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Meitu, Inc.
美图公司

(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as "美圖之家")

(Stock Code: 1357)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

The board of directors (the "**Board**") of Meitu, Inc. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company, its subsidiaries and Xiamen Meitu Networks Technology Co., Ltd. ("**Meitu Networks**") and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2019.

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

- Active user growth resumed, led by *Meitu* app's social strategy and *BeautyPlus*' increasing international popularity. MAU reached 308.1 million in June 2019, 0.6% higher than that of December 2018.

- Revenues from online advertising grew strongly by 27.2% to RMB362.3 million. A new business model, "premium subscription", has emerged as the fastest growing sub-segment within Internet value-added services and others, as its revenues grew more than 6 times year on year during the first half of 2019.

- Adjusted Net Loss attributable to owners of the Company* was RMB171.7 million for the first half of 2019, decreasing significantly by 41.4% year over year, due to strong advertising revenue growth and effective execution of a corporate restructuring.

- *Meitu* app's user engagement has been increasing. In June 2019, *Meitu* app's social user on average spent over 12 minutes per day, this compared to daily user time spent of 5-6 minutes before its social transformation. The amount of photos and videos uploaded per day in June 2019 grew more than 5.5 times compared to that of December 2018.

* Financial metrics are presented to exclude discontinued operations.

KEY FINANCIAL DATA

	Six months ended June 30, 2019 RMB'000	2018 RMB'000 (Restated)[1]	Year on year change (%)
Revenue	**464,024**	486,776	-4.7%
— Internet Business	**462,483**	486,776	-5.0%
— Smart Hardware	**1,541**	—	N.A
Gross Profit	**308,070**	240,018	28.4%
— Internet Business	**310,350**	240,018	29.3%
— Smart Hardware	**(2,280)**	—	N.A
Gross Margin	**66.4%**	49.3%	+17.1p.p.
— Internet Business	**67.1%**	49.3%	+17.8p.p.
— Smart Hardware	**-148.0%**	N.A	N.A
Adjusted Net Loss from Continuing Operations attributable to Owners of the Company[2]	**(171,676)**	(292,988)	-41.4%

Note:

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

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

KEY OPERATIONAL DATA

	As of June 30, 2019 '000	As of December 31, 2018 '000 (Restated)	Change (%)
Total Monthly Active Users ("**MAUs**")	**308,127**	306,282	0.6%
MAU[1] breakdown by product:			
Meitu	**123,403**	117,444	5.1%
BeautyCam	**77,202**	79,137	-2.4%
BeautyPlus	**66,819**	59,674	12.0%
Meipai	**9,772**	13,011	-24.9%
Others	**30,931**	37,016	-16.4%
MAU breakdown by geography:			
Mainland China	**196,102**	198,825	-1.4%
Overseas	**112,025**	107,457	4.3%

Note:

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

BUSINESS REVIEW AND OUTLOOK

Strategic Highlights

In the first half of 2019, we focused on executing a few key objectives: (i) drive user engagement through the *Meitu* app's social transformation; (ii) restore overall active user growth; (iii) grow our existing advertising business through innovative campaigns and explore a new monetization model; and (iv) restructure unprofitable business units and focus our resources on areas where we have a competitive advantage. So far, we are pleased to report good progress on all fronts.

Business Review

In the first half of 2019, we have continued to execute our social strategy. In particular, we have increased the social engagement of the *Meitu* app significantly, increasing the daily time spent of the social users to over 12 minutes per day. Before its social transformation, the *Meitu* app's daily user time spent had often been approximately 5 to 6 minutes. The amount of content, i.e. videos and photos, uploaded increased substantially by 5.5 times in June 2019 compared to that of December 2018. As our pool of quality content continues to increase, our recommendation algorithms have been able to perform better, hence driving a substantial increase in click-through rates. Recently we have launched the Private Album functionality with the aim of further enhancing our user engagement. The Private Album not only allows users to store their photos securely on the cloud, but also enable one to invite a group of close friends to manage an album together, each having the ability to upload, comment and interact with one another. On the other hand, as video is continuing to be more important as a form of content, we are going to launch more video editing functionalities on the *Meitu* app to help our users to produce even higher quality content on our social platform.

We have successfully restored active user growth in the first half of 2019 as we saw monthly active users in June 2019 of 308.1 million, 0.6% higher than that of December 2018. Compared to December 2018, *Meitu* app's MAU grew by a solid 5.1% and our overseas products, *BeautyPlus* and *Airbrush,* grew 12.0% and 13.4%, respectively.

In conjunction with such strong growth of our overseas products, we have also started to explore a new monetization model, namely premium subscriptions, for our international apps. With a small monthly subscription fee, users can access our premium services such as IP branded AR filters and special effects. Revenues from premium subscriptions grew more than 6 times year over year in the first half of 2019, representing a meaningful contribution to the Internet value-added services and others.

Our global advertising revenues grew 27.2% year over year in the first half of 2019. Despite the uncertainty in the general economic conditions, our advertising revenues in the second quarter of 2019 grew quarter over quarter, driven mainly by programmatic advertising. As we continue to execute our social strategy on the *Meitu* app, we will generate more impressions from the feeds of the app and grow our advertising inventories and hence increasing our advertising revenues over the course of next few years.

Our smartphone business that previously represented a significant sub-segment under the smart hardware segment was classified as discontinued operations during the six months ended June 30, 2019, following the strategic cooperation with Xiaomi Corporation (Stock Code: 1810) ("**Xiaomi**"). In July 2019, Xiaomi launched the first product powered by Meitu's image technology, "*Xiaomi CC9 Meitu Edition*". Both user and professional reviews for the product have been very positive. We believe this encouraging result serves as a strong foundation for both companies to cooperate on future products.

Although our adjusted net losses narrowed significantly in the first half of 2019, given the uncertain outlook of the global economy, we will continue to be very vigilant in our cost management, spending resources only on areas that generate long term value for our shareholders. We continue to expect a net loss for the full year of 2019, although such loss is likely to be significantly less than that for the full year of 2018.

Management Discussion and Analysis

Six months ended June 30, 2019 compared to six months ended June 30, 2018

	Unaudited Six months ended June 30, 2019 *RMB'000*	Unaudited Six Months ended June 30, 2018 *RMB'000* *(Restated)*
Continuing operations		
Revenue	**464,024**	486,776
Cost of sales	**(155,954)**	(246,758)
Gross profit	**308,070**	240,018
Selling and marketing expenses	**(170,785)**	(276,062)
Administrative expenses	**(130,153)**	(126,714)
Research and development expenses	**(252,383)**	(248,666)
Other income	**7,920**	12,051
Other (losses)/gains, net	**(34,724)**	162,355
Finance income, net	**22,736**	35,777
Share of losses of investments accounted for using the equity method	**(950)**	(1,698)
Loss before income tax	**(250,269)**	(202,939)
Income tax expense	**(8,589)**	(8,872)
Loss from continuing operations	**(258,858)**	(211,811)
(Loss)/Profit from discontinued operations (attributable to equity holders of the Company)	**(119,221)**	84,446
(Loss)/Profit attributable to:		
— Owners of the Company	**(371,231)**	(130,365)
— Non-controlling interests	**(6,848)**	3,000
	(378,079)	(127,365)
Adjusted Net (Loss)/Profit from continuing operations attributable to:		
— Owners of the Company	**(171,676)**	(292,988)
— Non-controlling interests	**(6,848)**	3,000
	(178,524)	(289,988)

Revenue

As a key strategy shift to an asset-light business model, we discontinued our smartphone business. As a result, the smart hardware segment no longer includes the smartphone business and only consists of the newly-developed skin-related smart hardware business. For the six months ended June 30, 2019, the advertising revenue increased remarkably by 27.2% and became the largest revenue contributor with 78.1% of our total revenue. However, due to the live streaming business slowdown, our total revenue decreased slightly by 4.7% year on year to RMB464.0 million for the six months ended June 30, 2019, compared to RMB486.8 million for the six months ended June 30, 2018.

	Six months ended June 30,			
	2019		2018	
	Amount *RMB'000*	**% of total revenues**	Amount *RMB'000* *(Restated)*	% of total revenues
Internet business	**462,483**	**99.7%**	486,776	100.0%
Smart hardware	**1,541**	**0.3%**	—	N.A
Total	**464,024**	**100%**	486,776	100%

Internet business

The breakdown of the segment revenue of Internet business is as follows:

	Six months ended June 30,		Year on year change
	2019	2018 *(Restated)*	(%)
Online advertising	**362,264**	284,908	27.2%
Internet value-added services and others	**100,219**	201,868	-50.4%
Total	**462,483**	486,776	-5.0%

Online advertising

Revenue from online advertising revenue increased remarkably by 27.2% to RMB362.3 million for the six months ended June 30, 2019, compared to RMB284.9 million for the six months ended June 30, 2018. Due to macroeconomic weaknesses, the domestic advertising market of the first half of 2019 declined by 8.8% year over year, according to CTR media intelligence data. In spite of this, our online advertising business still achieved healthy and solid growth as a result of a higher ads fill rate and new client acquisition. We also created some innovative advertising strategies and products to better serve our clients' needs. For example, we combined all kinds of advertising products, such as loading screen, banner display, in-feed ads, AR filter, influencer posts and promoted hashtag challenges in social communities, into a whole package with massive ads impression to increase brand awareness. It is worth noting that our domestic programmatic advertising (mainly including Demand-Side Platform advertising) achieved robust growth of 98.5% year on year. Our advertising revenue from overseas market also recorded an encouraging growth rate of 67.4% compared to the same period last year, which demonstrated our progress in exploring the potential of online advertising business.

Internet value-added services and others

Revenue from internet value-added services and others decreased by 50.4% year on year to RMB100.2 million for the six months ended June 30, 2019, mainly due to a decrease in the *Meipai* live streaming business.

Meipai live streaming revenue recorded a decline of 71.1% in the first half of 2019, attributable to a decrease in the number of paying users, partly offset by an increase in the average revenue per paying user. The amount of monthly paying users declined by approximately 85.8% due to the decrease in both *Meipai* MAU and monthly payment ratio. As we witnessed abated viewer interest and intensified competition in the live streaming arena, we were actively exploring new Internet value-added services, such as premium subscription, *MEITUGENIUS* (also known as *Meitu Magic Mirror*), audio streaming and other interactive services. With respect to the premium subscription model we launched in overseas apps, the product and service are provided free of charge, but money is charged for additional premium virtual products such as IP branded AR filters and special effects. Revenues from premium subscriptions have grown more than 6 times year over year in the first half of 2019, representing a meaningful contribution to the Internet value-added services and others. In particular, its second quarter revenue increased by over 1.6 times sequentially from the first quarter, making up one third of the Internet value-added services and others business. We see room for further growth in this area as the penetration of our overseas products continues to increase and the monetization effort in developed markets such as Japan and Korea bears fruit.

Smart hardware

Our smartphone business that previously represented a significant sub-segment under the smart hardware segment was classified as discontinued operations during the six months ended June 30, 2019, following our strategic cooperation with Xiaomi. We launched our first skin-related smart hardware product in January 2019 as our first attempt of tapping into the massive skin-care market. We also showcased our professional-grade skin analyzer "*MeituEve*" in the China Beauty Expo in May 2019, which generated a lot of interest from various skin-care industry participants. With our proprietary image technology, we are confident that we will be able to empower both the skin-care industry and consumers to better understand their skin condition, ultimately making skin-care more scientific and measurable. We are currently testing a number of different business models and therefore the revenue contribution from this segment is likely to remain small compared to the Internet business segment.

Cost of Sales

Our cost of sales decreased by 36.8% to RMB156.0 million for the six months ended June 30, 2019, compared to RMB246.8 million for the six months ended June 30, 2018.

Internet business

Segment cost for Internet business decreased by 38.3% to RMB152.1 million for the six months ended June 30, 2019, from RMB246.8 million for the six months ended June 30, 2018, primarily due to: (i) less revenue sharing fee in conjunction with our live streaming business decline; (ii) lower sales from advertising products like *M plan* that requires high costs of sales as revenue sharing with influencer; and (iii) more stringent cost control such as savings in bandwidth costs.

Smart hardware

Segment cost for smart hardware was RMB3.8 million for the six months ended June 30, 2019. This business was started in January 2019 and thus there is no comparison with the same period in 2018.

Gross Profit and Margin

Our gross profit increased by 28.4% to RMB308.1 million for the six months ended June 30, 2019, from RMB240.0 million for the six months ended June 30, 2018. Our gross margin increased to 66.4% for the six months ended June 30, 2019, from 49.3% for the six months ended June 30, 2018.

	Six months ended June 30,			
	2019		2018	
	Amount *RMB'000*	**Gross margin %**	Amount *RMB'000* *(Restated)*	Gross margin %
Internet business	**310,350**	**67.1%**	240,018	49.3%
Smart hardware	**(2,280)**	**-148.0%**	—	N.A
Total	**308,070**	**66.4%**	240,018	49.3%

Internet business

Our Internet business segment generated a gross profit of RMB310.4 million for the six months ended June 30, 2019, compared to a gross profit of RMB240.0 million for the six months ended June 30, 2018.

Our gross profit margin was at 67.1% for the six months ended June 30, 2019, compared to the gross profit margin of 49.3% for the six months ended June 30, 2018. The margin expansion in the six months ended June 30, 2019 was primarily due to the increased contribution from the online advertising sub-segment that generates a higher margin compared to the Internet value-added services and others.

Smart hardware

Our smart hardware segment recorded a gross loss of RMB2.3 million with a negative margin of 148.0% in the six months ended June 30, 2019, as the business is still at its early stage and lacks economies of scale to generate a positive gross profit.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 38.1% to RMB170.8 million for the six months ended June 30, 2019, from RMB276.1 million for the six months ended June 30, 2018, primarily due to a decrease in promotional expenses resulting from more cautious brand advertising spending due to macro headwinds.

Research and Development Expenses

Research and development expenses remained stable with a slight increase of 1.5% to RMB252.4 million for the six months ended June 30, 2019, from RMB248.7 million for the six months ended June 30, 2018. We will continue to invest in Artificial Intelligence-based image technology.

Administrative Expenses

Administrative expenses increased by 2.7% to RMB130.2 million for the six months ended June 30, 2019, from RMB126.7 million for the six months ended June 30, 2018, primarily due to an increase in personnel-related expenses.

Other Income

Other income for the six months ended June 30, 2019 decreased to RMB7.9 million, from RMB12.1 million for the six months ended June 30, 2018, due to a reclassification of investment income from short-term investments to other gains/(losses), net offset by an increase in government grants.

Other (Losses)/Gains, Net

Other loss was RMB34.7 million for the six months ended June 30, 2019, compared to a net gain of RMB162.4 million for the six months ended June 30, 2018, primarily attributable to: (i) a decrease in the net gains on disposal of long-term investment; and (ii) the net loss from the change in the fair value of long-term investments of RMB43.6 million, compared to a net gain of RMB85.3 million at the same period of 2018.

Finance Income, Net

Our net finance income mainly comprised of bank interest income and foreign exchange losses. Our net finance income decreased by 36.5% to RMB22.7 million for the six months ended June 30, 2019, from RMB35.8 million for the six months ended June 30, 2018, primarily due to a decrease in interest income.

Income Tax Expense

Income tax expenses for the six months ended June 30, 2019 were RMB9.0 million, compared to RMB8.9 million for the six months ended June 30, 2018. Although the Group was loss-making on a consolidated level for the six months ended June 30, 2019, some of our entities generated net profits.

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

Net loss for the six months ended June 30, 2019 increased to RMB378.1 million from RMB127.4 million for the six months ended June 30, 2018, primarily due to a decrease in net gains on investment disposal and an increase in fair value loss of long-term investment.

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

Adjusted Net Loss from continuing operations attributable to Owners of the Company narrowed significantly to RMB171.7 million for the six months ended June 30, 2019, compared to RMB293.0 million for the six months ended June 30, 2018, mainly due to: (i) an increase of 28.4% in total gross profit which was mainly driven by the growth of online advertising; and (ii) effective cost control on promotional expense.

Given the uncertain outlook of the global economy, we will continue to be very vigilant in our cost management, spending resources only on areas that generate long term value for our shareholders. We continue to expect a net loss for the full year of 2019, although such loss is likely to be significantly less than that of the full year of 2018.

The following table reconciles our Adjusted Net (Loss)/Profit for the six months ended June 30, 2019 and 2018 to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the period:

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Loss from continuing operations	**(258,858)**	(211,811)
Excluding:		
Share-based compensation	**23,864**	81,458
Changes on fair value of long-term investments	**43,603**	(85,278)
Net effect of goodwill impairment and remeasurement gain on consideration to non-controlling shareholders of a subsidiary	**2,759**	—
Gains on disposal of long-term investments	**(5,171)**	(77,227)
Amortisation of intangible assets and other expenses related to acquisition	**7,530**	2,129
Other one-off expenses	**5,104**	1,060
Tax effects	**2,645**	(319)
Adjusted Net (Loss)/Profit from continuing operations attribute to:	**(178,524)**	(289,988)
— Owners of the Company	**(171,676)**	(292,988)
— Non-controlling interests	**(6,848)**	3,000

Discontinued Operations

In the six months ended June 30, 2019, the Group discontinued its smartphone business as a result of the strategic cooperation agreement entered into between the Company and Xiaomi, pursuant to which Xiaomi is fully responsible for design, research and development, production, business operation, sales and marketing of the cooperation smartphones. Meitu has licensed its brand and certain technologies to Xiaomi and is entitled to a share of the gross profits for each cooperation smartphone sold once the quantity of cooperation smartphones sold reaches a specified quantity. In July 2019, Xiaomi released its first cooperation smartphone "*Xiaomi CC9 Meitu Edition*", which used Meitu's image technology and pre-installed certain Meitu apps.

Non-controlling Interests

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

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources as of June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,036,153**	531,618
Short-term bank deposits	**1,402,838**	2,161,908
Long-term bank deposits	**110,000**	—
Short-term investments placed with banks	**20,129**	—
Cash and other liquid financial resources	**2,569,120**	2,693,526

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

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

Treasury Policy

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the six months ended June 30, 2019. To manage the liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Expenditure

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
Purchase of property and equipment	**6,264**	76,806
Purchase of intangible assets	**—**	15,041
Total	**6,264**	91,847

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

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

Long-term Investment Activities

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

Foreign Exchange Risk

Our Group's subsidiaries primarily operate in China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our Group's PRC subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners. We did not hedge against any fluctuation in foreign currency for the six months ended June 30, 2019 and 2018.

Pledge of Assets

As of June 30, 2019, we pledged a restricted deposit of RMB1,000,000 (as of December 31, 2018: RMB1,000,000) to guarantee payment of certain operating expenses.

Contingent Liabilities

As of June 30, 2019, we did not have any material contingent liabilities (as of December 31, 2018: nil).

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2019.

Borrowings and Gearing Ratio and Borrowings

As of June 30, 2019, we pledged a bank borrowing of RMB10.0 million (as of December 31, 2018: RMB10.0 million). As of June 30, 2019, the gearing ratio of the Group was approximately 0.3% (as of December 31, 2018: 0.3%). The gearing ratio is calculated as the total borrowings divided by the total equity on the 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.

Significant Investments Held

As of June 30, 2019, we did not hold any significant investments in the equity interests of any other companies. During the six months ended June 30, 2019, we did not conduct any acquisitions or disposals that constituted notifiable transactions for the Company.

Future Plans for Material Investments and Capital Assets

The Group will continue to explore potential strategic investment opportunities with the aim of creating synergies for the Group in relation to aspects such as technological development, product research and development, product portfolio, channel expansion and/or cost control. Corresponding disclosures will be made by the Company as required under the Listing Rules.

We are contemplating an investment opportunity in the Internet industry, the details of which would be announced as soon as reasonably practicable after definitive transaction agreements are entered into. Save as disclosed in this announcement, the Group did not have any other plans for material investments and capital assets as of June 30, 2019.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended June 30, 2019, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

The Group had a total of 1,884 full-time employees as of June 30, 2019 (as of December 31, 2018: 2,080), a majority of whom were based in various cities in China, including Xiamen (headquarters), Beijing, Shenzhen, Hangzhou and Shanghai. Remuneration is determined with reference to market conditions and individual employees' performance, qualifications and experience.

FINANCIAL INFORMATION
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Note	**Unaudited Six months ended June 30, 2019** *RMB'000*	Unaudited Six months ended June 30, 2018* *RMB'000*
Continuing operations			
Revenue	*4*	**464,024**	486,776
Cost of sales	*5*	**(155,954)**	(246,758)
Gross profit		**308,070**	240,018
Selling and marketing expenses	*5*	**(170,785)**	(276,062)
Administrative expenses	*5*	**(130,153)**	(126,714)
Research and development expenses	*5*	**(252,383)**	(248,666)
Other income		**7,920**	12,051
Other (losses)/gains, net	*6*	**(34,724)**	162,355
Finance income, net		**22,736**	35,777
Share of losses of investments accounted for using the equity method		**(950)**	(1,698)
Loss before income tax		**(250,269)**	(202,939)
Income tax expense	*7*	**(8,589)**	(8,872)
Loss from continuing operations		**(258,858)**	(211,811)
(Loss)/profit from discontinued operations (attributable to equity holders of the Company)	*12*	**(119,221)**	84,446
Loss for the period		**(378,079)**	(127,365)
(Loss)/profit attributable to:			
— Owners of the Company		**(371,231)**	(130,365)
— Non-controlling interests		**(6,848)**	3,000
		(378,079)	(127,365)

	Note	**Unaudited Six months ended June 30, 2019** *RMB'000*	Unaudited Six months ended June 30, 2018* *RMB'000*
Loss per share for loss from continuing operations attributable to owners of the Company for the period ***(expressed in RMB per share)***	*8*		
— Basic		**(0.06)**	(0.05)
— Diluted		**(0.06)**	(0.05)
Loss per share for loss attributable to owners of the Company for the period ***(expressed in RMB per share)***	*8*		
— Basic		**(0.09)**	(0.03)
— Diluted		**(0.09)**	(0.03)

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

* The condensed consolidated statement of income for the six months ended June 30, 2018 has been restated for the discontinued operations (Note 12).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited Six months ended June 30, 2019** *RMB'000*	Unaudited Six months ended June 30, 2018* *RMB'000*
Loss for the period		**(378,079)**	(127,365)
Other comprehensive (loss)/income, net of tax			
Items that may be reclassified to profit or loss			
Currency translation differences		**(13,215)**	11,773
Other comprehensive (loss)/income for the period, net of tax		**(13,215)**	11,773
Total comprehensive loss for the period, net of tax		**(391,294)**	(115,592)
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(384,279)**	(118,592)
— Non-controlling interests		**(7,015)**	3,000
		(391,294)	(115,592)
Total comprehensive (loss)/income for the period attributable to owners of the Company arises from:			
Continuing operations		**(265,058)**	(203,038)
Discontinued operations		**(119,221)**	84,446
		(384,279)	(118,592)

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

* The condensed consolidated statement of comprehensive income for the six months ended June 30, 2018 has been restated for the discontinued operations (Note 12).

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited June 30, 2019** *RMB'000*	Audited December 31, 2018 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**110,348**	153,061
Right-of-use assets	*3*	**51,457**	—
Intangible assets		**163,756**	203,305
Long-term bank deposits		**110,000**	—
Long-term investments			
— Investments in associates in the form of ordinary shares		**15,611**	16,540
— Financial assets at fair value through profit or loss		**509,255**	547,178
— Financial assets at fair value through other comprehensive income		**7,309**	7,296
Prepayments and other receivables		**11,843**	14,823
Deferred tax assets		**4,915**	1,203
		984,494	943,406
Current assets			
Inventories		**142,872**	359,439
Trade receivables	*10*	**427,170**	521,817
Prepayments and other receivables		**403,238**	569,784
Short-term investments placed with banks		**20,129**	—
Short-term bank deposits		**1,402,838**	2,161,908
Restricted cash		**1,000**	1,000
Cash and cash equivalents		**1,036,153**	531,618
		3,433,400	4,145,566
Total assets		**4,417,894**	5,088,972

	Note	Unaudited June 30, 2019 RMB'000	Audited December 31, 2018 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**275**	274
Share premium		**7,044,576**	7,040,940
Reserves		**(139,498)**	(168,766)
Accumulated losses		**(3,404,493)**	(3,031,751)
		3,500,860	3,840,697
Non-controlling interests		**89,691**	119,233
Total equity		**3,590,551**	3,959,930
Liabilities			
Non-current liabilities			
Trade and other payables		**83,142**	137,977
Lease liabilities	*3*	**20,050**	—
Deferred tax liabilities		**14,724**	12,171
		117,916	150,148
Current liabilities			
Borrowings		**10,000**	10,000
Contract liabilities		**43,438**	32,382
Trade and other payables	*11*	**581,663**	885,418
Lease liabilities	*3*	**29,445**	—
Income tax liabilities		**44,881**	51,094
		709,427	978,894
Total liabilities		**827,343**	1,129,042
Total equity and liabilities		**4,417,894**	5,088,972

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited Six months ended June 30, 2019** *RMB'000*	Unaudited Six months ended June 30, 2018 *RMB'000*
Net cash used in from operating activities		**(64,747)**	(828,086)
Net cash generated from from investing activities		**653,361**	1,194,831
Net cash used in from financing activities		**(85,262)**	(458,975)
Net increase/(decrease) in cash and cash equivalents		**503,352**	(92,230)
Cash and cash equivalents at the beginning of the period		**531,618**	1,396,632
Effects of exchange rate changes on cash and cash equivalents		**1,183**	(35,904)
Cash and cash equivalents at the end of the period		**1,036,153**	1,268,498
Analysis of balances of cash and cash equivalents			
Cash at bank and in hand		**424,773**	1,122,332
Short-term bank deposits with initial terms within three months		**611,380**	146,166
		1,036,153	1,268,498

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 General information

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

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

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

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

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

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

The interim condensed consolidated balance sheet as of June 30, 2019, 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 on August 26, 2019.

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, 2018, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2018, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

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

(a) New and amended standards and interpretation adopted by the Group

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

Except for the impact of adoption of IFRS 16 set out in Note 3 below, the adoption of other applicable new and amended standards and interpretations did not have any material impact on the Interim Financial Information of the Group.

3 Changes in accounting policy

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in Note 3(b) below.

The Group has adopted IFRS 16 from its mandatory adoption date of January 1, 2019, but has not restated comparatives for the 2018 reporting period, the reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

3(a)Adjustments recognized on adoption of IFRS 16

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

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

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as of December 31, 2018. The recognized right-of-use assets of the Group all relate to properties.

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

No significant impact on the Group's loss per share for the six months ended June 30, 2019 as a result of the adoption of IFRS 16.

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

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

- reliance on previous assessments on whether leases are onerous

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

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

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

3(b)The Group's leasing activities and how these are accounted for

The Group leases only offices for long-term contracts. Rental contracts are typically made for fixed periods of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 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. As a result of this evaluation, the Group determined that it has operating segments as follows:

— Internet business

— Smart hardware

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other gains/(losses), net, finance income, net, share of losses of investments accounted for using the equity method, and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Cost of sales primarily comprises cost of inventories consumed, employee benefit expenses, provision for inventory impairment, revenue sharing fee, bandwidth and storage related costs, and others.

Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

As disclosed in Note 12, the Group discontinued the operation of its smartphone and e-commerce businesses. Therefore, the segment information have been presented as continuing and discontinued operations as follows:

	Unaudited Six months ended June 30, 2019 *RMB'000*	Unaudited Six months ended June 30, 2018 *RMB'000*
Revenue from continuing operations		
Internet business:		
— Online advertising	**362,264**	284,908
— Internet value-added services and others	**100,219**	201,868
	462,483	486,776
Smart hardware:		
— Skin-related smart hardware product	**1,541**	—
Total revenue	**464,024**	486,776
Revenue from discontinued operations (Note 12)	**203,704**	1,565,234

The segment results for the six months ended June 30, 2019 are as follows:

	Internet business *RMB'000*	**Smart hardware** *RMB'000*	**Total continuing operations** *RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	**100,219**	**1,541**	**101,760**
Over time	**362,264**	**—**	**362,264**
	462,483	**1,541**	**464,024**
Segment cost of sales	**(152,133)**	**(3,821)**	**(155,954)**
Gross profit/(loss)	**310,350**	**(2,280)**	**308,070**

The segment results for the six months ended June 30, 2018 are as follows:

	Internet business *RMB'000*	Smart hardware *RMB'000*	Total continuing operations *RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	201,868	—	201,868
Over time	284,908	—	284,908
	486,776	—	486,776
Segment cost of sales	(246,758)	—	(246,758)
Gross profit	240,018	—	240,018

The major customers which contributed more than 10% of the revenue from continuing operations of the Company for the six months ended June 30, 2019 and 2018 are listed as below.

	Unaudited Six months ended June 30, 2019 %	Unaudited Six months ended June 30, 2018 %
Customer A	**16%**	10%

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

As of June 30, 2019, substantially all of the non-current assets of the Group other than financial instruments were located in the PRC.

The reconciliation of segment gross profit/(loss) to loss before income tax for the six months ended June 30, 2019, is presented in the interim condensed consolidated statement of income of the Group.

5 Expenses by nature

	Unaudited Six months ended June 30, 2019	Unaudited Six months ended June 30, 2018
	RMB'000	*RMB'000*
Employee benefit expenses	**363,656**	369,656
Promotion and advertising expenses	**64,062**	177,964
Revenue sharing fee	**49,988**	141,179
Bandwidth and storage related costs	**44,736**	49,301
Depreciation of property and equipment	**33,762**	25,763
Impairment of trade receivables, prepayments and other receivables	**32,388**	—
Depreciation of right-of-use assets	**23,417**	—
Video content monitoring fee	**11,552**	15,812
Travelling and entertainment expenses	**11,087**	15,651
Tax and levies	**10,597**	11,734
Amortization of intangible assets	**6,954**	3,433
Auditors' remuneration	**3,187**	3,510
Impairment of property and equipment	**1,224**	—
Operating lease expenses	**1,217**	26,354
Others	**51,448**	57,843
Total cost of sales, selling and marketing expenses, administrative expenses and research and development expenses	**709,275**	898,200

6 Other (losses)/gains, net

	Unaudited Six months ended June 30, 2019	Unaudited Six months ended June 30, 2018
	RMB'000	*RMB'000*
Remeasurement gains on consideration to non-controlling shareholders of a subsidiary	**30,577**	—
Fair value changes on short-term investments placed with banks	**6,726**	—
Gains on disposal of long-term investments	**5,171**	77,227
(Losses)/gains on disposal of property and equipment	**(422)**	36
Goodwill impairment	**(33,336)**	—
Fair value changes on financial assets at fair value through profit or loss	**(43,603)**	85,278
Others	**163**	(186)
	(34,724)	162,355

7 Income tax expense

The income tax expense of the Group for the six months ended June 30, 2019 and 2018 are analyzed as follows:

	Unaudited Six months ended June 30, 2019 *RMB'000*	Unaudited Six months ended June 30, 2018 *RMB'000*
Current income tax:		
— PRC and overseas enterprise income tax	**9,748**	8,997
Deferred income tax	**(1,159)**	(125)
	8,589	8,872
Income tax expense is attributable to:		
Profit from continuing operations	**8,589**	8,872
Profit from discontinued operations	**—**	21,001

(a) Cayman Islands and BVI Income Tax

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

(b) Hong Kong Income Tax

Hong Kong income tax rate is 16.5%.

(c) Corporate income tax in other countries

Income tax rate for subsidiaries in other jurisdictions, including the United States, Japan and Singapore were ranging from 17% to 36%. No provision for profits tax has been made as the Group did not have any assessable profits subject to these jurisdictions for the period.

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

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

According to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 to 2017, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). From 2018 onwards, such enterprises are entitled to claim Super Deduction at the rate of 175%. 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 six months ended June 30, 2019.

8 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, 2019	Unaudited Six months ended June 30, 2018
Loss attributable to owners of the Company (RMB'000)		
From continuing operations	**(252,010)**	(214,811)
From discontinued operations	**(119,221)**	84,446
	(371,231)	(130,365)
Weighted average number of ordinary shares in issue (thousand)	**4,189,638**	4,259,315
Basic and diluted (loss)/earnings per share (in RMB/share)		
From continuing operations	**(0.06)**	(0.05)
From discontinuing operations	**(0.03)**	0.02
	(0.09)	(0.03)

(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, 2019 and 2018, the Company had two categories of potential ordinary shares, the shares options awarded under Pre-IPO ESOP and share awards under the Post-IPO Share Award Scheme. As the Group incurred losses for the six months ended June 30, 2019, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2019 is the same as basic loss per share.

9 Dividends

No dividends had been paid or declared by the Company during the six months ended June 30, 2019 (six months ended June 30, 2018: nil).

10 Trade receivables

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

	Unaudited As of June 30, 2019 *RMB'000*	Audited As of December 31, 2018 *RMB'000*
Trade receivables		
Up to 3 months	**287,949**	349,673
3 to 6 months	**93,583**	130,070
6 months to 1 year	**43,443**	41,254
1 to 2 years	**2,195**	820
	427,170	521,817

As of June 30, 2019 and December 31, 2018, 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

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, 2019 *RMB'000*	Audited As of December 31, 2018 *RMB'000*
Up to 3 months	**96,295**	294,160
3 to 6 months	**12,574**	33,075
6 months to 1 year	**8,270**	17,446
1 to 2 years	**20,666**	10,200
Over 2 years	**1,443**	1,640
	139,248	356,521

12 Discontinued operations

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

Financial information relating to discontinued operations for the six months ended June 30, 2019 are set out below. The income statement and statement of cash flows distinguish discontinued operations from continuing operations and the respective comparative figures have been restated.

The results and cash flows of discontinued operations for the six months ended June 30, 2019 are as follows:

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

The results and cash flows of discontinued operations for the six months ended June 30, 2018 are as follows:

	E-commerce operations *RMB'000*	Smart phone *RMB'000*	Total discontinued operations *RMB'000*
Revenue	84,908	1,480,326	1,565,234
Cost of sales	(93,551)	(1,085,671)	(1,179,222)
Expenses	(72,618)	(209,171)	(281,789)
Other (losses)/gains, net	(9)	286	277
Other income, net	—	947	947
(Loss)/profit before income tax	(81,270)	186,717	105,447
Income tax expense	—	(21,001)	(21,001)
(Loss)/profit from discontinued operations	(81,270)	165,716	84,446
Net cash used in in operating activities	(139,413)	(63,302)	(202,715)
Net cash used in in investing activities	—	(1,542)	(1,542)
Cash flows of discontinued operations	(139,413)	(64,844)	(204,257)

OTHER INFORMATION

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

During the six months ended June 30, 2019, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's Shares.

Compliance with the Corporate Governance Code

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

During the six months ended June 30, 2019, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 enquiries with all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code for the six months ended June 30, 2019.

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.

Audit Committee and Review of Financial Statements

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. As of the date of this announcement, the Audit Committee comprises three members, namely Mr. Zhou Hao, Dr. Guo Yihong and Mr. Lai Xiaoling. Mr. Zhou Hao is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended June 30, 2019. 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 presented the Group's financial position and results for the six months ended June 30, 2019.

Use of Net Proceeds from Listing

Our Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on December 15, 2016. The net proceeds from the Listing amounted to approximately RMB4,211.5 million. As of June 30, 2019, the Group had used:

- approximately RMB1,221.3 million for component and raw material sourcing to produce smartphones;
- approximately RMB594.9 million to invest in or acquire businesses that are complementary to our business;
- approximately RMB850.3 million to implement sales and marketing initiatives in both China and overseas market;
- approximately RMB331.1 million to expand Internet services business;
- approximately RMB283.1 million to expand research and development capabilities;
- approximately RMB390.5 million as general working capital.

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in our prospectus dated December 5, 2016.

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 corp.meitu.com. The interim report of the Group for the six months ended June 30, 2019 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders on or before September 30, 2019.

APPRECIATION

Finally, on behalf of the Company, 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 the Company'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 inspire more people in expressing their beauty.

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

Hong Kong, August 26, 2019

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

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.