204	79.2%

<sup>1</sup> As at December 31, 2016, the MAU of Meipai includes in-app users of 23.6 million (2015: 23.4 million) and mobile web users of 90.2 million (2015: 102.9 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Revenue	<b>1,578,580</b>	741,813
Cost of sales	<b>(1,339,420)</b>	(641,323)
<b>Gross profit</b>	<b>239,160</b>	100,490
Selling and marketing expenses	<b>(424,845)</b>	(649,092)
Administrative expenses	<b>(198,586)</b>	(94,742)
Research and development expenses	<b>(243,261)</b>	(119,605)
Other income	<b>12,980</b>	11,085
Other losses, net	<b>(37,658)</b>	(858)
<b>Operating loss</b>	<b>(652,210)</b>	(752,722)
Finance income/(costs), net	<b>(981)</b>	18,898
Fair value loss of convertible redeemable preferred shares	<b>(5,606,109)</b>	(1,482,643)
Shares of losses of investments accounted for using the equity method	<b>(512)</b>	(319)
<b>Loss before income tax</b>	<b>(6,259,812)</b>	(2,216,786)
Income tax expense	<b>(1,068)</b>	(771)
<b>Loss for the year</b>	<b>(6,260,880)</b>	(2,217,557)
<b>Loss attributable to:</b>		
— Owners of the Company	<b>(6,260,880)</b>	(2,217,557)
<b>Non-IFRS measure:</b>		
Adjusted Net Loss	<b>(540,454)</b>	(710,488)

## Revenue

Our total revenue increased by 112.8% to RMB1,578.6 million for the year ended December 31, 2016, compared to RMB741.8 million for the year ended December 31, 2015.

	Year ended December 31,			
	2016		2015	
	Amount	% of total	Amount	% of total
	RMB'000	revenues	RMB'000	revenues
Internet services and others	<b>104,677</b>	<b>6.6%</b>	74,691	10.1%
Smart hardware	<b>1,473,903</b>	<b>93.4%</b>	667,122	89.9%
Total	<b>1,578,580</b>	<b>100.0%</b>	741,813	100.0%

### *Internet services and others*

Revenue from the Internet services and others segment increased by 40.1% to RMB104.7 million for the year ended December 31, 2016, compared to RMB74.7 million for the year ended December 31, 2015.

Sale of virtual items on *Meipai* was the key contributor of revenue growth in this segment for 2016. We started this business in June 2016, and the gross billings generated from *Meipai* grew significantly to RMB44.3 million in the second half of 2016, from RMB1.3 million for the first half of 2016, representing a growth rate of over 3,200% between those periods. Such significant growth was the combined effect of better traffic distribution algorithms, effective community management as well as the introduction of fun and engaging activities that promote interaction and engagement among the hosts and their audience. The number of average monthly paying users also increased significantly to 224,536 for the second half of 2016, from approximately 58,000 for the first half of 2016.

For our advertising business, we commenced a restructuring in April 2016 in order to drive long-term growth. In particular, we relocated our sales headquarters from Xiamen to Beijing, started a new sales office in Shanghai, and upgraded our advertising platform to connect with programmatic advertising networks in both China and overseas. The restructuring had unavoidably caused some volatility in our advertising revenues during the first half of 2016, resulting in a year on year decline in revenues as compared to the first half of 2015. However, following the completion of the restructuring in September 2016, we have seen our advertising revenue ramp up quickly. In the second half of 2016, our advertising revenues grew significantly compared to the first half of 2016.

### ***Smart hardware***

Revenue from the smart hardware segment increased by 120.9% to RMB1,473.9 million for 2016, from RMB667.1 million for 2015 due to an increase in both sales volume and ASPs. The number of smartphone units sold was 748,256 in 2016, as compared to 387,775 in 2015. The ASP was RMB1,959 in 2016, as compared to RMB1,699 in 2015. ASP per smartphone is calculated by dividing the total revenue from smartphone sales by the number of units sold during the year.

### **Cost of Sales**

Our cost of sales increased by 108.9% to RMB1,339.4 million for year ended December 31, 2016, compared to RMB641.3 million for the year ended December 31, 2015.

### ***Internet services and others***

Segment cost for Internet services and others increased by 63.4% to RMB162.4 million in 2016, from RMB99.4 million in 2015. The majority of the increase was due to (i) revenue-sharing with content creators on the sale of virtual gifts on *Meipai*, a business which we commenced in June 2016; and (ii) an increase in bandwidth and storage related costs to support the increased user base and user engagement.

### ***Smart hardware***

Segment cost for smart hardware increased by 117.2% to RMB1,177.0 million in 2016, from RMB542.0 million in 2015, primarily due to the increase in the number of smartphone units sold. The average cost per smartphone, calculated by dividing the total cost of smartphone components by the number of units sold during the year, increased to RMB1,518 in 2016 from RMB1,331 in 2015. The increase was mainly due to (i) introduction of a more premium priced model “Meitu V4” into the business mix; and (ii) usage of higher-priced key components for the “Meitu M6” model launched during 2016, as compared to the “Meitu M4” model launched in 2015.

### **Gross Profit and Margin**

Our gross profit increased by 138.0% to RMB239.2 million in 2016, from RMB100.5 million in 2015. Our gross margin increased to 15.2% in 2016, from 13.5% in 2015.

	Year ended December 31,			
	2016		2015	
	Amount RMB'000	Gross margin %	Amount RMB'000	Gross margin %
Internet services and others	(57,720)	(55.1)%	(24,678)	(33.0)%
Smart hardware	296,880	20.1%	125,168	18.8%
Total	<u>239,160</u>	<u>15.2%</u>	<u>100,490</u>	<u>13.5%</u>



## ***Internet services and others***

Our Internet services and others segment generated a gross loss of RMB57.7 million in 2016, compared to a gross loss of RMB24.7 million in 2015. Gross loss margin was higher at 55.1% in 2016, compared to 33.0% in 2015, because we incurred more bandwidth and storage related costs to support our larger user base, before the ramping up of our monetization initiatives. In addition, the temporary reduction in revenues during the restructuring period of our advertising initiatives business also put further pressure on the gross loss margin for the first half of 2016. However, as revenue started to ramp up in the second half of 2016, gross loss margin narrowed significantly compared to the first half of 2016, indicating strong operating leverage in this segment.

## ***Smart hardware***

Gross profit and margin of our smart hardware segment increased to RMB296.9 million and 20.1% in 2016, from RMB125.2 million and 18.8% in 2015, primarily due to the increase in the number of smartphone units sold, and there was no significant fluctuation in the gross margin of our smart hardware business.

## **Research and Development Expenses**

Our research and development expenses increased by 103.4% to RMB243.3 million in 2016, from RMB119.6 million in 2015, primarily due to an increase in headcount of research and development personnel.

## **Selling and Marketing Expenses**

Selling and marketing expenses decreased by 34.5% to RMB424.8 million in 2016, from RMB649.1 million in 2015, primarily due to a decrease in promotion and advertising expenses as we were able to raise efficiency in our promotion efforts, which is partially offset by an increase in staff and other costs related to building our advertising sales team in China as well as marketing teams in various overseas countries.

## **Administrative Expenses**

Our administrative expenses increased by 109.6% to RMB198.6 million in 2016, from RMB94.7 million in 2015, primarily due to (i) an increase in headcount, and (ii) one-off listing expenses of RMB39.5 million incurred in connection with the initial public offering and listing of our shares on The Stock Exchange of Hong Kong Limited (“**HKEx**”) in December 2016.

## **Other Income**

Other income primarily comprises government grants and investment income on short-term investments placed with banks that we made to improve yields on surplus cash. The short-term investments placed with banks are redeemable at any time and are principal-guaranteed.

## **Other Losses, Net**

Other losses in 2016 mainly comprised (i) a fair value gain of RMB11.2 million for our long-term investments due to an increase in the fair value of our investment portfolio companies operating in the technology sector; and offset by (ii) an impairment loss of RMB45.1 million for our long-term investment in Migme Limited, a company listed on the Australian Stock Exchange (ASX Code: MIG), as its share price was significantly below the investment cost for a prolonged period of time.

## **Finance Income/(Costs), Net**

Our finance income/(costs) comprised bank interest income and foreign exchange gains/(losses). We had a net finance cost of RMB1.0 million in 2016, compared to a net finance income of RMB18.9 million in 2015, mainly due to the appreciation of the United States dollar against Renminbi during the year of 2016.

## **Fair Value Loss of Convertible Redeemable Preferred Shares**

The fair value loss of convertible redeemable preferred shares is a non-cash and extraordinary item that will not recur in financial years after the listing of our shares on the HKEx, as the convertible redeemable preferred shares issued by us have been automatically converted into ordinary shares upon listing.

## **Loss for the Year and Non-IFRS Measure: Adjusted Net Loss**

Our loss for the year was RMB6,260.9 million in 2016, compared to RMB2,217.6 million in 2015, mainly due to the increase in fair value loss of convertible redeemable preferred shares as the result of an increase in the equity value of our Company. Such fair value loss will not recur in financial years after the listing of our shares on HKEx.

Our Adjusted Net Loss, was RMB540.5 million in 2016, which represented a significant decrease of 23.9% compared to RMB710.5 million in 2015, demonstrating improved underlying business fundamentals. The reduction in Adjusted Net Loss was primarily due to (i) an increase in gross profit driven by revenue ramp up; and (ii) the reduction of promotion and advertising expenses as the result of improved promotion efficiency.

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

The following table reconciles our Adjusted Net Loss for the years ended December 31, 2016 and 2015 to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	2015
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Loss for the year	<b>(6,260,880)</b>	(2,217,557)
Excluding:		
Fair value loss of convertible redeemable preferred shares	<b>5,606,109</b>	1,482,643
Share-based compensation	<b>40,926</b>	24,426
Fair value gain of long-term investments	<b>(11,212)</b>	—
Impairment loss of long-term investments	<b>45,091</b>	—
One-off listing expenses	<b>39,512</b>	—
	<hr/>	<hr/>
Adjusted Net Loss	<b><u>(540,454)</u></b>	<u>(710,488)</u>

### **Liquidity, Financial Resources and Gearing**

Our cash and other liquid financial resources (comprising cash and cash equivalents, short-term bank deposits and short-term investments placed with banks) as at December 31, 2016 and 2015 were as follows:

	<b>As at December 31,</b>	
	<b>2016</b>	2015
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cash and cash equivalents	<b>4,508,522</b>	989,874
Short-term bank deposits	<b>725,229</b>	60,000
Short-term investments placed with banks	<b>280,820</b>	170,389
	<hr/>	<hr/>
Cash and other liquid financial resources	<b><u>5,514,571</u></b>	<u>1,220,263</u>

As at December 31, 2016, we had cash and other liquid financial resources of RMB5,514.6 million. The increase in net cash was mainly due to the net proceeds of approximately RMB4,211.5 million raised during our initial public offering that was completed in December 2016.

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

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

As at December 31, 2016, we did not have any outstanding borrowings. Accordingly, no gearing ratio is presented.

### Capital Expenditure

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Purchase of property and equipment	<b>60,238</b>	49,787
Purchase of intangible assets	<b>2,305</b>	2,340
	<u><b>62,543</b></u>	<u>52,127</u>

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

### Long-term Investment Activities

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Investment in associates in the form of ordinary shares	<b>3,259</b>	3,700
Investment in financial assets at fair value through profit or loss	<b>141,634</b>	147,922
Investment in available-for-sale financial assets	<b>45,091</b>	—
	<u><b>189,984</b></u>	<u>151,622</u>

We make investments in or acquire businesses that are complementary to our business, such as: (i) businesses that possess cutting-edge technologies such as machine learning, computer vision, virtual reality, augmented reality, big data analytics and other technologies related to our business; (ii) businesses with proven monetization models in Internet services, including but not limited to advertising, e-commerce and Internet value-added services, that synergize with our plans to continue monetizing our user base; (iii) companies that operate apps or social communities with meaningful user bases; and (iv) companies that own quality entertainment intellectual property or produce quality video content, such as production houses, which can enrich our content and entertainment offers.

Our investments are mostly early-stage investments and do not generate meaningful revenue and profits. It is 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 People's Republic of China (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, 2016 and 2015.

## **Pledge of Assets**

As at December 31, 2016, we pledged a restricted deposit of RMB400,000 (2015: RMB600,000) to guarantee payment of certain operating expenses.

## **Contingent Liabilities**

As at December 31, 2016, we did not have any material contingent liabilities (2015: nil).

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

		Year ended December 31,	
		2016	2015
	Note	RMB'000	RMB'000
Revenue	3	1,578,580	741,813
Cost of sales	3, 6	<u>(1,339,420)</u>	<u>(641,323)</u>
<b>Gross profit</b>		<b>239,160</b>	100,490
Selling and marketing expenses	6	(424,845)	(649,092)
Administrative expenses	6	(198,586)	(94,742)
Research and development expenses	6	(243,261)	(119,605)
Other income	4	12,980	11,085
Other losses, net	5	<u>(37,658)</u>	<u>(858)</u>
<b>Operating loss</b>		<u><b>(652,210)</b></u>	<u>(752,722)</u>
Finance income	8	11,181	19,053
Finance costs	8	<u>(12,162)</u>	<u>(155)</u>
Finance income/(costs), net	8	(981)	18,898
Fair value loss of convertible redeemable preferred shares	20	(5,606,109)	(1,482,643)
Shares of losses of investments accounted for using the equity method	9	<u>(512)</u>	<u>(319)</u>
<b>Loss before income tax</b>		<b>(6,259,812)</b>	(2,216,786)
Income tax expense	12	<u>(1,068)</u>	<u>(771)</u>
<b>Loss for the year</b>		<u><b>(6,260,880)</b></u>	<u>(2,217,557)</u>
<b>Loss attributable to:</b>			
— Owners of the Company		<u><b>(6,260,880)</b></u>	<u>(2,217,557)</u>
<b>Loss per share (expressed in RMB per share)</b>	13		
— Basic		<u><b>(3.03)</b></u>	<u>(1.13)</u>
— Diluted		<u><b>(3.03)</b></u>	<u>(1.13)</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2016**

		<b>Year ended December 31,</b>	
		<b>2016</b>	<b>2015</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loss for the year</b>		<b>(6,260,880)</b>	<b>(2,217,557)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified to profit or loss</i>			
Change in fair value of available-for-sale financial assets			
— short-term investments placed with banks	<i>16</i>	<b>431</b>	71
Currency translation differences		<u><b>(531,438)</b></u>	<u>(229,790)</u>
<b>Total comprehensive loss for the year, net of tax</b>		<u><b>(6,791,887)</b></u>	<u>(2,447,276)</u>
<b>Total comprehensive loss attributable to:</b>			
— Owners of the Company		<u><b>(6,791,887)</b></u>	<u>(2,447,276)</u>

# CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2016

		As at December 31,	
		2016	2015
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment		79,647	53,374
Intangible assets		21,705	21,136
Long-term investments			
— Investments in associates in the form of ordinary shares	9	6,128	3,381
— Financial assets at fair value through profit or loss	10	300,279	147,922
Prepayments and other receivables		50,319	36,162
		<u>458,078</u>	<u>261,975</u>
<b>Current assets</b>			
Inventories	14	374,342	125,901
Trade receivables	15	86,138	46,567
Prepayments and other receivables		116,736	53,512
Short-term investments placed with banks	16	280,820	170,389
Short-term bank deposits	17(c)	725,229	60,000
Restricted cash	17(b)	400	600
Cash and cash equivalents	17(a)	4,508,522	989,874
		<u>6,092,187</u>	<u>1,446,843</u>
<b>Total assets</b>		<u><u>6,550,265</u></u>	<u><u>1,708,818</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	277	121
Share premium	18	17,015,854	—
Reserves		(666,751)	(176,787)
Accumulated losses		(10,332,138)	(4,071,141)
<b>Total equity</b>		<u><u>6,017,242</u></u>	<u><u>(4,247,807)</u></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible redeemable preferred shares	20	—	5,681,892
		<u>—</u>	<u>5,681,892</u>
<b>Current liabilities</b>			
Trade and other payables	19	532,166	274,180
Income tax liabilities		857	553
		<u>533,023</u>	<u>274,733</u>
<b>Total liabilities</b>		<u><u>533,023</u></u>	<u><u>5,956,625</u></u>
<b>Total equity and liabilities</b>		<u><u>6,550,265</u></u>	<u><u>1,708,818</u></u>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

	Attributable to owners of the Company				
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Reserves <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total equity <i>RMB'000</i>
<i>Note</i>					
<b>Balance at January 1, 2016</b>	<b>121</b>	<b>—</b>	<b>(176,787)</b>	<b>(4,071,141)</b>	<b>(4,247,807)</b>
<b>Comprehensive loss</b>					
Loss for the year	—	—	—	(6,260,880)	(6,260,880)
Change in fair value of available-for-sale financial assets					
— short-term investments placed with banks	—	—	431	—	431
Currency translation differences	—	—	(531,438)	—	(531,438)
<b>Total comprehensive loss</b>	<b>—</b>	<b>—</b>	<b>(531,007)</b>	<b>(6,260,880)</b>	<b>(6,791,887)</b>
<b>Transactions with owners as their capacity as owners</b>					
Share options awarded under 2014 share incentive plan	—	—	40,926	—	40,926
Appropriation to statutory reserves	—	—	117	(117)	—
Conversion of preferred shares to ordinary shares	<i>18</i>	<b>117</b>	<b>12,804,419</b>	—	<b>12,804,536</b>
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	<i>18</i>	<b>39</b>	<b>4,211,435</b>	—	<b>4,211,474</b>
<b>Total transactions with owners as their capacity as owners</b>	<b>156</b>	<b>17,015,854</b>	<b>41,043</b>	<b>(117)</b>	<b>17,056,936</b>
<b>Balances at December 31, 2016</b>	<b>277</b>	<b>17,015,854</b>	<b>(666,751)</b>	<b>(10,332,138)</b>	<b>6,017,242</b>

Attributable to owners of the Company				
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total equity <i>RMB'000</i>
<i>Note</i>				
<b>Balance at January 1, 2015</b>	121	28,022	(1,853,100)	(1,824,957)
<b>Comprehensive loss</b>				
Loss for the year	—	—	(2,217,557)	(2,217,557)
Change in fair value of available-for-sale financial assets				
— short-term investments placed with banks	—	71	—	71
Currency translation differences	—	(229,790)	—	(229,790)
<b>Total comprehensive loss</b>	—	(229,719)	(2,217,557)	(2,447,276)
<b>Transactions with owners as their capacity as owners</b>				
Share options awarded under 2014 share incentive plan	—	24,426	—	24,426
Appropriation to statutory reserves	—	484	(484)	—
<b>Total transactions with owners as their capacity as owners</b>	—	24,910	(484)	24,426
<b>Balances at December 31, 2015</b>	121	(176,787)	(4,071,141)	(4,247,807)

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED DECEMBER 31, 2016

		Year ended December 31,	
	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Cash used in operations		(691,529)	(672,896)
Income tax paid		(764)	(2,449)
		<b>(692,293)</b>	<b>(675,345)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(60,238)	(49,787)
Purchase of intangible assets		(2,305)	(2,340)
Proceeds from disposal of property and equipment		3,837	769
Investments in associates in the form of ordinary shares	9	(3,259)	(3,700)
Investments in financial assets at fair value through profit or loss	10	(141,634)	(146,922)
Proceeds from disposal of financial assets at fair value through profit or loss	10	2,000	—
Investments in available-for-sale financial assets	11	(45,091)	—
Prepayment for long-term investments		—	(1,000)
Purchase of short-term investments placed with banks	16	(465,000)	(609,500)
Proceeds from disposal of short-term investments placed with banks	16	355,000	609,500
Investment income received from short-term investments placed with banks	16	6,654	4,106
Placement of short-term bank deposits		(1,521,078)	(1,008,066)
Receipt from maturity of short-term bank deposits		855,849	1,214,242
Loans to investee companies		(10,406)	(8,347)
Repayments from an investee company		8,347	—
Loans to shareholders of investee companies		(2,000)	(7,000)
Repayment received from shareholders of investee companies		9,000	—
Interest received		5,995	11,336
		<b>(1,004,329)</b>	<b>3,291</b>
<b>Net cash (used in)/generated from investing activities</b>		<b>(1,004,329)</b>	<b>3,291</b>

		<b>Year ended December 31,</b>	
		<b>2016</b>	<b>2015</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of convertible redeemable preferred shares	20	<b>879,920</b>	307,204
Payment of issuance costs of convertible redeemable preferred shares	8	<b>(42)</b>	(40)
Proceeds from bank borrowings		—	40,000
Repayments of bank borrowings		—	(40,000)
Interest expenses paid		—	(43)
Proceeds from issuance of ordinary shares relating to the initial public offering		<b>4,357,679</b>	—
Payments of issuance costs of ordinary shares relating to the initial public offering		<b>(146,204)</b>	—
		<u><b>5,091,353</b></u>	<u>307,121</u>
<b>Net cash generated from financing activities</b>		<u><b>5,091,353</b></u>	<u>307,121</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,394,731</b>	(364,933)
Cash and cash equivalents at the beginning of the year	17(a)	<b>989,874</b>	1,288,345
Exchange gains on cash and cash equivalents		<b>123,917</b>	66,462
		<u><b>4,508,522</b></u>	<u>989,874</u>
<b>Cash and cash equivalents at the end of the year</b>	17(a)	<u><b>4,508,522</b></u>	<u>989,874</u>

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

## 1 General information

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

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in developing, manufacturing and sales of smart hardware, and provision of internet services and others in the People’s Republic of China (the “**PRC**”), Hong Kong and other countries and regions.

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

The Group’s business was carried out through two domestic companies and their subsidiaries, incorporated in the PRC, namely Xiamen Meitu Mobile Technology Co., Ltd. (廈門美圖移動科技有限公司, “**Meitu Mobile**”) and Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司, “**Meitu Networks**”). Meitu Networks was incorporated on June 18, 2003 by Mr. Wu Zeyuan and two other individuals. Through a series of subsequent equity transfers, Mr. Cai Wensheng and Mr. Wu Zeyuan have been the controlling shareholders of Meitu Networks since July 11, 2008. Meitu Mobile was incorporated on March 1, 2013 by Mr. Cai Wensheng, Mr. Wu Zeyuan and Mr. Cai Wensheng’s majority-owned fund, Xiamen Longling Investment Partnership (廈門隆領投資合夥企業(有限合夥)).

For the purpose of introduction of overseas investors and preparation for a listing of the Company’s shares on the overseas capital markets, the Group underwent a Group reorganization to establish the Company as the ultimate holding company.

## 2. Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). The consolidated financial statements has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning January 1, 2016. They are relevant to the operations of the Group but have not been early adopted.

**Effective for annual periods  
beginning on after**

IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting IFRS 9 and IFRS 15. The directors also do not expect the adoption of IFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

### 3. Revenue and segment information

The segment information for the years ended December 31, 2016 and 2015 is as follows:

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Internet services and others:		
— Online advertising	<b>60,446</b>	72,644
— Internet value-added services and others	<b>44,231</b>	2,047
	<b>104,677</b>	74,691
Smart hardware	<b>1,473,903</b>	667,122
<b>Total revenue</b>	<b>1,578,580</b>	741,813

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

	<b>Year ended December 31, 2016</b>		
	<b>Internet services and others</b>	<b>Smart hardware</b>	<b>Total</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Segment revenue	<b>104,677</b>	<b>1,473,903</b>	<b>1,578,580</b>
Segment cost of sales	<b>(162,397)</b>	<b>(1,177,023)</b>	<b>(1,339,420)</b>
Gross profit/(loss)	<b>(57,720)</b>	<b>296,880</b>	<b>239,160</b>

The segment results for the year ended December 31, 2015 are as follows:

	Year ended December 31, 2015		
	Internet services and others <i>RMB'000</i>	Smart hardware <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	74,691	667,122	741,813
Segment cost of sales	<u>(99,369)</u>	<u>(541,954)</u>	<u>(641,323)</u>
Gross profit/(loss)	<u><u>(24,678)</u></u>	<u><u>125,168</u></u>	<u><u>100,490</u></u>
<b>4. Other income</b>			
	Year ended December 31,		
	2016	2015	
	<i>RMB'000</i>	<i>RMB'000</i>	
Government grants	5,398	6,945	
Investment income on short-term investments placed with banks	6,654	4,106	
Others	<u>928</u>	<u>34</u>	
	<u><u>12,980</u></u>	<u><u>11,085</u></u>	
<b>5. Other losses, net</b>			
	Year ended December 31,		
	2016	2015	
	<i>RMB'000</i>	<i>RMB'000</i>	
Loss on disposal of property and equipment	(3,325)	(376)	
Impairment loss on long-term investments — available-for-sale financial assets (note 11)	(45,091)	—	
Fair value gain on long-term investments — financial assets at fair value through profit or loss (note 10)	11,212	—	
Others	<u>(454)</u>	<u>(482)</u>	
	<u><u>(37,658)</u></u>	<u><u>(858)</u></u>	

## 6. Expenses by nature

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Inventories consumed and recognized as:		
— cost of sales	1,149,753	534,344
— selling and marketing expenses	25,824	9,428
Cost of revenue-sharing with content creators	28,495	—
Bandwidth and storage related costs	97,731	72,729
Video content monitoring fee	19,339	13,703
Smartphone related royalty fees	9,079	2,074
Warranty expenses	19,791	7,640
Promotion and advertising expenses	324,582	609,675
Employee benefit expenses	274,623	135,550
Depreciation of property and equipment	26,803	11,367
Amortization of intangible assets	1,736	1,026
Operating lease payments	34,118	17,768
Auditors' remuneration		
— annual audit services	1,800	1,588
— non-audit services	200	201
Listing expenses	39,512	—
Outsourced technical services	6,936	18,856
Tax and levies	4,359	5,027
Travelling and entertainment expenses	19,755	12,099
Utilities and office expenses	16,615	10,516
Others	105,061	41,171
	<u>2,206,112</u>	<u>1,504,762</u>
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses		

## 7. Employee benefit expenses

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	203,978	101,177
Pension costs — defined contribution plans	11,304	5,383
Other social security costs, housing benefits and other employee benefits	22,249	9,926
Share-based compensation expenses	37,092	19,064
	<u>274,623</u>	<u>135,550</u>



## 8. Finance income/(costs), net

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Finance income:</b>		
— Interest income	11,181	11,378
— Foreign exchange gains	—	7,675
	<u>11,181</u>	<u>19,053</u>
<b>Finance costs:</b>		
— Foreign exchange losses	(11,796)	—
— Interest expenses on bank borrowings	—	(43)
— Issuance costs of convertible redeemable preferred shares	(42)	(40)
— Others	(324)	(72)
	<u>(12,162)</u>	<u>(155)</u>
	<u>(981)</u>	<u>18,898</u>

## 9. Investments in associates in the form of ordinary shares

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	3,381	—
Additions	3,259	3,700
Share of losses of the associates	(512)	(319)
	<u>6,128</u>	<u>3,381</u>

## 10. Financial assets at fair value through profit or loss

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	147,922	—
Additions	142,634	147,922
Disposals	(2,000)	—
Changes in fair value	11,212	—
Currency translation differences	511	—
	<u>300,279</u>	<u>147,922</u>

## 11. Available-for-sale financial assets

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	—	—
Additions	45,091	—
Provision for impairment	(45,091)	—
	<u>          </u>	<u>          </u>
At the end of the year	<u>          </u>	<u>          </u>

As at December 31, 2016, the Group made an impairment provision of RMB45,091,000 against the carrying amount of its investment in an investee company, with reference to its fair value.

## 12. Income tax expense

The income tax expense of the Group for the years ended December 31, 2016 and 2015 is analyzed as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income tax	<u>1,068</u>	<u>771</u>
<b>Loss before income tax:</b>	<u>(6,259,812)</u>	<u>(2,216,786)</u>
Tax calculated at PRC statutory income tax rate of 25%	(1,564,953)	(554,197)
Tax effects of:		
— Differential income tax rates applicable to subsidiaries	1,459,790	382,627
— Preferential income tax rates applicable to subsidiaries	(722)	(561)
— Tax losses and temporary differences for which no deferred income tax asset was recognized	103,156	173,901
— Utilization of previously unrecognized tax losses	(6,093)	—
— Expenses not deductible for income tax purposes:		
— Share-based compensation	7,373	4,693
— Others	2,517	1,592
— Super deduction for research and development expenses (Note (c))	—	(7,284)
	<u>          </u>	<u>          </u>
<b>Income tax expense</b>	<u>1,068</u>	<u>771</u>

*Notes:*

*(a) Cayman Islands and BVI Income Tax*

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company on a stand-alone basis, including the fair value loss of convertible redeemable preferred shares, is not subject to any 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%.

*(c) 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 for the years ended December 31, 2016 and 2015, based on the existing legislation, interpretations and practices in respect thereof.

Meitu Networks were qualified as “High and New Technology Enterprises” (“**HNTes**”) under the EIT Law in 2013 and renewed in 2016. Therefore, Meitu Networks entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2016 and 2015.

Meitu Home was accredited as a “software enterprise” under the relevant PRC Laws and regulations in 2014. Therefore, Meitu Home is exempted from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. Since Meitu Home was in accumulated tax loss position for the years ended December 31, 2016 and 2015, the preferential tax rate for Meitu Home was unused till December 31, 2016.

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits for the years ended December 31, 2016 and 2015.

(d) *PRC Withholding Tax (“WHT”)*

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

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as at December 31, 2016 (2015: nil).

### 13. Loss per share

The weighted average number of ordinary shares for the purpose of basic and diluted loss per shares for the year has been retroactively adjusted for share subdivision.

(a) *Basic*

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

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB’000</b>	<b>RMB’000</b>
Loss attributable to owners of the Company	<b>(6,260,880)</b>	(2,217,557)
Weighted average number of ordinary shares in issue (thousand)	<u><b>2,065,492</b></u>	<u>1,966,667</u>
Basic loss per share (expressed in RMB per share)	<u><b>(3.03)</b></u>	<u>(1.13)</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 year ended December 31, 2016, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company before conversion to ordinary shares upon listing of the Company on December 15, 2016 and the shares options awarded under 2014 share incentive plan. For the year ended December 31, 2015, the Company had two categories of potential ordinary shares, convertible redeemable preferred shares issued by the Company and the shares options awarded under 2014 share incentive plan. As the Group incurred losses for the years ended December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015 are the same as basic loss per share of the respective years.

## 14. Inventories

	As at December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	337,846	78,895
Finished goods	37,413	47,211
	<u>375,259</u>	<u>126,106</u>
Less: Provision for impairment	(917)	(205)
	<u>374,342</u>	<u>125,901</u>

## 15. Trade receivables

The Group allows a credit period of 20 to 120 days to its customers. An aging analysis of trade receivables (net of allowance for doubtful debts) based on invoice date is as follows:

	As at December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	69,807	42,548
3 to 6 months	6,765	3,602
6 months to 1 year	9,566	385
1 to 2 years	—	32
	<u>86,138</u>	<u>46,567</u>

As at December 31, 2016 and 2015, the carrying amounts of trade receivables were primarily denominated in Renminbi and approximated their fair values.

## 16. Short-term investments placed with banks

	As at December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	170,389	170,318
Additions	465,000	609,500
Disposals	(355,000)	(609,500)
Change in fair value	7,085	4,177
Investment income recognized in profit or loss	(6,654)	(4,106)
	<u>280,820</u>	<u>170,389</u>

The short-term investments placed with banks are principal-guaranteed and redeemable at any time. The expected rates of return range from 2.32% to 5.80% per annum for the years ended December 31, 2016 and 2015. The returns on all of these short-term investments placed with banks are not guaranteed, therefore, the Group designated them as available-for-sale financial assets. As at December 31, 2016, the carrying amount of short-term investments placed with banks approximates their fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

## 17. Cash and bank balances

### (a) Cash and cash equivalents

	<b>As at December 31,</b>	
	<b>2016</b>	2015
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cash at bank and in hand	<b>4,438,973</b>	637,458
Short-term bank deposits with initial terms within three months	<b>69,549</b>	352,416
	<b><u>4,508,522</u></b>	<u>989,874</u>

### (b) Restricted cash

As at December 31, 2016, RMB400,000 (2015: RMB600,000) of restricted deposits were held in a bank to guarantee payment of certain operating expenses.

### (c) Short-term bank deposits

As at December 31, 2016, the short-term bank deposits amounting RMB725,229,000 (2015: RMB60,000,000) are bank deposits with original maturities over three months and redeemable on maturity. The short-term bank deposits are denominated in Renminbi and the weighted average effective interest rate was 1.17% per annum for the year ended December 31, 2016 (2015: 1.25%).

## 18. Share capital

	<i>Note</i>	Number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Number of preferred shares '000	Nominal value of preferred shares US\$'000
<b>Authorized:</b>					
<b>As at January 1, 2016</b>		445,653	45	154,347	15
Reclassification and re-designation on issuance of series D preferred shares		(14,316)	(2)	14,316	2
Cancellation and re-authorization		168,663	17	(168,663)	(17)
Effect of share subdivision	(a)	5,400,000	—	—	—
<b>As at December 31, 2016</b>		<u>6,000,000</u>	<u>60</u>	<u>—</u>	<u>—</u>
<b>As at January 1, 2015</b>		380,110	38	119,890	12
Reclassification and re-designation on issuance of series C preferred shares		(34,457)	(3)	34,457	3
Increase of authorized ordinary shares		100,000	10	—	—
<b>As at December 31, 2015</b>		<u>445,653</u>	<u>45</u>	<u>154,347</u>	<u>15</u>
				<b>Equivalent</b>	
				<b>Nominal</b>	
				<b>value of</b>	
				<b>ordinary</b>	
				<b>shares</b>	
				<b>Share</b>	
				<b>premium</b>	
	<i>Note</i>	Number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
<b>Issued:</b>					
<b>As at January 1, 2015 and December 31, 2015</b>		196,667	20	121	—
Conversion of preferred shares into ordinary shares upon listing		168,663	17	117	12,804,419
Effect of share subdivision	(a)	3,287,965	—	—	—
Issuance of new shares upon initial public offering		574,000	6	39	4,211,435
<b>As at December 31, 2016</b>		<u>4,227,295</u>	<u>43</u>	<u>277</u>	<u>17,015,854</u>

Note:

- (a) On November 25, 2016, the Company's shareholders resolved, among other things, that subject to the completion of the initial public offering and fulfillment of certain other conditions, all the issued and unissued preferred shares will be re-classified and re-designated as ordinary shares with par value of US\$0.0001 each and following which, each issued and unissued ordinary shares with par value of US\$0.0001 each will be subdivided into 10 ordinary shares with par value of US\$0.00001 each.

## 19. Trade and other payables

	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Trade payables	<b>394,820</b>	214,619
Payroll and welfare payables	<b>57,374</b>	27,642
Advance from customers	<b>22,250</b>	3,778
Government grants	<b>8,790</b>	8,465
Other tax payables	<b>1,317</b>	7,776
Warranty provisions	<b>9,040</b>	7,956
Accrued professional fees	<b>36,597</b>	3,150
Others	<b>1,978</b>	794
	<b><u>532,166</u></b>	<b><u>274,180</u></b>

The aging analysis of trade payables based on invoice date is as follows:

	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Up to 3 months	<b>388,173</b>	212,300
3 to 6 months	<b>3,792</b>	1,962
6 months to 1 year	<b>1,971</b>	225
1 to 2 years	<b>791</b>	128
Over 2 years	<b>93</b>	4
	<b><u>394,820</u></b>	<b><u>214,619</u></b>



## 20. Convertible redeemable preferred shares

The movement of the convertible redeemable preferred shares is set out as below:

	<i>RMB'000</i>
<b>At January 1, 2016</b>	<b>5,681,892</b>
Issuance of series D preferred shares	<b>879,920</b>
Changes in fair value	<b>5,606,109</b>
Currency translation differences	<b>636,615</b>
Conversion into ordinary shares	<b>(12,804,536)</b>
	<hr/> <hr/>
<b>At December 31, 2016</b>	<b>—</b>
	<hr/> <hr/>
Change in fair value for the year included in profit or loss	<b>5,606,109</b>
	<hr/> <hr/>
<b>At January 1, 2015</b>	2,735,481
Issuance of series C preferred shares	1,163,864
Changes in fair value	1,482,643
Currency translation differences	299,904
	<hr/>
<b>At December 31, 2015</b>	<b>5,681,892</b>
	<hr/> <hr/>
Change in fair value for the year included in profit or loss	1,482,643
	<hr/> <hr/>

Upon completion of the initial public offering on December 15, 2016, all the convertible redeemable preferred shares were automatically converted to ordinary shares. As a result, 1,686,627,880 ordinary shares (after share subdivision) were issued, and the balance of convertible redeemable preferred shares was transferred to share capital and share premium of the Company on that date. All preferred rights entitled to the holders of convertible redeemable preferred shares lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

The fair value of the convertible redeemable preferred shares immediately before the conversion into ordinary shares upon completion of the initial public offering was assessed at the market price of HKD8.50 (approximately RMB7.59) per share.

## 21. Dividends

No dividends have been paid or declared by the Company during each of the years ended December 31, 2016 and 2015.

## **OTHER INFORMATION**

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

Neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares since listing of our shares on the HKEx to December 31, 2016.

### **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.

Since listing of our shares on the HKEx to December 31, 2016, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

### **Compliance With the Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of 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 since listing of our shares on the HKEx to December 31, 2016 and to the date of this announcement.

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 since listing of our shares on the HKEx to December 31, 2016 and to the date of this announcement after making reasonable enquiry.

### **Audit Committee and Review of Financial Statements**

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. Zhou Hao, Mr. Ko Chun Shun Johnson and Dr. Guo Yihong. Mr. Zhou Hao is the chairman of the Audit Committee.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended December 31, 2016. 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 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, 2016.

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

### **Scope of Work of the Auditor**

The figures contained in this announcement of our Group's consolidated results for the year ended December 31, 2016 have been agreed by the Auditor, to the figures set out in the audited consolidated financial statements of our Group for the year ended December 31, 2016. The 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 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 Auditor on this announcement.

### **Final Dividend**

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2016.

### **Use of Proceeds**

Our shares were listed on the HKEx on December 15, 2016 and the net proceeds raised during our initial public offering were approximately RMB4,211.5 million. The intended use of net proceeds is as follows:

- Approximately 29.0% of the net proceeds will be used to expand component and raw material sourcing capacity, with a view to producing more smartphones and other smart hardware;
- Approximately 22.6% of the net proceeds will be used to invest in or acquire businesses that are complementary to our business;
- Approximately 19.7% of the net proceeds will be used to implement sales and marketing initiatives in both China and overseas market
- Approximately 13.1% of the net proceeds will be used to expand Interest services business
- Approximately 6.6% of the net proceeds will be used to expand research and development capabilities; and
- Approximately 9.0% of the net proceeds will be used as general working capital.

The net proceeds had not been utilized since listing and up to December 31, 2016.

## **Annual General Meeting**

The annual general meeting is scheduled to be held on Friday, June 2, 2017 (the “AGM”). A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

## **Closure of Register of Members**

In order to determine the entitlement to attend and vote at the AGM, the register of members will be closed from Thursday, May 25, 2017 to Friday, June 2, 2017, both dates inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, May 24, 2017.

## **Publication of Annual Results and Annual Report**

This annual results announcement is published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [corp.meitu.com](http://corp.meitu.com). The annual report of the Group for the year ended December 31, 2016 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company’s shareholders in due course.

## **APPRECIATION**

On behalf of everyone at Meitu, 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 make the world a more beautiful place.

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

Hong Kong, March 24, 2017

*As at the date of this announcement, the Executive Directors are Mr. Cai Wensheng and Mr. Wu Zeyuan; the Non-Executive Directors are Dr. Guo Yihong and Dr. Lee Kai-Fu; the Independent Non-Executive Directors are Mr. Ko Chun Shun Johnson, Mr. Zhou Hao and Ms. Lo Po Man.*

*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 realised 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.*