

OVERVIEW

Our Mission

We aim to be the most customer-obsessed company in the world. Our mission is to help people discover their needs and use their talents in order to find their unique brand of happiness.

We are relentlessly focused on serving our customers and creating value for them through the continual innovation and optimization of our products and services. We seek to create a platform that is an authentic lens into the diverse and vibrant world we live in, enriching people's lives with interesting, useful, relevant and meaningful content. We believe everyone is unique and want to empower them to express themselves, be appreciated, and discover what makes them happy.

Who We Are

We are a leading content community and social platform. We believe each person is unique with his or her own needs and strengths. We believe engagement and interactions among people create value. As a result, we continuously improve and enhance our content creation tools and services that empower people to chronicle and share their life experiences, and showcase their talents. Additionally, we enable people to discover other creators and high quality content easily through our effective content discovery mechanism. Working closely with creators and businesses, together we provide more product and service offerings to our users, further enriching people's choices. Globally, we are the largest live streaming platform by gross billings from virtual gifting and average live streaming MPUs, the second largest short video platform by average DAUs, and the second largest live streaming e-commerce platform by GMV, all for the nine months ended September 30, 2020, according to iResearch.

Our Platform and Ecosystem

Our motto is to “embrace all lifestyles.” It is the foundation of our philosophy and guides our aspirations. We wish to help our users discover a vast world of content that expands their interests and horizons and resonates well with them. Short videos and live streams have enhanced user experience and social interactions on our platform. Given the nature of our content, social connections and engagement based on common interests occur naturally. As a result, our platform fosters a vibrant ecosystem for users and businesses to interact on the basis of our deep and diverse content base.

We aim to deliver on four core values through the user experience on our platform:

- ***Authentic:*** experience genuine emotions; allow for sincere expression; record spontaneous moments; share real-life stories;
- ***Diverse:*** be inclusive and respect differences; cherish diversity and culture; live in harmony;
- ***Beautiful:*** be happy and positive; have enjoyable experiences; and
- ***Beneficial:*** cultivate knowledge, perspectives, information and skills; foster comradery and trust; improve oneself and live one's best life.

Underlying our vibrant ecosystem is our deep and diverse content base as well as supporting technology, data and business layers. As the various parts of our platform work together, they enable numerous interactions among our ecosystem participants and generate significant network effects:

- ***Content.*** Our users have contributed to our vast and organically growing repository of short video and live streaming content as well as our community and the myriad social interactions and connections within it. We promote content on our platform that embraces all lifestyles and reflects the lives of our users. We believe this helps attract and keep users engaged on our platform. Leveraging technology and data, we are able to understand and identify needs that arise from different users and interest groups on our platform, and provide access to content and services that serve those interests and needs, thereby enhancing user engagement and retention.
- ***Business.*** We work with our business partners to provide products and services that address various needs that arise naturally on our platform. These products and services include entertainment, online marketing services, e-commerce, online games, online knowledge-sharing, and more. These products and services increase user engagement on our platform and strengthen the virtuous cycle among our users, content and business partners over time.
- ***Technology & Data.*** Our advanced technologies and massive data repository support our ecosystem. Our technologies enable us to serve the interests and needs of our users and cover various aspects of content creation, compression, transmission, analysis, recommendation, search and other fields. As users create and consume content and interact with each other, they generate valuable data that allows us to improve efficiency and develop new features that enhance the overall user experience.

BUSINESS

The diagram below illustrates our ecosystem and the interactions that occur within it. Users on our platform can access the rich content we have, create content through short videos or live streams, sell and purchase products, and more. Businesses on the other hand, can advertise and sell their products and services on our platform. As our users and businesses interact and engage with one another, they become more reliant on our platform.



Legend : Users denoted in yellow bubble | Businesses denoted in orange bubble |  Multifaceted Network Effects

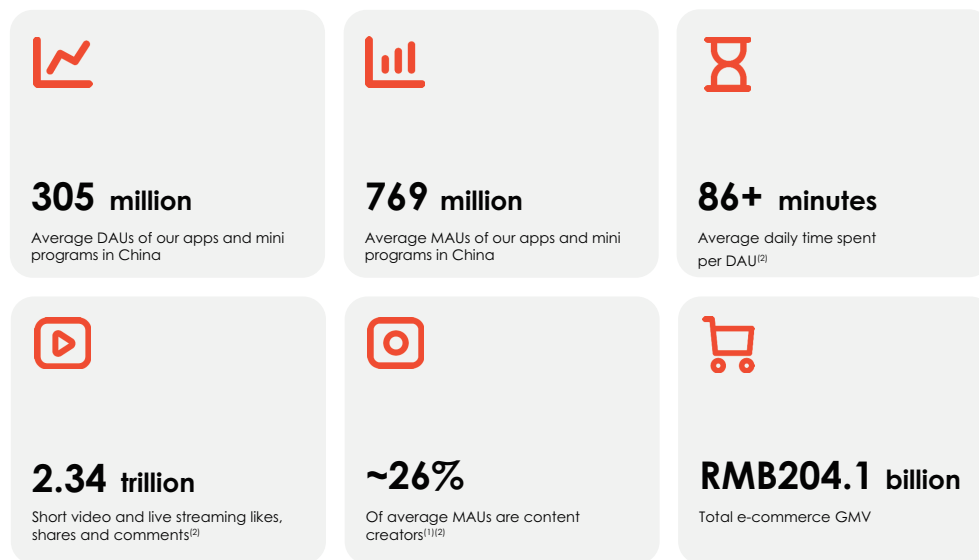
Value Proposition for Users and Businesses

- **Value Proposition for Users.** We provide our users with a safe and trusted platform for entertainment, learning, content creation and social interaction. We also provide them with the opportunities and tools to build and grow a following and monetize through their content.
- **Value Proposition for Businesses.** We provide businesses with online marketing solutions and an e-commerce marketplace that help them reach and engage their target customers. Our online marketing solutions are highly valuable and effective due to our vast and highly engaged user base, our ability to target users with precision, as well as our users' trust in our platform. Businesses can create short video or live streaming content that captures the attention of users and helps with their purchase decisions. Businesses can also use our platform as a distribution channel for various products and services.

OUR ACHIEVEMENTS

We are a pioneer in the global short video industry. Since our inception, we have been focusing on empowering users to record and share their lives through videos. Our original mobile app, *GIF Kuaishou*, was initially launched in 2011 as a tool for users to create and share animated images known as GIFs, which are in essence, the earliest form of short videos. In 2012, through the application of a series of technologies, we became the first mover in China's short video industry to enable users to create, upload and view short videos on mobile devices, according to iResearch. In 2013, we launched our short video social platform and in 2016, we launched live streaming as a natural extension to our platform to allow users to interact and engage in real time. According to iResearch, we were the first in China to apply deep reinforcement learning algorithms to the recommendations of videos on a large scale in the short video industry in 2018. In 2018, we also launched e-commerce to facilitate transactions within our ecosystem as user engagement continued to increase.

The following diagram shows our scale and user engagement metrics for the nine months ended September 30, 2020:



(1) Content creators calculated as the average number of unique user accounts per month that uploaded short videos plus the average number of unique user accounts per month that streamed content.

(2) On Kuaishou App.

Today, Kuaishou is a household brand and is among the most widely used social platforms in China, according to iResearch. In the nine months ended September 30, 2020, there were 305 million average DAUs and 769 million average MAUs of our apps and mini programs in China. In the same period, our DAUs on average spent over 86 minutes per day on Kuaishou App and accessed Kuaishou App more than 10 times a day. We are the trusted destination for users to create and share content. According to iResearch, we ranked No. 1 in terms of activeness of our content community among the top video-based social platforms in China, with content creators constituting approximately 26% of our average MAUs on Kuaishou App in the nine months ended September 30, 2020. We also had approximately 1.1 billion average monthly short video uploads on Kuaishou App in the nine months ended September 30, 2020.

Access to our platform is free for all users. We monetize primarily through the sale of virtual items, provision of various forms of online marketing services, and commissions from e-commerce sales on our platform. We are actively developing additional monetization opportunities to diversify our revenue streams through online games, online knowledge-sharing and other products and services.

Our revenues grew rapidly during the Track Record Period from RMB8.3 billion in 2017 to RMB20.3 billion in 2018, and further to RMB39.1 billion in 2019, and up from RMB27.3 billion in the nine months ended September 30, 2019 to RMB40.7 billion in the nine months ended September 30, 2020.

OUR STRENGTHS

Dedication to an authentic user experience

Ever since inception, we have believed that in order to provide users with an interesting, beneficial and inspiring experience, we must ensure the authenticity of the user experience. By focusing on authenticity, we are able to create a longer-lasting, diverse, inclusive and vibrant community. Our industry-leading AI and big data-powered personalized recommendation engine provides our users with a diverse range of content and content creators. As a result, our content matches a broader set of interests and needs, and motivates our users to continually create new and unique content. The result is greater diversity of content from an increasing number of content creators who have the chance to be seen and heard. This is best demonstrated by the fact that nearly 40% of the short videos on Kuaishou App had more than 100 accumulated views as of September 30, 2020. We purposefully allocate exposure to a broader set of content creators whereas other social platforms focus more on recommending content created by key opinion leaders or other popular content creators, according to iResearch. The broad exposure that we provide to users on our platform results in a more authentic content community. We also believe

this approach allows us to benefit from significant network effects. As more users are attracted to our platform, they fuel a virtuous cycle of content creation and consumption, as well as user engagement on our platform.

In addition to diversity of content, we strive to make our products fun and accessible for every user. We provide smart tools that simplify content creation workflows to empower the everyday person to create and share. In terms of app design, we offer both dual-column thumbnail and swipe-up-and-down personalized feed formats and operate variants of our Kuaishou App to appeal to users with different needs and preferences. We will continue to innovate and push boundaries in order to satisfy the needs of our users, improve their experiences and exceed their expectations.

Pioneer and global leader in short video and live streaming

We pioneered the short video industry globally when we launched our short video social platform to address users' social and entertainment needs during their fragmented time. In 2016, we were the first to launch a new short video and live streaming-based business model in China with richer and more interactive content, according to iResearch. In 2018, we pioneered an innovative monetization model by launching a matrix of products and services built on our content. As the first mover in short video and live streaming-based social platforms, we have developed deep insights into user interests and preferences from which we continue to enhance our products and services.

Globally, we are the largest live streaming platform by gross billings from virtual gifting and average live streaming MPUs, and the second largest short video platform by average DAUs in the nine months ended September 30, 2020, according to iResearch. We had a massive content base of approximately 29 billion uploaded short videos as of September 30, 2020.

We have a large user base with 483 million average MAUs and 262 million average DAUs on our Kuaishou App for the nine months ended September 30, 2020. Propelled by word-of-mouth and the highly social nature of our platform, average DAUs of Kuaishou App have grown rapidly, from 67 million in 2017 to 117 million in 2018, and further to 176 million in 2019, and from 165 million for the nine months ended September 30, 2019 to 262 million for the nine months ended September 30, 2020.

Highly engaged user base and trusted social experience

We are a favored destination for users to record and share their lives. Our users are highly active. Our DAUs on average spent over 86 minutes per day on Kuaishou App and accessed it more than 10 times a day in the nine months ended September 30, 2020. Additionally, according to iResearch, we ranked No. 1 in terms of activeness of our content community among the top video-based social platforms in China, with content creators constituting approximately 26% of our average MAUs on Kuaishou App in the nine months ended September 30, 2020. As a result of the engagement, our content base is growing rapidly and organically. In the nine months ended September 30, 2020, we had approximately 1.1 billion average monthly short video uploads and nearly 1.4 billion live streaming sessions hosted on Kuaishou App.

In addition to engagement around our content, there are also significant connections and interactions among users on our platform. As of September 30, 2020, we had over nine billion pairs of mutual follows, defined as two users that follow each other, on Kuaishou App. In the nine months ended September 30, 2020, we had an aggregate of 2.2 trillion likes, 173 billion comments and 9 billion shares among short videos and live streams on Kuaishou App.

The engagement on our platform results in social trust that encourages more active and deeper interactions and transactions between users and businesses. This is evidenced by the significant growth of our e-commerce business. We started our e-commerce business in 2018 and in the nine months ended September 30, 2020, we achieved total GMV of RMB204.1 billion.

Innovative and industry-leading AI and big data technologies

We have invested significant resources in our data and technology infrastructure. Our team of over 6,500 research and development staff has developed industry-leading capabilities in AI, big data analytics and other technologies. The technologies we developed have directly contributed to the popularity of our platform and our superior user experience.

First, our deep reinforcement learning-based personalization engine is built for short video and live streaming content recommendations. Our personalization engine allows us to keep users engaged with interesting and useful content and connects them with content creators based on their common interests. It is one of the few at scale globally that applies different algorithms to optimize for both dual-column thumbnails and swipe-up-and-down personalized feeds, which allows us to cater to a broader set of user preferences and conduct joint deep learning from both sets of data.

Second, leveraging computer vision and machine learning, we offer a wide array of filters, stickers and AR effects that make video content even more lively for our users. For example, our users can swap their expressions and actions with cartoon characters, combine landmark buildings with dynamic cartoon images and see what they would look like at a different age using a smart filter, and share these effects with others through short videos and live streams. These features foster an interactive and enjoyable experience for content creators and viewers, which in turn contribute to the richness of content and interactivity in our ecosystem.

Additionally, we have developed proprietary video and live streaming technologies that facilitate high-quality content transmission. We developed an industry-leading video codec, Kuaishou Video Coding (KVC), which can significantly reduce the size of the media files given the same subjective quality and improve the smoothness of video playback. According to iResearch, KVC is more advanced compared to existing coding standards adopted by other short video platforms in terms of saving network bandwidth while preserving video quality. We also developed a private transmission protocol, Kuaishou Transmission Protocol (KTP), and an adaptive bitrate streaming standard for our live streams, Live Adaptive Streaming (LAS), and utilize joint source channel coding technology to adapt the quality of streaming sources with the fluctuation of network conditions encountered in the real world, significantly improving the upload speed and transmission stability of live streaming signals on weak networks. As a result, we can provide a live streaming experience that is smoother with higher resolution and lower latency, thereby increasing user engagement.

Our technologies are built on a hyperscale big data computational engine that can handle exabyte scale data, including our library of approximately 29 billion uploaded short videos as of September 30, 2020, as well as a proprietary MMU algorithm that can conduct real-time analysis on over 15 million videos and over one million hours of live streams every day. These technologies allow our platform to continue to scale and are an important aspect of our technological and data moat.

Multifaceted network effects and multiple monetization levers

Our platform enjoys powerful network effects. The more users use Kuaishou App, the more diverse and vibrant our ecosystem becomes, which increases user engagement and the value we provide to our ecosystem participants. This in turn attracts more users, advertisers, merchants and other business partners to our platform.

We have developed a monetization model covering a matrix of products and services to address the myriad user needs derived from our ecosystem. In our ecosystem, participants play dynamic roles in different businesses that are originated from the rich interactions of ecosystem participants. We currently monetize primarily through live streaming, online marketing services and e-commerce. We are the world's largest live streaming platform by gross billings from virtual gifting and average live streaming MPUs in the nine months ended September 30, 2020, according to iResearch. The vibrancy of our ecosystem attracts advertisers from many industries, which has led to rapid growth in our online marketing services revenue from RMB1.7 billion in 2018 to RMB13.3 billion for the nine months ended September 30, 2020. We started our e-commerce operations in 2018 and were the world's second largest live streaming e-commerce platform in terms of GMV in the nine months ended September 30, 2020, according to iResearch. The user needs that arise naturally from our ecosystem create many other monetization opportunities for us to pursue, including online games, online knowledge-sharing and more.

Management's dedication to long-term vision

Our management team pioneered the short video and live streaming platform model globally. Our co-founders Mr. Su Hua and Mr. Cheng Yixiao are visionaries who envisaged the market potential of content-based social platforms and have a complementary combination of product and engineering expertise.

Mr. Su Hua and Mr. Cheng Yixiao, sharing the common philosophy that everyone's stories are worth chronicling, have been steering us to pursue the vision of empowering people to discover their unique happiness with technology. Our core values of authentic, diverse, beautiful and beneficial reflect the personal values of our co-founders. Their embrace of these values drove them to build a technology platform designed to elevate the often overlooked, yet diverse, vibrant and energetic communities of people in China.

Our management team has a steadfast dedication to our mission and core values, always putting users first and relentlessly focusing on satisfying their needs and exceeding their expectations. The fundamental measure of our success is the value we create for our ecosystem participants and society over the span of multiple decades. We are accountable to our users to continue to improve ourselves, pursue long-term success over short-term interests, and contribute to the overall happiness of our society.

OUR STRATEGIES

Continue to exceed user expectations

We aim to continue improving our existing products and services and launch new products and services to serve our mission. We will continue to improve the quality, relevance and diversity of the content on our platform to cover a more comprehensive range of topics, interests and formats. We also plan to expand our product and service offerings to fulfill the myriad user needs that arise naturally on our platform. The combination of these efforts will help us retain existing users, attract new users, increase user engagement and provide a better overall user experience.

Continue to strengthen our technology

We will continue to invest in technology and utilize the power of AI and big data technologies to better serve our users and stay ahead of competition. We will continue to develop our technological capabilities in areas such as personalized recommendation, content and data analytics, and to improve our user experience and engagement. We will continue to update our video compression and live streaming technologies in order to provide an even better user experience by ensuring high video quality, lower latency, faster upload speed and transmission stability under various network conditions. We will also continue to improve our machine learning, computer vision and computer graphics capabilities to provide new and attractive content creation tools to our users to further encourage content creation and interaction among users on our platform. In addition, as the amount of data generated and stored on our platform continues to grow, we will concurrently scale up our network infrastructure to support this growth. Finally, we plan to continue to recruit top-notch industry talents, including researchers, experienced engineers and graduates from world-renowned institutions for these purposes.

Further expand our ecosystem and monetization capabilities

We plan to further expand our massive, growing and highly-engaged user community, which naturally gives rise to user needs which in turn create multiple monetization opportunities. We plan to further expand our product and service offerings, which will increase and diversify our revenue streams, improve our gross profit margin and enhance our profitability. We also plan to increase the number of paying users and the spending of our paying users by raising their awareness of our multiple paid products and services.

BUSINESS

In our live streaming business, we plan to further strengthen our leadership position in terms of gross billings from virtual gifting and average live streaming MPUs by further enhancing our content offerings and providing a broader range of content themes that appeals to our users and enables content creators to thrive on our platform. To this end we will also continue to enhance the interactive features on our platform to promote interaction and user engagement and convert relatively passive viewers to paying users in our ecosystem.

For online marketing services, we will continue to promote our services and seek to introduce innovative formats and options. In particular, we will continue to enhance our native advertising solutions and leverage the vast amount and diversity of content on our platform, as well as our AI and big data capabilities, to provide our customers efficient and user-contextual advertising solutions with minimal disturbance to the user experience.

As a leader in live streaming e-commerce in China, we will continue to drive e-commerce transactions by providing a seamless product discovery and purchase experience for our users. We plan to continue promoting user trust on our platform to increase opportunities for merchants to connect meaningfully with their customers and facilitate e-commerce transactions on our platform.

Finally, we will seek opportunities to capitalize on other promising opportunities as our ecosystem evolves, including online games, online knowledge sharing and other products and services.

Selectively pursue strategic alliances, investments and acquisitions

To complement our organic growth strategy, we will continue to selectively pursue strategic alliances, investments and acquisitions that can strengthen our technological capabilities, and broaden our user base and product and service offerings, as well as our ecosystem generally. In the past, we have primarily made strategic acquisitions and investments in areas such as content, social entertainment and software. We will continue to seek out potential businesses and assets that are complementary to and have synergies with our current business and that will help us attract and retain users. In particular, we seek to make investments in products and services that address the user needs that arise from the interactions among our ecosystem participants. We aspire to work with our business partners to provide more diverse and better products and services for our users. By expanding our ecosystem, we seek to continue to grow our business and further provide value to our customers.

OUR PRODUCTS

Kuaishou App

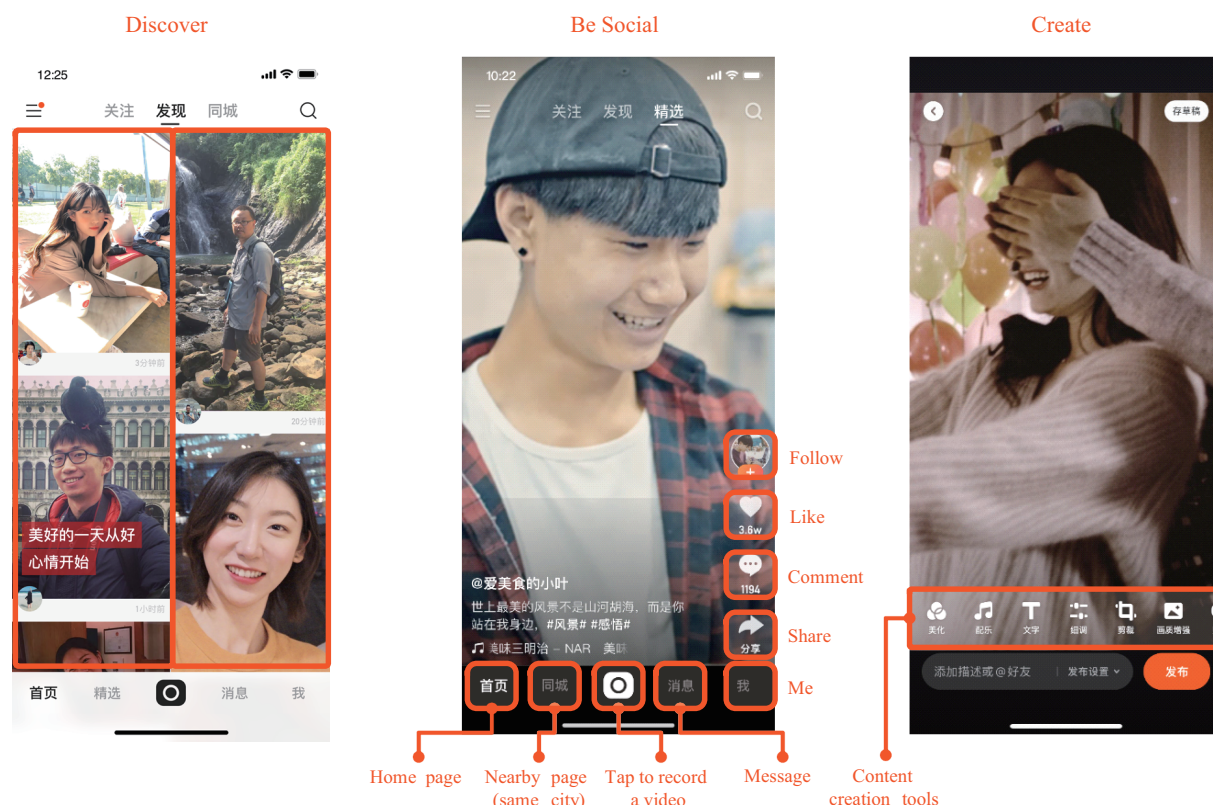
Users access our platform primarily through our family of mobile apps comprising Kuaishou Flagship, Kuaishou Express and Kuaishou Concept, which we refer to collectively as Kuaishou App. User-friendly and easy to navigate, Kuaishou App enables users to discover and find content, be social and engage with others, as well as create content and express themselves.

Discover Content. Kuaishou App is built to enable users to discover interesting, useful and meaningful content. It features personalized feeds of short videos and live streams presented in either a dual-column thumbnail format or a swipe-up-and-down format, which facilitates effective content discovery based on each user’s interests. The dual-column thumbnail format allows users to scroll through recommended thumbnail images to select content to view based on their preferences and the attractiveness of the thumbnails. In contrast, the swipe-up-and-down format automatically displays the next recommended video when the user swipes up, introducing an element of surprise as well as testing undiscovered user preferences. By offering both formats, we can cater to a broader set of user preferences, as well as study valuable user behavioral data to refine our industry-leading AI and big data technology for video content understanding and recommendation and enhance user experience. Users also have the option to use our AI-powered keyword search function to quickly find content that interests them.

Be Social and Engage With Others. Interwoven with the deep pool of content on our platform is a network of social connections among users that routinely follow each other in-app, comment on and share each other’s content, socialize in our live streaming rooms, and transact with businesses that provide products and services on our platform. Kuaishou App’s suite of social features also includes a function for users to discover things going on in their neighborhood and content shared by people nearby, as well as a dedicated “follow” tab where users can see content created by the users they follow. All of these stimulate user engagement and further propels social interactivity and content creation on Kuaishou App, creating one of the most dynamic content-based social platforms on the market.

Create Content and Express Themselves. We inspire and empower users to create and share short videos, live streams and other forms of content. We embrace all lifestyles and originality, providing a stage for anyone to unleash their talents and express themselves in unique ways. Kuaishou App comes with powerful and intuitive tools to help users create new and interesting content directly on their mobile phones. In-app, users can easily record videos in multiple format lengths, slow or speed up time, add pause points, choose aspect ratios, add music and photos and play with various AI-powered filters and Special Effects. We aim to instill a sense of ownership

and pride among our users through participation in the creation of content on our platform, inspiring users to express themselves and realize their intrinsic value, in order to enhance users' sense of community.



Kuaishou Flagship and Kuaishou Express are our two most popular apps, which we have designed to cater to different user needs in line with our philosophy of embracing all lifestyles. Kuaishou Flagship was derived from our original mobile application launched in 2011 and is our most fully-featured app. Kuaishou Flagship encourages content creation through a broader set of editing tools.

Kuaishou Express is a variant of Kuaishou Flagship that we officially launched in August 2019 in order to attract a broader set of users. While Kuaishou Express comes with many of the features of Kuaishou Flagship, it focuses on providing users with a more immersive content consumption experience through a simpler interface, and is designed to work better with a wider range of mobile phones. A significant proportion of user time spent on Kuaishou Express is with the swipe-up-and-down format which enables them to view content seamlessly. As compared to Kuaishou Flagship, Kuaishou Express attracts a larger proportion of its users from the southern regions of China. In August 2020, in just one year after its official launch, average DAUs on Kuaishou Express exceeded 100 million.

Kuaishou Concept is an app that we launched in November 2018 to explore different user needs and preferences and features a borderless screen design. Kuaishou Concept also features a more tailored selection of content in terms of production quality. We use Kuaishou Concept as an experimental app to test the effectiveness of new features before incorporating those features into our other apps.

Our users can also access our platform via mini programs, mobile web pages and websites, which are extensions of our Kuaishou App primarily to facilitate content sharing and user acquisition. Our mini programs are programs embedded in third party platforms such as Weixin or QQ, from which our users can access our content and services through the respective third party platforms to fulfill their needs.

Other Apps

We also offer various other apps and tools to assist our users and businesses in connection with various activities on our platform.

Content Creation Tools

We have developed simplified and advanced versions of editing apps that make content editing more accessible to everyday users and enhance the workflow of our content creators. These apps allow users to take photos or record videos on their mobile phones, and provide users with a suite of filters, music, sound effects and other ways to creatively edit videos, which can then be directly uploaded to our platform. We also offer a streaming assistant app that allows streamers to stream live games from their desktop computers directly on our platform, which gives our users further options around the type of games beyond mobile games that can be streamed and enjoyed on our platform.

Merchant-Facing Tools

We offer our e-commerce merchants a convenient app that allows them to manage their online stores on our platform through their mobile phones. Through our app, merchants can see sales data, manage inventory, communicate with buyers and access various other tools to help them in the day-to-day management of their online stores on our platform.

Mid- to Long-Form Content Community

We offer an app for longer content formats which provides more forms of content to our users, attracts additional users to our platform and satisfies the needs of content creators to create content with different formats and lengths to express themselves.

International Apps

We also offer international variants of our short video and live streaming apps and related tools.

OUR CONTENT COMMUNITY

Our users form the bedrock of our content community and are the source of endless creativity. We have a close-knit and inclusive user community that enables individuals to share their lives with other people. Our powerful and intuitive tools and technology make it possible and easier for the everyday user to produce a variety of compelling content, further boosting content creation on our platform and building an increasingly vibrant and dynamic content community.

Content Formats

Short videos

Short videos are the primary form of content generated and consumed by users on our platform. Short videos convey the essence of a moment through a rich combination of dynamic visual and auditory information in a span of seconds and have the potential to go viral. By promoting a culture of authenticity and diversity and providing easy-to-use tools for any user to be their own producer, we have democratized the content creation process and truly built a platform showcasing the real lives of everyday users. In the nine months ended September 30, 2020, we had approximately 1.1 billion average monthly short video uploads on Kuaishou App. As of September 30, 2020, approximately 29 billion short videos have been uploaded to Kuaishou App. The vast number of short videos created and watched on our platform has provided us with a rich pool of data which we have used to refine our recommendation algorithms to improve user experience.

Live streams

We launched the live streaming function on our platform in 2016. We view live streaming as a natural extension to short video that allows users to be social and engage in real time. Live streaming sessions can be in one of several formats, including one-to-many, PK and multi-party streams. Similar to our short videos, we have provided the everyday user with an accessible and powerful platform on which to stream and interact with other users. In the nine months ended September 30, 2020, nearly 1.4 billion live streaming sessions were hosted on our Kuaishou App.

Other content

We also let users upload photos in the form of slideshows, as well as post updates to their activities feed in the form of pictures and text to share their thoughts with followers and document memorable moments in their lives.

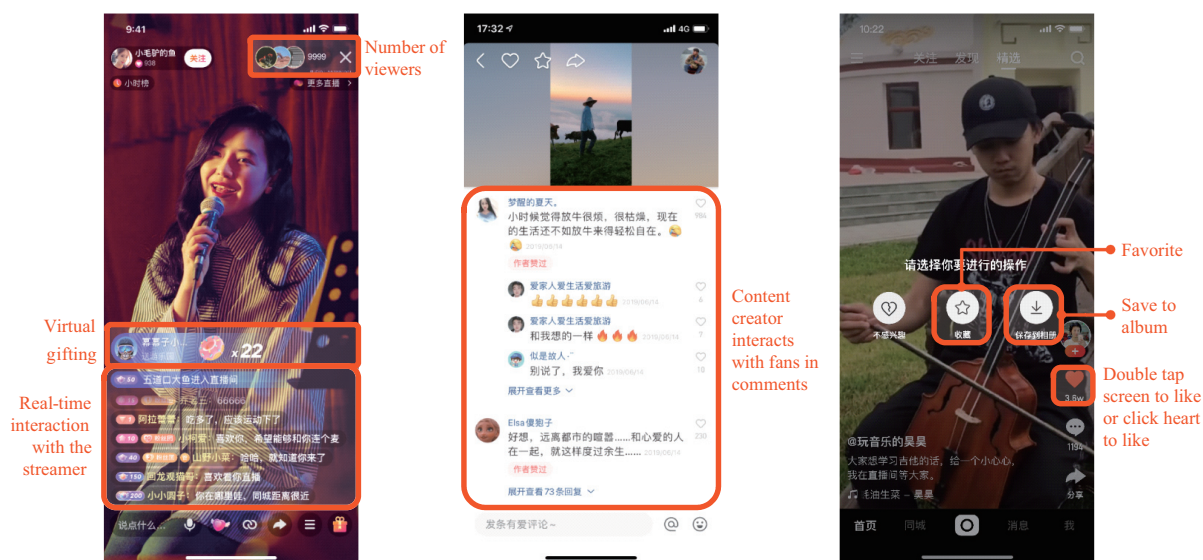
Content Genres

We are a content-based social platform covering a range of topics that addresses diverse user interests and needs, and helps users develop or discover new interests as well. While a lot of our content is entertaining, our content is also useful and helpful in our users' daily lives or career development. Our content recommendation system caters to each user's preferences by providing a personalized experience on Kuaishou App.

Content on our platform covers a vast range of topics, among which we are able to identify and tag hundreds of the most viewed categories. Some examples of popular content categories on our platform include lifestyle, humor, talent, food, travel and parenting. In addition, Kuaishou has become home to many niche communities and interest groups with thousands or even millions of users sharing common interests, including those centered around cultural heritage, life skills, knowledge-sharing, personal health and other novel and unexpected interests. Whether it is the budding musician, technology enthusiast, fitness buff, housewife, businessperson, or farmer, there is something for everyone on Kuaishou. All of this reflects both the diversity of our content and our dedication to chronicling and elevating the lives of ordinary people in an authentic way.

Interactive Features

We provide our users with various channels to interact with each other to form a vibrant and engaged social community. User interactions on our platform primarily revolve around the content on our platform, through which users can share similar interests and bond with each other. Some of the most common interactive features on our platform include likes, shares, follows, comments, messages, gifting, PK and multi-party streams.



Likes, shares and follows

Users can like content to support creators by sending a “heart”. Users can also share interesting or useful content with other people. The follow function allows users to follow a content creator and see all of their content and updates to their posts and activities on the platform as well as receive notifications when the content creator uploads new content. In the nine months ended September 30, 2020, we had an aggregate of 2.2 trillion likes and 9 billion shares among short videos and live streams on Kuaishou App. Mutual followers are users that follow each other, which is one of the ways users share mutual interests and help each other increase their following base. Likes, shares and follows, including mutual follows, all contribute to social connections and user engagement. Mutual follows, in particular, are reflections of the reciprocal and close-knit relationships we enable on our platform. As of September 30, 2020, we had over nine billion pairs of mutual follows on Kuaishou App.

Comments

Users leave comments to a short video to share their reactions and communicate with other users who have similar interests and needs. A user can also like a comment, and comments with more likes get placed further up the comment thread. A user may also reply to another user's comment to continue a particular conversation in the comments section. In live streaming rooms, users comment and communicate with each other and interact with the streamer in real time. In the nine months ended September 30, 2020, our users left 173 billion comments among short videos and live streams on Kuaishou App.

Messages

Users have the option of sending private messages to each other. In the nine months ended September 30, 2020, our users sent over 61 billion messages across our platform.

Gifting

We provide a virtual gifting function for live streams. Users purchase virtual items using KwaiCoins and gift these virtual items to streamers as a gesture of friendship, appreciation, admiration or support. We offer a wide variety of virtual items on our platform at different price points. As of September 30, 2020, the prices of our virtual items in RMB-equivalent terms range from approximately RMB0.1 to approximately RMB2,000. Our diverse selection of lower-priced virtual items makes it easy for users to show appreciation for each other through small gifts and allows users to familiarize themselves with the gifting function, while higher-priced virtual items give a chance for users to obtain peer recognition during a live stream. We also frequently release new virtual items related to current events and cultural trends.

PK

The PK feature enables one streamer to compete against another in PK battles. We offer a PK stream room that streamers and users can join. The streamer that receives more virtual items from the viewers during a set amount of time wins the PK. The competitive environment induced by PK increases user engagement and encourages virtual gifting. In the nine months ended September 30, 2020, Kuaishou App facilitated 566 million PK sessions among our streamers.

Multi-party streams

We also offer functions that allow more than one party to join a stream room. One of these functions allows a streamer to let one of the viewers join a live streaming session to interact with the streamer by sending an invitation to a viewer or accepting a request from a viewer to join the stream. After the streamer and viewer accept, the screen of the selected viewer can be seen by the streamer and other viewers. Another function allows a streamer to invite up to seven guests to chat and socialize with each other in an audio chat room. These functions allow our users to socialize and interact with each other in live streaming rooms more directly, create a fun and lively experience and create a more personal environment.



OUR USERS

We have a massive and engaged user base that broadly resembles the population distribution of mobile internet users in China across genders, age and geographic location. A user can take on multiple roles — enjoy the rich content as a viewer and become fans of content creators; express him or herself as a content creator by creating and sharing short videos for other users to enjoy or streaming to dynamically interact with other users; engage in transactions as a buyer or seller on our e-commerce marketplace; and more. In the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, our Kuaishou App had 67 million, 117 million, 176 million and 262 million average DAUs, respectively, and 136 million, 241 million, 330

million and 483 million average MAUs, respectively. In the nine months ended September 30, 2020, our DAUs on average spent over 86 minutes per day on Kuaishou App and accessed Kuaishou App around 10 times a day.

We are committed to making our platform authentic, diverse, beautiful and beneficial. Our personalized content recommendation system aims to provide users with diverse and balanced content and avoid preferential treatment based solely on a creator's popularity or traffic. As a result, we have successfully nurtured social trust in our user community. Users in our community from all walks of life interact with each other as peers based on shared interests, emotional connections and a sense of belonging, which has fostered a highly engaged and active user community. As of September 30, 2020, over 537 million users had uploaded a short video on Kuaishou App.

Case Studies

In addition to fulfilling our users' needs for emotional connection, community and desire to discover new and interesting things, our platform helps many ordinary people improve their lives by providing new opportunities to share and monetize their talents. To put the impact of our platform into context, in 2017, 2018 and 2019, and the nine months ended September 30, 2020, approximately 6 million, 18 million, 23 million and 23 million users, respectively, had earned money in some form on Kuaishou App. Below are just a few examples of real-life success stories of ordinary users that have truly changed their lives and the lives of others through our platform. We are most proud of the fact that our platform can act as a service that helps ordinary people of all backgrounds realize their innate potential and live a life of greater dignity.

“Hopeless Edison” thinks outside the box

One of our users, whom many fans refer to as “Hopeless Edison”, bounced around many jobs from a young age. Despite having a knack for inventing and assembling machinery, he had not been able to find a true outlet for his passions. Things took a turn in 2017 when he found a new calling sharing his quirky inventions on Kuaishou App. In his videos, he demonstrates how he builds and uses his often “unnecessary” inventions, all with tongue-in-cheek commentary. He sells various handicrafts through Kwai Shop. At once hilarious and endearing, superfluous and creative, he has gained millions of fans on Kuaishou App that are intrigued by his unique inventions and delighted by his positive and lighthearted content. “Hopeless Edison” provides fans across China with a sense of hope, a sense that things can be taken a little less seriously, and a sense that we can all think a bit outside the box. Our platform acts as a window through which ordinary people can discover a broader world and meet interesting people, supporting a belief that one's talents are just waiting to be discovered.

Chemistry experiments with member of the Royal Society of Chemistry

One of our users is a foreign chemistry professor that moved to China from England with the mission of spreading knowledge and love of chemistry to all corners of China, down to local villages, and especially among children. This professor chose Kuaishou App as the platform from which to accomplish his mission due to our broad reach and diverse user base, and began sharing videos of homemade chemistry experiments on Kuaishou App in 2018, speaking to viewers in Chinese. His chemistry experiments have been a huge hit on Kuaishou App, with most of his videos getting millions of views. His videos create a friendly, lively and interactive environment among users, and have also provided him the opportunity to sell chemistry courses and learning kits on our platform and make learning more accessible to a broader population. Through Kuaishou App, the professor has been able to instill a sense of curiosity and appreciation for science among countless children as well as adults through educational and entertaining videos. Kuaishou App plays a role in making knowledge more fun and accessible.

OUR BUSINESS PARTNERS

Our platform presents a compelling proposition to our business partners. We have a large and diverse active user base, deep pool of content, outstanding AI capabilities and a user community built on trust. Our ecosystem presents a prime opportunity for our business partners to reach and engage with their target customers.

Advertisers

We work with multiple types of advertisers in connection with our online marketing services. We work with major third-party advertising agencies, brands and retailers advertising their own products, as well as individual content creators promoting themselves on our platform. Our advertisers represent a broad range of industries including, but not limited to, e-commerce, online games, communications, automotive, food and beverage, entertainment, financial services and fashion.

Merchants

Thousands of merchants of all sizes sell products in our e-commerce marketplace, including content creators that have gained a following on our platform, third-party sellers and brands. Our platform provides merchants with rich and dynamic ways to engage with consumers beyond the traditional storefront. Through our leading live streaming e-commerce marketplace, merchants can achieve considerable exposure to consumers either by streaming themselves or hiring popular streamers to promote their products.

We also partner with certain third-party providers which provide services to e-commerce merchants and streamers to assist them in areas such as opening shops on our e-commerce marketplace, supply chain management and customer relationship management.

Others

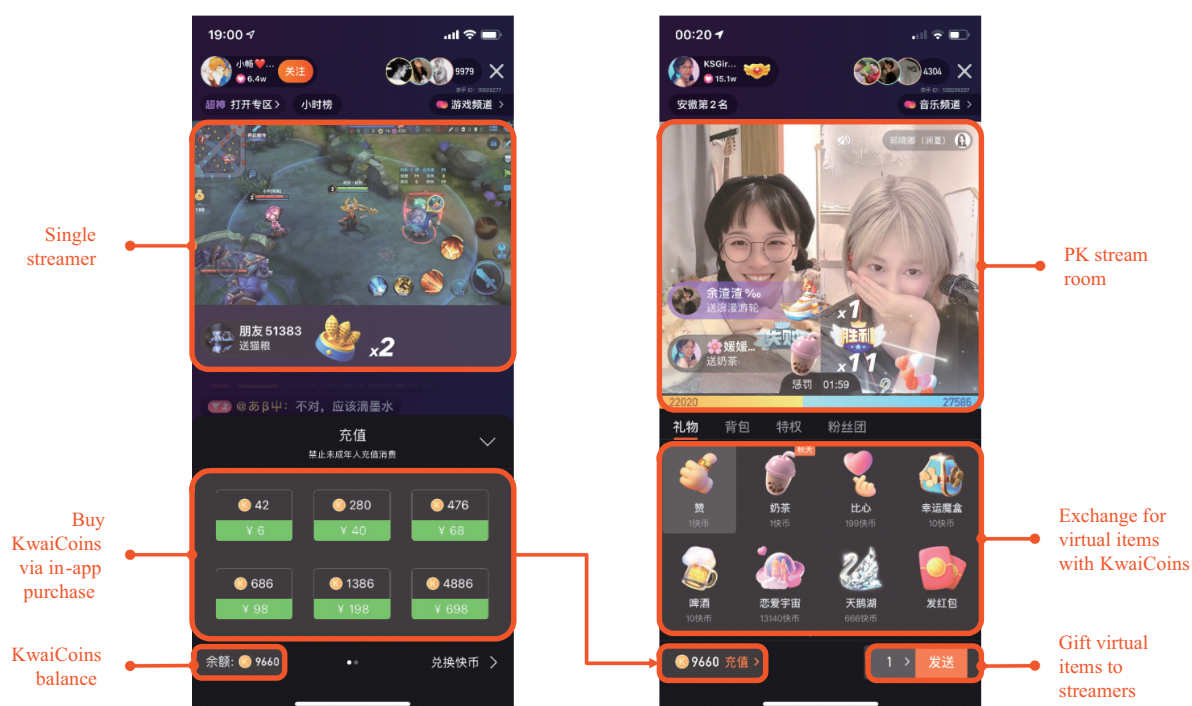
We also collaborate with various other business partners such as MCNs, game developers and knowledge-sharing content providers. MCNs work with content creators and offer them assistance in areas such as content programming, cross-promotion, partner management, digital rights management, monetization and sales. We partner with third-party game developers, such as Tencent, to jointly operate mobile games on our platform under revenue sharing arrangements. Many of our ordinary users, as well as professionals, produce knowledge-sharing content on our platform.

MONETIZATION

The growth of our platform is fueled by a virtuous cycle empowering our users to create, share and view inspirational content, and interact with other users with shared interests via a highly interactive and immersive experience that is underpinned by a sense of trust and belonging. The myriad user needs that arise naturally from our vibrant ecosystem present numerous monetization opportunities.

Live Streaming

Most of the revenues we generate from live streams are through virtual gifting by viewers to streamers. Many users on our platform that have gained a following seek to interact with their followers more dynamically through live streams. The purchase and gifting of virtual items provide a great way for viewers to participate, which stimulate the interactions between streamers and viewers and encourage viewers to engage in live streams, rather than viewing passively. Virtual items can be purchased by viewers and gifted to streamers during a live stream. Our abundant and diverse live streaming content as well as live streaming interactive features have been highly effective in increasing user engagement in live streams. According to iResearch, we were the world's largest live streaming platform by gross billings from virtual gifting and average live streaming MPUs in the nine months ended September 30, 2020. As a result of our commitment to promoting content diversity and allocating exposure to a broad base of content creators, our top 10 streamers by gross billings from virtual gifting accounted for less than 5% of our total gross billings from virtual gifting throughout the Track Record Period.



Kuaishou App provides streamers with an effective way to share their talents with their followers, as well as the chance to gain exposure to a massive user base. We offer various tools, functions and features to support our streamers in effectively monetizing through their fanbase. With a massive and expanding user base and increasing diversity of interest communities, we provide abundant opportunities for streamers from all walks of life to develop a following and benefit from virtual gifting.

All of our streamers are bound by our community regulations and standard terms of service, which set forth various policies with respect to streamer conduct, content, privacy and the ownership of the intellectual property rights, as well as the revenue sharing arrangements between the streamers and us. When our streamers register on our platform, they agree to our community regulations and standard terms of service in app when they register their account.

While most streamers on our platform are not professional or full-time streamers, we also identify promising streamers that create desirable content and represent our values and sign additional customized contracts directly with them. We also cooperate with MCNs in varying sizes which recruit, manage, train, support and promote streamers and introduce such streamers to contract with us on our platform. We promote these streamers and help them grow a following and monetize through their content. Customized streamer contracts are negotiated on a case-by-case basis and generally contain revenue sharing arrangements and exclusivity clauses that require the contracted streamers to live stream exclusively on our platform during the contractual term. A small portion of these contracts also provide for additional payments to the streamers for achieving certain performance metrics such as number of hours streamed during a period.

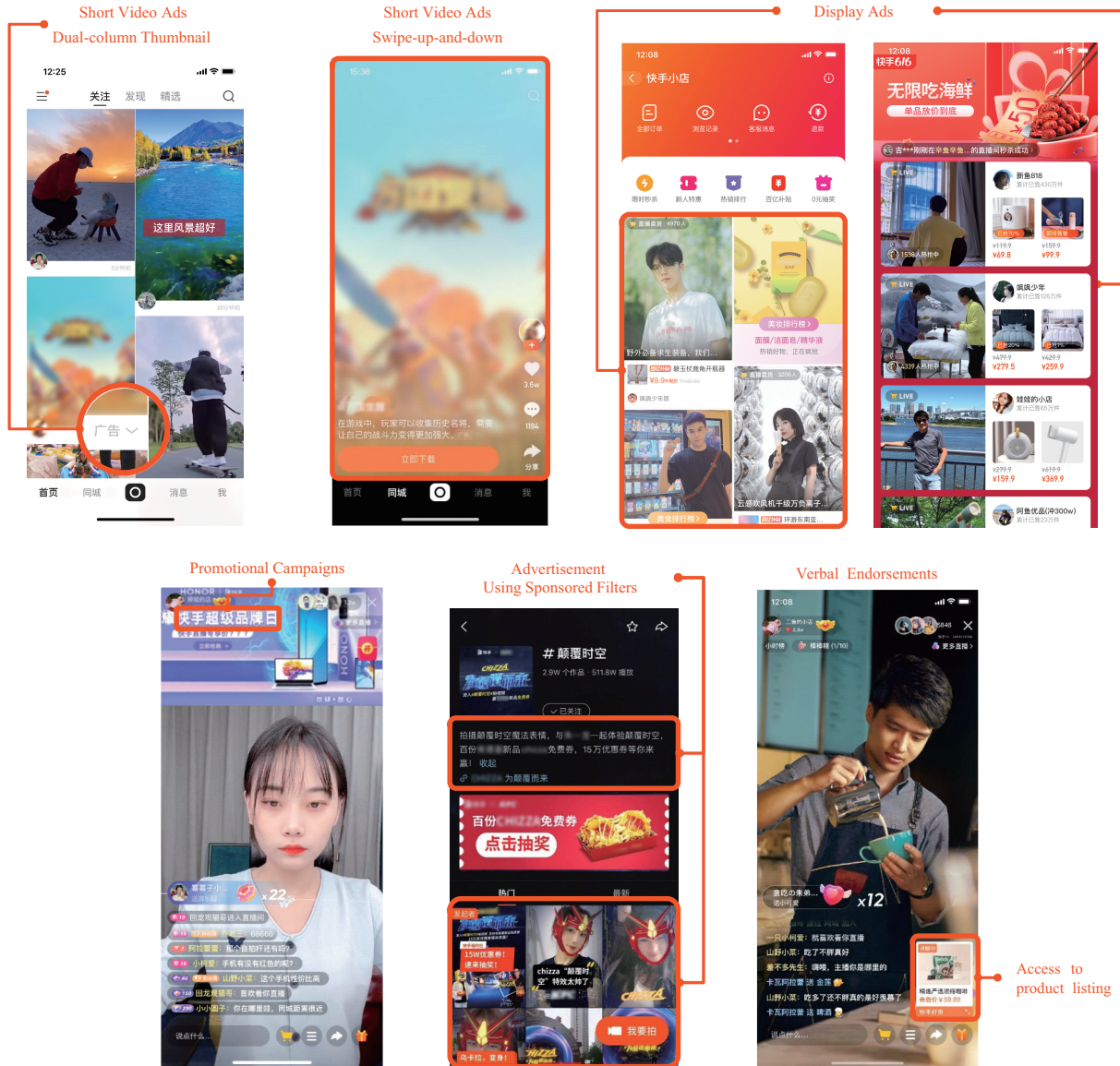
Online Marketing Services

Our online marketing services cover a full suite of online marketing solutions for our ecosystem participants. Our online marketing services primarily consist of advertising services and what we refer to as our “Kuaishou fans headline services.” For our advertising services, we are able to leverage the vast amount and diversity of content on our platform as well as our AI capabilities to accurately direct an advertisement to the target group, allowing advertisers to more effectively reach their desired audience and increasing their return on investment. Our Kuaishou fans headline services allow content creators to pay for exposure to additional traffic for their short videos or live streams.

Advertising services

Advertising opportunities arise naturally through our massive user base and diverse set of interest communities. Our advertisements are customizable at the user level and carefully designed and selected in terms of content and style so as to not be disruptive to our users. All of the content for advertisements on our platform are prepared by our advertising customers, which include advertising agencies and individual advertisers.

We offer customers a full suite of advertising services to effectively reach their target audience, including (i) short video advertisements; (ii) display advertisements; (iii) verbal endorsements; and (iv) promotional campaigns. Short video advertisements either appear as clickable thumbnails together with other recommended short videos on our dual-column feed, or are displayed between other videos at varying frequency in our swipe-up-and-down feed. Short video advertisements look and feel like regular content uploaded by content creators, but are identified as advertisements and may contain links to products or apps promoted by the advertiser. Due to the nature of the short video format, short video advertisements are often creative and entertaining to watch and contribute to a richer content pool. Display advertisements appear in the form of opening-page splash advertisements, traditional banner ads, logos and sponsored filters on various interfaces of our Kuaishou App, including in our online marketplace. Verbal endorsements are a performance-based advertising service that allows an advertiser to engage a content creator with whom we have contracted to promote and recommend products or services designated by the advertiser through a live stream or short video. We also engage in broader promotional campaigns with certain brands by leveraging multiple advertisements, which may include coordination with multiple streamers to display products or brands while streaming.



Working with our advertising partners

Whether they are third-party advertising agencies, brands and retailers or individuals, our advertising partners come to us for exposure to the broad and diverse set of highly engaged users on our platform. We work with our partners to deliver advertisements that are specific and contextual to users' preferences, making advertisements more effective. Using AI and big data analytics, we are able to understand our users and deliver relevant advertisements to them.

BUSINESS

We enter into advertising service agreements with advertisers directly or through advertising agencies. We also assist advertisers in collaboration with content creators to create quality content for our platform. The price of our advertising services depends upon various factors, including the duration and form of the advertisement, popularity of the content or event in which the advertisements will be placed, and specific targeting requirements.

Kuaishou fans headline services

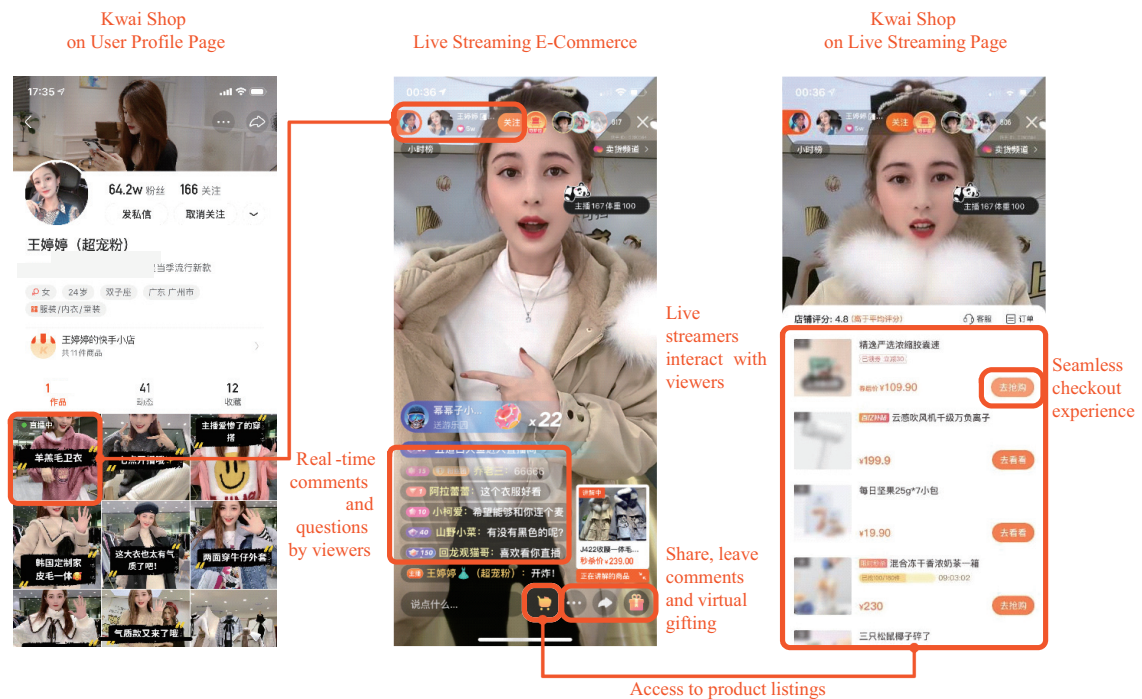
We provide Kuaishou fans headline services to address the marketing needs of content creators that naturally arise from our ecosystem. Our customers pay for increased exposure of their short videos or live streams to a targeted number of viewers for a specified period of time on Kuaishou App. With our Kuaishou fans headline services, content creators who wish to increase their number of followers or video views have an easy way of doing so. We provide simple and effective ways for any content creator to purchase our Kuaishou fans headline services on our platform.

E-Commerce

The trust and user interactions on our platform give rise to a natural opportunity for commerce on our platform between users and our business partners. To address this demand, we launched our e-commerce business in August 2018. Our e-commerce business experienced rapid growth, achieving GMV of RMB204.1 billion in the nine months ended September 30, 2020. Our users purchase products within our Kuaishou App or through third-party e-commerce platforms via links provided within a live stream, short video or user profile page. We receive a commission based on the price and type of products sold. Live streaming e-commerce content in particular, as a natural outgrowth of our live streaming content, has been a major driver of growth for our e-commerce business. Live streaming e-commerce content includes streams of merchants and promoters engaging with users to market various products in real time. Streamers and short video creators (including brands and retailers) use live streams, short videos or profile pages on our platform to market and promote products to viewers. In the nine months ended September 30, 2020, our average repeat purchase rate was over 65%.

Kwai Shop

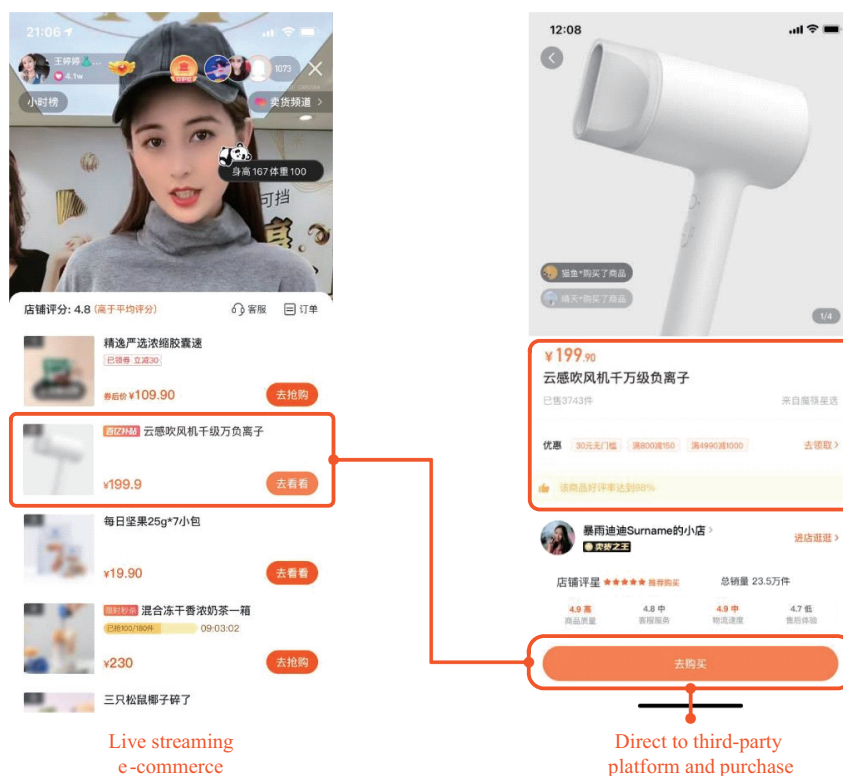
Users shop and purchase products and services directly in Kwai Shop as they would in a traditional e-commerce marketplace. We actively monitor the quality of products sold on Kwai Shop and perform random sampling to test the quality of products sold. Buyers are also able to leave reviews, which builds the reputation of sellers on our platform and discourages unethical behaviors. Users access Kwai Shop directly through Kuaishou App, our website or the links provided by our content creators in live streams, short videos or user profile pages. As our popular streamers and short video creators can effectively introduce the look and feel of the products to their fans through live streams or short videos, a large number of brands and retailers have established storefronts in Kwai Shop to take advantage of these signature features.



Third-party e-commerce platforms

We provide our merchants with diverse channels to sell their products and our users with a seamless online shopping experience. Our users can access the products and services on third-party e-commerce platforms through our platform by clicking the links provided by our streamers and short video creators in the live streams, short videos or user profile pages.

Sales Through Third-party E-Commerce Platforms

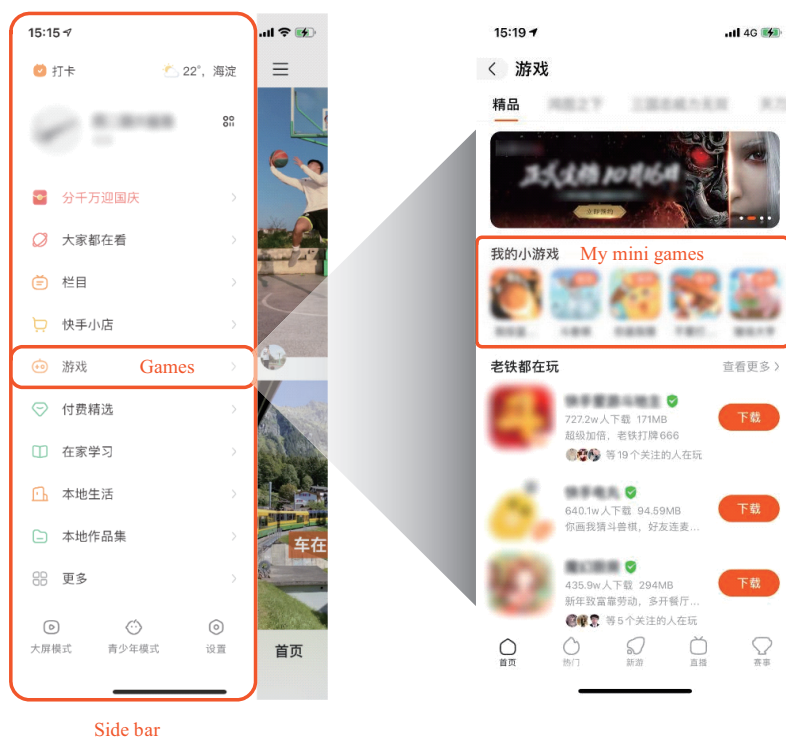


Collaborating with our merchants

We enable merchants to engage with users beyond the traditional storefront through live streams and short videos. Merchants use short videos primarily to raise awareness of their brands, business or products. They use live streams to interact with potential buyers in real time, explaining the value of the product and addressing their questions, thereby helping users to make purchase decisions. Social activity among users during live streams also facilitates transactions by creating a lively atmosphere and providing product validation. We also facilitate collaborations between merchants and content creators on short video and live streaming content and provide various tools on our platform to help merchants manage their online stores. Our merchants benefit from our broad network of users and social trust on our platform as well as our online marketing services and partnerships with third-party service providers.

Online Games

In January 2018, in order to capitalize on our large community of game enthusiasts that follow game content, we began curating and offering mobile games on our platform. We offer games developed in-house as well as games produced by third-parties. Users are able to access mobile games under the games tab in the Kuaishou App, which either directs users to mini games that can be played directly in the Kuaishou App or to download separate mobile game apps. We generate revenue from in-game purchases by users, which may include virtual currency or virtual items that enhance the in-game experience. Many of our games allow users to connect and play with other users on our platform in real time, providing another path for user interaction.



Most of the mobile games available on our platform are either under exclusive agency or jointly operated, which are produced by third-party game developers with whom we enter into revenue sharing arrangements. At the same time, we also self-develop certain mobile games. We provide third-party game developers with a broad distribution channel for their mobile games and share revenue from in-game purchases. Developers of our jointly-operated mobile games are responsible for hosting and maintenance of the game servers.

Knowledge-sharing Content

Knowledge-sharing content on our platform primarily comprises skill-based and other educational content shared by ordinary users, which we began offering in the summer of 2018, in response to the observed needs of our users and content creators. Knowledge-sharing content can be in the form of both pre-recorded and live formats. Content creators on our platform can charge for the content they produce if they wish to do so.



BUSINESS SUSTAINABILITY

We are a pioneer in the global short video industry. Since our inception, we have focused on empowering users to record and share their lives through videos. As an internet business in its early stage of operations, we are focused on building scale and exploring the most suitable business models, rather than seeking immediate financial returns or profitability, in order to lay a solid foundation for long-term development.

BUSINESS

Since we launched our short video platform in 2013, our users and their engagement have grown steadily. We began monetization by launching live streaming as a natural extension to our platform in 2016. As China's short video industry was at an early stage of development, we witnessed significant organic growth of our user base and achieved strong user engagement driven by our deep and diverse content base. In 2017, we generated adjusted net profit of RMB774.0 million, a non-IFRS measure, and positive operating cash flows of RMB2.1 billion. Since 2018, we have successfully developed a monetization model covering a matrix of products and services to address the myriad user needs naturally derived from our ecosystem. This has enabled us to pursue multiple monetization opportunities and expand our product and service offerings. For instance, our online marketing services revenue has grown rapidly from RMB1.7 billion in 2018 to RMB7.4 billion in 2019 and further from RMB4.3 billion in the nine months ended September 30, 2019 to RMB13.3 billion in the nine months ended September 30, 2020. We commenced our e-commerce operations in 2018 and achieved a total GMV of RMB204.1 billion in the nine months ended September 30, 2020.

Our multiple levers to monetization have paved the way for our profitability and generated sustainable operating cash flows to fund our business. In the meantime, we continued to invest in growing our content community, user base and user engagement to support the long-term development of our ecosystem. As our user base continued to expand and the industry continued to evolve, we incurred higher selling and marketing expenses in order to retain and acquire users as well as enhance our brand awareness, which have impacted our operating expenses. Driven by our diverse and vibrant ecosystem and our massive and highly engaged user community, we had adjusted net profit of RMB204.8 million and RMB1.0 billion, a non-IFRS measure, and positive net operating cash flows of RMB1.8 billion and RMB8.0 billion in 2018 and 2019, respectively.

As the short video and live streaming market continues to develop in China, huge market opportunities, especially those for a significant-scale content-based social platform, continue to emerge across a multitude of industries. As the average DAUs on Kuaishou App in 2019 represented only approximately 20% of China's mobile internet users in 2019 according to iResearch, we believed that our content community and social platform had huge opportunities for continued growth and user penetration. To capitalize on these opportunities, we made a strategic decision to invest in our overall ecosystem. For example, we invested in our selling and marketing efforts, among other things, to grow our user base and user engagement and enhance our brand recognition. We also invested in various other areas such as product development and research and development capabilities. As a result, our operating expenses increased in the nine months ended September 30, 2020.

BUSINESS

As a result of these efforts, our average DAUs on Kuaishou App increased from 175.6 million in 2019 to 262.4 million in the nine months ended September 30, 2020. The average DAUs on our Kuaishou Express, which was officially launched in August 2019, exceeded 100 million in August 2020, in just one year from its official launch. The average daily time spent per DAU on Kuaishou App increased from 74.6 minutes in 2019 to 86.3 minutes in the nine months ended September 30, 2020. We believe our enlarged user base, increased user engagement and enhanced brand image will help us further grow and diversify our revenues. Due primarily to our increased selling and marketing efforts, some of which have yielded immediate effects on revenues while others will provide long-term benefits to the overall development of our ecosystem over time, we recorded adjusted net loss of RMB7.2 billion, a non-IFRS measure, and net operating cash outflows of RMB768.4 million in the nine months ended September 30, 2020.

Going forward, we plan to achieve profitability primarily by further (i) growing our user base and user engagement, (ii) increasing our monetization, and (iii) increasing operating leverage. This will allow us to increase our revenue and manage our cost and expenses, in order to reach and maintain profitability and positive operating cash flows.

Growing Our User Base and Engagement

We believe that growing our user base and increasing user engagement are crucial to monetizing our business and thus increasing revenues and achieving profitability. To implement this strategy, we need to retain our existing users and attract new users, as well as enhance user engagement. As such, we aim to continue improving the quality, relevance and diversity of the content on our platform and to improve our technology, as well as to refine our products and services to deliver a superior user experience. See “Business — Our Strategies — Continue to exceed user expectations” and “Business — Continue to strengthen our technology.”

During the Track Record Period, our average DAUs increased from 66.7 million in 2017 to 117.1 million in 2018 and further to 175.6 million in 2019, and from 165.2 million in the nine months ended September 30, 2019 to 262.4 million in the nine months ended September 30, 2020. Our average daily time spent per DAU increased from 52.7 minutes in 2017 to 64.9 minutes in 2018, and further to 74.6 minutes in 2019, and from 74.0 minutes in the nine months ended September 30, 2019 to 86.3 minutes in the nine months ended September 30, 2020.

BUSINESS

The following table sets forth the key operating data on Kuaishou App to demonstrate the growth of our users and their engagement for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
Average DAUs (in millions)	66.7	117.1	175.6	165.2	262.4
Average MAUs (in millions)	136.3	240.7	330.4	311.7	482.9
Average daily time spent per DAU (in minutes)	52.7	64.9	74.6	74.0	86.3

As our user base and user engagement continue to grow, we expect to enjoy powerful network effects which will in turn generate more social interactions and transactions on our platform and attract more users, advertisers, merchants and other business partners to our platform. This will enable us to increase our revenues through various monetization channels.

Increasing Our Monetization

Driven by our massive, growing and highly-engaged user community, user needs naturally arise from our ecosystem, which in turn create multiple monetization opportunities. We plan to further expand our product and service offerings, which will increase and diversify our revenue streams, improve our gross profit margin and enhance our profitability. We also plan to increase the number of paying users and the spending of our paying users by raising their awareness of our multiple paid products and services. See “Business — Our Strategies — Further expand our ecosystem and monetization capabilities.” During the Track Record Period, we generated revenues from three business lines: live streaming, online marketing services and other services including e-commerce.

Live streaming

We commenced our live streaming business in 2016. Live streaming is currently the most established among our existing monetization channels. Our live streaming revenue increased in absolute amounts during the Track Record Period. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, our live streaming revenue as a percentage of our total revenues was 95.3%, 91.7%, 80.4%, 84.1% and 62.2%, respectively. Live streaming users in China are expected to continue to grow at a fast pace due to the highly social, interactive and immersive nature of live streaming, although the rate of such growth is expected to moderate as the user base expands. See “Industry Overview — Emergence of Video-based Social Platforms — Live Streaming” for more details.

BUSINESS

However, even though we expect our live streaming revenue to increase in absolute amounts, we expect our live streaming revenue to continue to decrease as a percentage of our total revenues as our other business lines which are currently at earlier stages of development continue to grow quickly.

Our live streaming revenue is driven by our average MPUs and monthly ARPPU for live streaming. The following table sets forth our average MPUs and monthly ARPPU for our Kuaishou App with respect to live streaming for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
Average MPUs for live streaming (in millions)	12.6	28.3	48.9	48.5	59.9
Monthly ARPPU for live streaming (in RMB).	52.5	54.9	53.6	52.5	47.0
Live streaming revenue ⁽¹⁾ (in RMB millions).	7,949.0	18,615.1	31,442.3	22,922.1	25,309.3

Note:

- (1) The discrepancies between (i) multiplying the average MPUs for live streaming with monthly ARPPU for live streaming and the number of months in the corresponding period and (ii) our live streaming revenue are primarily due to rounding.

Online marketing services

Our online marketing services business was launched in 2017 and is at an early stage of development. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, revenue attributable to online marketing services as a percentage of our revenues was 4.7%, 8.2%, 19.0%, 15.6% and 32.8%, respectively.

In China, the mobile advertising market has been growing rapidly in recent years and is expected to reach RMB1,706.1 billion in 2025, according to iResearch. Short video and live streaming are increasingly popular channels for mobile advertising, accounting for 15.0% of the mobile advertising market in 2019 and is expected to reach 27.3% in 2025. See “Industry Overview — Monetization Opportunities for Video-Based Social Platforms — Online marketing services.” We believe there is significant room to launch new advertisement formats, expand our advertising customer base, and enhance the effectiveness of our advertisements, thereby increasing our online marketing services revenue.

BUSINESS

Our online marketing services revenue is driven by our average DAUs and average online marketing services revenue per DAU. The following table sets forth our average DAUs and average online marketing services revenue per DAU on Kuaishou App for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
Average DAUs (in millions)	66.7	117.1	175.6	165.2	262.4
Average online marketing services revenue per DAU (in RMB).	5.9	14.2	42.3	25.8	50.9
Online marketing services revenue ⁽¹⁾ (in RMB millions). .	390.6	1,665.1	7,418.5	4,267.5	13,343.2

Note:

- (1) The discrepancies between (i) multiplying the average DAUs with the average online marketing services revenue per DAU and (ii) our online marketing services revenue set forth herein are primarily due to rounding.

Other services including e-commerce

We generate revenue from other services, including our e-commerce business, online games and other value-added services. Our e-commerce business was launched in 2018 and is at an early stage of development but has experienced rapid growth since its launch. We generate revenue from e-commerce by charging commissions on the sales of goods completed through our platform. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, revenue attributable to other services, which primarily comprised revenue from e-commerce, as a percentage of our revenues was nil, 0.1%, 0.6%, 0.3% and 5.0%, respectively. Our average repeat purchase rate was 18.0%, 45.4%, 39.8% and 65.2% in 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively. Our average repeat repurchase rate of 18.0% in 2018 was for the four months ended December 31, 2018 only as we commenced our e-commerce business in August 2018.

Live streaming e-commerce on short video and live streaming-based social platforms is becoming more common and will occur in more diverse ways over time. In China, the GMV of live streaming e-commerce is expected to reach RMB6,417.2 billion in 2025. See “Industry Overview — Monetization Opportunities for Video-Based Social Platforms — E-commerce.” We plan to continue to invest in growing our GMV as well as attracting and retaining quality merchants to develop our e-commerce platform. When our buyers, merchants and GMV reach a certain scale, we may at our discretion and subject to business conditions increase monetization to increase our e-commerce revenue.

BUSINESS

The following table sets forth GMV achieved on our platform, and revenue attributable to other services for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
Total e-commerce GMV (in RMB millions)	—	96.6 ⁽¹⁾	59,641.1	16,833.3	204,060.3
Revenue attributable to other services (in RMB millions) . . .	—	20.4	259.5	78.3	2,024.9

Note:

(1) For the period from August to December 2018 only as we commenced our e-commerce business in August 2018.

Increasing Operating Leverage

As we continue to grow in scale, we aim to realize operating leverage on our platform primarily through the natural progression of our revenue mix, efficient selling and marketing spend, as well as network effects and economics of scale. See “Financial Information — Major Components of Our Results of Operations” for a description of the key components of our cost of revenues and operating expenses.

Natural progression of our revenue mix

During the Track Record Period, our live streaming revenue has decreased as a percentage of our total revenues primarily due to the expansion and growth of our other business lines such as online marketing services and e-commerce. Going forward, we expect this trend to continue for reasons as stated above. Direct costs associated with live streaming, particularly revenue sharing to streamers and related taxes, have decreased as a percentage of the total revenues, accounting for 52.7%, 51.2%, 46.4% and 35.2% of the total revenues in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively. Although our revenue sharing mechanisms with streamers are determined by taking into account various factors such as performance criteria and other commercial terms, we generally kept such revenue sharing to streamers to no more than 60% of gross billings during the Track Record Period. As other business lines continue to grow at a faster rate than our live streaming business, we expect our revenue mix to shift and our revenue sharing to streamers and related taxes to continue to decrease as a percentage of revenues.

BUSINESS

We expect our online marketing services revenue and e-commerce revenue to increase as a percentage of our total revenues in the foreseeable future for reasons as stated above. See “— Increasing Our Monetization — Online marketing services” and “— Increasing Our Monetization — Other services including e-commerce.” Our online marketing services and e-commerce businesses generally incur lower direct costs and expenses, which will contribute to higher gross profit margin, and enable us to benefit from economies of scale going forward.

See “Financial Information — Major Components of Our Results of Operations — Cost of Sales” for more details.

Efficient selling and marketing spend

Our selling and marketing expenses primarily comprise promotion and advertising expenses. Such expenses accounted for 16.4%, 21.0%, 25.2%, 20.5% and 48.8% of our total revenues in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively.

Our promotion and advertising expenses mainly include user acquisition and maintenance costs and expenses associated with brand marketing campaigns. We incur user acquisition and maintenance costs to promote our products and services offerings and to acquire and retain users. We incur expenses associated with brand marketing campaigns to increase our brand recognition, which is expected to have long-term benefit to the overall development of our ecosystem. For example, we officially launched Kuaishou Express in August 2019 and incurred expenses for user acquisition and brand promotion for Kuaishou Express. We also incurred promotion and advertising expenses as we expand into adjacent businesses such as online marketing services and e-commerce, and overseas markets. Our marketing expenses for Kuaishou Express and our other products and services, as well as our brand marketing campaign expenses, including expenses relating to our nationwide marketing campaign, accounted for a significant portion of our promotion and advertising expenses in 2019 and the nine months ended September 30, 2020. As a result, we experienced a significant increase in our user base and user engagement, as well as enriched content and service offerings in our ecosystem. For example, the average DAUs on Kuaishou App increased from 175.6 million in 2019 to 262.4 million in the nine months ended September 30, 2020. In August 2020, in just one year after its official launch, the average DAUs on Kuaishou Express exceeded 100 million, and the average daily time spent per DAU on Kuaishou App increased by more than ten minutes from 74.6 minutes in 2019 to 86.3 minutes in the nine months ended September 30, 2020. We believe that our brand marketing campaigns have increased our brand recognition, which, together with our user acquisition and retention efforts, have helped to grow our user base and enhance user engagement, and will increase the attractiveness of our platform in the long run.

BUSINESS

We continuously evaluate and learn from past campaigns to increase the efficiency of our marketing spend in order to grow our users and ecosystem in a sustainable manner going forward. As we continue to acquire and retain users as well as enhance our brand image, we expect our selling and marketing expenses will continue to account for a meaningful portion of our expenses but will decrease as a percentage of our total revenues in the future as we continue to grow and diversify our revenues, improve operational efficiency and enjoy economies of scale.

See “Financial Information — Major Components of Our Results of Operations — Selling and Marketing Expenses” for more details.

Network effects and economies of scale

Other major cost components include bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, research and development expenses and administrative expenses. We expect these costs and expenses to continue to increase in absolute amounts along with the growth of our business but to decrease as a percentage of our revenues as we increase our monetization as well as benefit from network effects and economies of scale.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. For related risks, see “Risk Factors — Risks Related to Our Business — Our historical growth rates may not be indicative of our future growth. We may not be able to effectively manage our growth as a result of the increased complexity of our business, which may adversely affect our business and operating results.”

TECHNOLOGY

Innovative AI, Big Data Analytics and Audio & Video Technology

We use AI, big data analytics and audio & visual technologies extensively in various aspects of our operations.

Personalized content consumption

Personalized content recommendation

According to iResearch, we are the first mover and one of the few in China's short video industry to apply deep reinforcement learning algorithms to the recommendation of videos on a large-scale basis. Our hyperscale deep reinforcement learning-based recommendation engine delivers a superior and personalized experience to users and is particularly suited for short video and live streaming content. The engine is built on a proprietary graph neural network, namely Kuaishou Graph Neural Network (KGNN), which analyzes behavior of hundreds of millions of users to understand their preferences and recommends over 20 billion short videos and live streams to users in real time each day.

Dual-column thumbnail and swipe-up-and-down personalized recommendation interface

According to iResearch, our recommendation engine is one of the few at scale globally that has been designed to support both a dual-column thumbnail and a swipe-up-and-down personalized recommendation interface. In the short video and live streaming industry, the dual-column thumbnail format is a special feature of Kuaishou App attributable to our deep understanding of user behavior and preferences, as this format allows users to scroll through multiple recommended thumbnail images to quickly select content to view based on their preferences and the attractiveness of the thumbnails. In addition, the swipe-up-and-down format of Kuaishou App automatically displays the next video when the user swipes up on the screen, allowing users to seamlessly view more videos. By offering both a dual-column thumbnail format and a swipe-up-and-down format via personalized tabs that users can switch between based on their preferences, we can cater to a broader set of user preferences. By collecting valuable user feedback data under both formats and conducting joint deep learning from both sets of data, we have further improved our industry-leading AI and big data technology for video content analysis and recommendation.

High-quality content transmission

High-definition video

Kuaishou App is designed to run smoothly on all types of mobile phones and support high quality short video playback and low latency live streaming. We have also developed a set of proprietary algorithms to adjust lighting and color hue to improve the quality of videos shot in extreme conditions or by low-end mobile phones. According to iResearch, we are the first mover to offer apps with end-to-end support of filming, editing, uploading and playback of high-definition 1080p videos in China's short video industry, which caters to increasing demand from users for a highly immersive video watching experience. This advanced video technology also positions us well to embrace the upcoming age of 5G.

Contributions to the formation of video compression standard and proprietary video compression technology

According to iResearch, Kuaishou's Video Coding Lab in San Diego is one of the major contributors in terms of the number of proposals being accepted in a worldwide joint initiative, JVET (Joint Video Exploration Team of ITU-T VCEG and ISO/IEC MPEG), which aims to evaluate available compression technologies and study the requirements for a next-generation video compression standard, namely Versatile Video Coding (VVC) standard. Additionally, in terms of current application, we commenced development of a proprietary video codec, Kuaishou Video Coding (KVC), in 2018, which has been implemented on a large-scale basis in March 2020. According to iResearch, this proprietary video compression algorithm is more advanced compared to existing coding standards adopted by other short video platforms in terms of saving network bandwidth while preserving video quality. KVC can significantly reduce the size of the media files given the same subjective quality and improve the smoothness of video playback.

Advanced live streaming capability

In response to the diverse needs of live streaming scenarios and network conditions, we developed a proprietary transmission protocol, Kuaishou Transmission Protocol (KTP), and an adaptive bitrate streaming standard for our live streams, Live Adaptive Streaming (LAS), using advanced technologies such as multiple stream control algorithms, congestion control algorithms, adaptive fault-tolerant algorithms and multi-bitrate adaptive algorithms, while also accounting for multiple variables such as encoding standards, network speeds and business requirements. We also utilize joint source channel coding technology to adapt the quality of streaming sources with the fluctuation of network conditions encountered in the real world, significantly improving the upload speed and transmission stability of live streaming signals on weak networks. As a result, we can provide a live streaming experience that is smoother with higher resolution and lower latency. Our

technological innovations in live streaming have resulted in outstanding performance on our live streaming platform, as verified by large-scale A/B testing performed on multiple variants of our apps, and increased average time spent per day by our users.

AI-powered content creation tools

Our machine learning, computer vision and computer graphics capabilities have enabled us to offer a wide array of content creation tools such as beautifying functions, smart filters, human computer interactions and Special Effects. For example, our users can swap their expressions and actions with cartoon characters, combine landmark buildings with dynamic cartoon images and see what they would look like at a different age using a smart filter, and share these effects with others through short videos and live streams. These carefully designed innovative features have fostered a highly interactive and enjoyable experience and motivated users to create more vibrant and inspirational content that attracts more users, which in turn fueled further growth in creative content on our platform.

Hyperscale big data computational engine

Due to the nature of the products and services we offer, we require large amounts of storage and computing resources to process a high throughput of data being generated every day on our platform, including to process (i) multimedia data such as videos to enhance our video streaming quality and improve our analysis and understanding of video content and (ii) mass user behavioral data on our platform for analysis, to run computationally complex processes and algorithms for recommendations, searches and other functions, and to build a highly efficient data warehouse in support of smart and insightful data analysis to drive fast iterations of our products. Our technologies are built on a hyperscale big data computational engine that can process exabyte scale data including a library of 29 billion short videos.

Multimedia understanding technology

Driven by years of experience in MMU, we can conduct real-time analysis on over 15 million videos and over one million hours of live streams every day. In particular, we have developed a system of AI-powered content analysis algorithms that performs real-time multi-dimensional analysis and screening of massive data on our platform such as text, pictures, audio and video. Moreover, the system has the ability to filter inappropriate and illegal content as well as content that may infringe on intellectual property rights of third parties in real time. We have pioneered various technologies in the industry. According to iResearch, we are the first mover in the short video industry in China that successfully applies all neural end-to-end automatic speech recognition system on a large scale. In addition, we have developed a proprietary CPU/GPU-based heterogeneous computing system to optimize the abovementioned algorithms, which further enhances the operating efficiency of such algorithms.

Scalable Network Infrastructure

We designed our data and network infrastructure for scalability and reliability to support the rapid growth in our user base and to handle multi-party audio-and video-enabled real-time online interactions. As of the Latest Practicable Date, we have more than 270,000 servers hosted in 21 internet data centers across China, which contribute significantly to our fast streaming speed and reliable services. Due to the use of cloud computing technology, the amount of bandwidth we lease is flexibly expandable to handle a surge in the number of concurrent users in Kuaishou App at peak times.

Research and Development

Our ability to develop features, functions and services tailored to the needs of our user base has been a key factor for our success. We have been able to rapidly scale up our product development output and deliver an increasingly broad range of products and services while enhancing the functions and features we offer to satisfy constantly evolving user needs and improve user experience. Another key factor behind our success is the ability of our research and development team to rapidly roll out and test updates to Kuaishou App in order to continually improve user experience and engagement. During the Track Record Period, in addition to regular and frequent improvements to our platform, our research and development team undertook multiple major development projects and successfully developed, among others, (i) a personalized content recommendation system which allows us to constantly satisfy the evolving needs of users and online marketing business partners; (ii) numerous deep learning and reinforcement learning algorithms; (iii) a dynamically scalable hybrid cloud computing platform; (iv) engaging functions and features such as Special Effects as a tool for content creation; (v) an AI-based media processing and live streaming source station; and (vi) advanced content analysis system which enables us to review the compliance of the content on our platform with applicable laws and regulations in a cost-efficient manner.

In 2016, we launched our in-house Y-Tech AI-focused research center with the goal of contributing to research and development in cutting-edge fields such as computer vision and deep learning as well as refining the technology-driven features and functions on Kuaishou App such as AR, filters and other Special Effects. Y-Tech research center is headquartered in Beijing and has branch offices in Hangzhou and Palo Alto. Y-Tech research center has spawned various successful applications, including a facial swapping effect which enables transforming portraits into 3D augmented virtual characters.

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We plan to invest in Ulanqab Data Center, a hyperscale internet data center designed by our research and development team in Ulanqab of Inner Mongolia in order to meet the increasing demand for big data platforms and AI technologies driven by our massive and ever-growing user base.

We have a dedicated team of highly-skilled engineers, computer scientists and technicians whose expertise span a wide range of areas. As of September 30, 2020, we had over 6,500 research and development employees. A significant number of our research and development personnel have prior working experience with renowned technology companies. As of September 30, 2020, over 3,000 of our research and development personnel held at least a master's degree. We have made significant investments into our research and development efforts and technology infrastructures. We spent RMB476.6 million, RMB1.8 billion, RMB2.9 billion and RMB4.1 billion on research and development in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively, representing approximately 23.1%, 26.8%, 21.5% and 16.5% of our operating expenses, respectively, during the same periods.

QUALITY CONTROL AND CONTENT ANALYSIS

We are committed to complying with relevant laws and regulations, protecting third-party intellectual property rights and maintaining a healthy content community on our platform. All participants on our platform are required to abide by our terms of service and community regulations, which strictly prohibit inappropriate content across our platform. Our community regulations set forth in detail prohibited content and actions including, but not limited to, provocative or inflammatory language, full or partial nudity, sexually suggestive language and body movements, abusive language or actions towards other users, spam, scams, acts and threats of violence, and information facilitating or promoting illegal transactions or activities. We have invested in and employ a multilayered content analysis system built on MMU technology and physical staff to analyze and categorize the content generated by our users. We employ our content analysis system to identify and remove any illegal content in accordance with applicable laws and regulations, as well as any content that violates the intellectual property rights of other parties. We also employ a tagging system that identifies the subject or nature of the various content on our platform and separate content by age-appropriateness, which enables us to provide a youth mode for our young users. Additionally, users have the ability to report any violations of our terms of service or other inappropriate behavior via the “report” button in our Kuaishou App. We analyze multiple factors in order to determine the reliability of and prioritize various reports of inappropriate content, including the history of the reporting user, effective reporting rate and the harmfulness of the content reported.

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We have a dedicated content analysis team who are in charge of promptly and accurately detecting violations of our terms of service and community regulations and enforcing our internal policies to ensure the compliance of the content appearing on our platform with applicable laws and regulations. They cooperate with our technical support team and monitor the content generated by our users and leverage our AI-powered content analysis system in order to implement our relevant policies. These employees are trained to identify potential violations of our terms of service and community regulations and to determine the necessary actions to be taken in response. Their responsibilities include further reviewing potential violations and taking additional screenshots of or recording streaming sessions if necessary, categorizing the screenshots or recordings, and taking actions in accordance with our terms of service and community regulations. Additionally, we also arrange for our content analysis staff to perform checks on streaming rooms on our platform continuously, thus adding an additional layer of manual monitoring.

We employ a user credit evaluation system which records the number and severity of each user's violations on our platform, and deducts corresponding points from user accounts when a violation has been found. Users that fall below a certain threshold may have certain or all functions on our platform restricted. Upon identification of any violations, including illegality, violation of intellectual property or violations of our terms of service and community regulations, our content analysis team may take various actions depending on the nature of the violation. For more serious violations, we will take down the content or stop the live stream, as applicable, and suspend the user from activities on our platform for a period of time depending on the nature of the violation. Continued violations result in permanent bans and deletion of the account in question. For zero-tolerance violations and malicious actions, we will take down the content or stop the live stream, as applicable, delete the user account in question and ban the user from creating new accounts by listing their information in our blacklisting database.

POLICES AND MEASURES ON COPYRIGHT PROTECTION

Our platform primarily comprises user generated content. According to a “safe harbour” provided by relevant PRC laws, we are required to take down the relevant content uploaded by a user within a reasonable period of time after receiving a complaint regarding copyright infringement accompanied with the evidence required under relevant PRC laws. We employ effective internal control procedures to ensure that we comply with the relevant PRC laws with respect to copyright protection, including, but not limited to, the following:

- (i) we enforce a copyright protection and takedown policy consistent with the relevant legal requirements and standard industry practice. Our policy requires us to take down content on the basis of alleged copyright infringement when we receive a request to do so provided that such request satisfies the relevant legal requirements; and
- (ii) we have set up a reporting and rights protection function in Kuaishou App through which users can report content uploaded on our platform in violation of copyrights. We have dedicated personnel to review and process any such reports and remove violating content when necessary. Once repeated violations on the part of a user have been determined, we may suspend or terminate such user’s account.

To reduce the risks of copyright infringement by users on our platform and encourage and facilitate content creation by our users, we have entered into licensing arrangements with many major copyright owners or holders and maintain a music library for Kuaishou App. We maintain and enforce the following procedures to ensure that we have the right to use the music in our Kuaishou App music library:

- (i) we maintain a dedicated team responsible for obtaining the necessary copyrights from copyright owners or holders; and
- (ii) we have implemented procedures to reduce the likelihood that any music might be used without proper license or third-party consents. In particular, before importing any music into our Kuaishou App music library, we will enter into licensing agreements with the relevant copyright owners or holders and review the relevant copyright ownership or licensing documents. We also maintain a system that tags licensed music with copyright ownership or licensing information through which we could identify and track licensed music in our Kuaishou App music library.

POLICIES AND MEASURES FOR LIVE STREAMING E-COMMERCE

Internal control procedures on false or misleading promotional activities

We have internal control procedures in place to fulfill our legal obligations under the relevant PRC laws and regulations in relation to false or misleading promotional activities conducted on our platform, including, without limitation, the following:

- (i) our policy requires real-name registration for all streamers;
- (ii) our terms of use with streamers require streamers to ensure the information relating to the products they promote in the live streams are true, not misleading and in compliance with PRC laws and regulations as well as the rules of our Company, and to timely remove any false or misleading information;
- (iii) as soon as we discover any fraudulent or untruthful content or false or misleading promotions by any user on our platform, we shall timely remove such false or misleading information and, depending on the number and severity of the misconducts, we may take other disciplinary actions such as issuing warnings, reducing the user's credit score, suspending the selling function in the user's account, suspending the user from hosting live streams, suspending or closing down the user's account, and/or imposing a monetary fine on the user;
- (iv) we employ a blacklist management system to prohibit streamers who are on the blacklist from registering another account on our platform;
- (v) we maintain an effective customer complaint system and shall process the complaints received in a timely manner; and
- (vi) we implement procedures to monitor and combat false or misleading promotions by streamers in live streams and counterfeiting activities of merchants in Kwai Shop, including, among other things, providing online and offline training to streamers and merchants, reviewing content offered in e-commerce live streams, collecting user feedback with respect to potential false or misleading promotional activities, issuing warnings to streamers who provided inappropriate content that may potentially violate our platform rules and penalizing streamers and merchants who have been found to conduct false or misleading promotions and/or sales of counterfeit products.

Internal control procedures on potential sales of counterfeit goods on our platform

We have internal control procedures in place to fulfill our legal obligations under the relevant PRC laws and regulations in relation to potential sales of counterfeit goods on our platform, including, without limitation, the following:

- (i) we require real-name registration for merchants when they open accounts in Kwai Shop, and review merchants' licenses and certifications;
- (ii) our terms of use with merchants require merchants to ensure quality control and consumer protection with respect to the commodities sold on our platform;
- (iii) we conduct sample testing on the quality of products sold in Kwai Shop;
- (iv) we employ a merchant credit management system which records the number and severity of each merchant's violations of platform rules for merchants, and deduct corresponding points from merchant accounts when a violation has been found. For more serious violations, we may suspend merchant accounts for a period of time depending on the nature of the violation. Continued violations may result in permanent ban of the account in question; and
- (v) we penalize merchants which are found to be engaged in counterfeiting activities, through a number of means, including but not limited to reducing their credit scores, suspending the selling function of their accounts, and/or suspending or closing down their accounts in Kwai Shop.

Internal control procedures on potential sales of counterfeit goods through third-party e-commerce platforms

We have internal control procedures in place to fulfill our legal obligations under the relevant PRC laws and regulations in relation to potential sales of counterfeit goods through third-party e-commerce platforms, including, without limitation, the following:

- (i) with respect to the products sold on third-party platforms, when we receive complaints and evidence from purchasers on potential counterfeit goods, (a) if we are able to determine that the allegations are true, we will report to the relevant third-party platforms with whom we have established a reporting system and remove links to such goods from our platform; and (b) if we are not able to determine whether the allegations are true, we will report such suspicious products to the relevant third-party platforms

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with whom we have established a reporting system, and if the third-party platforms determine that such products are counterfeit goods, we will remove links to such products from our platform;

- (ii) with respect to the goods that are sold on third-party platforms and are determined to be counterfeit following the procedures mentioned in (i) above, we may, depending on the number and severity of misconducts, issue warnings to streamers who are held liable for promoting such products, reduce their credit scores, suspend the selling function in their accounts, suspend them from hosting live streams, close down their accounts, and/or impose monetary fines on these streamers; and
- (iii) if we become aware of any suspicious products promoted by streamers on our platform but sold on third-party e-commerce platforms, we may conduct sample testing on such products under certain circumstances.

Our PRC Legal Advisor is of the view that our internal control procedures in relation to live streaming e-commerce business have covered the requirements under the relevant PRC laws and regulations on e-commerce and live streaming operations in all material aspects.

DATA SECURITY AND PRIVACY

We have implemented a data security management protocol that sets out policies for data-related operations within the Company, including the collection, transmission, storage, sharing, destruction, backup and recovery of data. Our data security policies include mechanisms for user privacy protection, data classification, monitoring, emergency response and management of third-parties. Our information security committee, headed by our chief technology officer, is a cross-disciplinary group comprised of personnel from multiple departments responsible for devising information security strategies and decision-making regarding major information security issues. We have also set up a data security team which works closely with our legal department to jointly establish and enforce procedures regarding the management of data security. Our dedicated privacy protection team is formed by the security group of our systems operations department and other departments including legal, government relations, and public relations departments, and analyzes industry trends, designs privacy protection protocols, conducts privacy trainings, assists in the formulation of feasible compliance work assessments and provides relevant risk control suggestions.

We also engage outside law firms within and outside of the PRC to advise on our data protection policies and ongoing compliance with applicable laws and regulations and regularly update our internal and external-facing policies and procedures. As part of our internal procedure, we engage overseas local counsels to advise on the applicable licensing and compliance requirements before entering into a new market.

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We have developed our internal policies and procedures with the goal of meeting industry standards and good practice. A few examples of our measures include (i) implementing a privacy impact assessment (“PIA”) framework to ensure future changes or releases are subject to a comprehensive PIA review, (ii) instituting a governance framework to ensure senior management are empowered to address any privacy issues, (iii) subjecting internal group data transfers to procedures providing for lawful transfer of data and to protect the security of personal information, (iv) updating our policies and procedures with respect to data breach and incident response, and (v) implementing an internal control framework to ensure that any individuals who exercise their data privacy rights are subject to a standardized and coherent procedure for the resolution of their requests.

During the Track Record Period, we did not experience any material information leakage or loss of user data in the PRC or any overseas market.

INTELLECTUAL PROPERTY

We seek to protect our intellectual property rights through a combination of patents, trademarks, copyrights, trade secrets and confidentiality agreements. As of the Latest Practicable Date, we had registered (i) 1,178 patents, 1,045 software and other copyrights, 3,512 trademarks and 928 key domain names in China; and (ii) 488 trademarks overseas. In addition, we had submitted applications for 3,162 patents, and 1,735 trademarks in China and 437 trademarks overseas as of the Latest Practicable Date. In addition to obtaining authorization from the relevant right holder prior to using any third-party intellectual property on our platform, we have also set up a reporting and rights protection function in our Kuaishou App which allows users to report content uploaded on our platform in violation of intellectual property rights. We have dedicated personnel to process any such reports and remove violating content when necessary. We enforce a copyright protection and takedown policy consistent with standard industry practice in the jurisdictions in which we operate. Once repeated violations on the part of a user have been determined, we may suspend or terminate such user’s account. During the Track Record Period and up to the Latest Practicable Date, no material claims or disputes were brought against us in relation to any infringement of trademarks, copyrights or other intellectual property. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Related to Our Business — Unauthorized use of our intellectual property, unfair competition, defamation or other violations of our rights by our users, employees and/or third parties may harm our brand and reputation, and the expenses incurred in protecting our intellectual property rights may materially and adversely affect our business.”

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CUSTOMERS AND SUPPLIERS

We have a broad base of customers including advertisers, merchants and individuals. Our top five customers, which primarily comprise advertising agencies, accounted for less than 10% of our total revenues for each of the years ended December 31, 2017, 2018 and 2019 and for the nine months ended September 30, 2020. Our top suppliers primarily include marketing service providers, cloud service providers and payment service providers. Our top five suppliers accounted for less than 15% of our purchases for each of the years ended December 31, 2017, 2018 and 2019 and for the nine months ended September 30, 2020.

SALES AND MARKETING

Besides word-of-mouth, we implement various marketing and promotional measures to promote our platform as well as its participants in order to increase our active user base as well as user retention.

We acquire users primarily through advertisements on various app stores and mobile phone pre-installations. For pre-installations, we partner with major mobile phone brands to have Kuaishou App pre-installed on their mobile phones.

We also enhance user acquisition and retention by incentivizing users on our platform through a reward system which we selectively employ to reward users in the form of cash, KwaiCoins or other incentives for performing various tasks. One method for users to earn rewards is to refer Kuaishou App to a new user that registers an account. Users may also earn rewards by using various functions of Kuaishou App, such as logging in or viewing videos for a certain amount of time, which is helpful in motivating new users in familiarizing themselves with and regularly interacting with our platform. We also host special reward events on Kuaishou App around certain national holidays in China.

We also hold various marketing campaigns through various online and offline advertisements, including outdoor advertising, as well as collaborations with certain brands throughout the year.

COMPETITION

As a content-based social platform that caters to a diverse range of user needs, we generally compete with other social platforms for user attention. We also compete with various companies across each of our major monetization channels — live streaming, online marketing services, e-commerce and others. We believe our ability to compete effectively depends on our ability to capture the finite resource of user attention, which in turn depends on several factors, including content, technology, product, scale, network effects and partners. For more details on the landscape of video-based social platforms in China, see “Industry Overview — Landscape of Video-Based Social Platforms.”

In China, there are several social platforms that are built on short video or live streaming content. Some are focused on specific content genres such as online games or entertainment while others cater to diversified social and entertainment use cases. While there is some degree of user overlap among them, platforms differentiate themselves by providing differentiated user experiences and engagement. We believe platforms with more diverse content and more vibrant content creation ecosystems are better equipped to address the evolving needs of users with different backgrounds and interests. In order to compete effectively in our industry, we plan to continue improving the quality, relevance and diversity of the content on our platform. We also plan to expand our product and service offerings and strengthen our technological capabilities.

In order to capitalize on the development of the short video and live streaming market in China and remain competitive in the industry, we also strategically invest in our overall ecosystem comprising of our massive user community, for example, by enhancing our product development and research and development capabilities and investing in selling and marketing efforts. We believe these efforts have enlarged our user base, increased user engagement and enabled us to capture an increasing share of the finite resource of user attention, which has ultimately enhanced our market competitiveness.

CUSTOMER SERVICE

We strive to provide best-in-class customer service on our platform. We have a dedicated team of over 2,200 customer service personnel as of September 30, 2020. Our customer service personnel provide support via telephone or online communication channels such as instant messages on our platform. Our customer service team assists our users with issues they encounter on our platform, gathers feedback on how to improve our services and responds to customer complaints and suggestions. To ensure consistent and high quality service, we provide comprehensive training programs to our customer service team.

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EMPLOYEES

We had 19,941 full-time employees as of September 30, 2020. We also used some third-party labor outsourcing and labor dispatch services, though most of our employees were directly employed by us. Substantially all of our employees are based in China, primarily at our headquarters in Beijing as well as in Chengdu, Wuhan, Wuxi, Tianjin and other cities. The following table sets forth a breakdown of our employees by function as of September 30, 2020:

Function	Number of full-time employees	Percentage (%)
Research and development	6,551	32.9
Customer service and operations	10,552	52.9
Sales and marketing	1,754	8.8
General and administrative	1,084	5.4
Total	19,941	100

Our success depends on our ability to attract, retain and motivate qualified personnel. We adopt high standards in recruitment with strict procedures to ensure the quality of new hires. We use various methods for our recruitment, including campus recruitment, online recruitment, internal recommendation and recruitment through headhunter firms or agents, to satisfy our demand for different types of talents, and pay competitive market salaries. We provide robust training programs for our employees, which we believe are effective in equipping them with the necessary skillset and work ethic.

As required by PRC laws, we participate in mandatory employee social security schemes that are organized by municipal and provincial governments, including pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing provident funds. We and our employees are required to bear the costs of the social security schemes in proportion to a specified percentage. We are required under PRC law to make contributions to employee social security plans directly at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

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We enter into standard contracts and agreements regarding confidentiality, intellectual property, employment, commercial ethics and non-competition with all of our executive officers and all of our employees. These contracts typically include a non-competition provision effective during and up to one year after their employment as well as a confidentiality provisions effective during and after their employment.

Some of our employees in Wuxi have formed unions. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

SOCIAL RESPONSIBILITY

We are highly committed to social responsibility through community involvement both through charitable endeavors and industry development. We have partnered with a number of non-governmental organizations (NGOs) and government organizations to implement various social responsibility initiatives. In January 2020, we made RMB100.0 million of charitable donations in response to the COVID-19 outbreak.

Kuaishou App in itself is also a natural tool for the alleviation of poverty. Below is one of many examples of local communities benefiting economically from the Kuaishou platform.

Bringing e-commerce to local villagers

This story revolves around a husband and wife duo with a romantic love story and an aspiration to lead the villagers of their hometown located in Sichuan province out of poverty. They have accumulated millions of views on Kuaishou App showing off the local products and beautiful scenery of their hometown.

The duo formed a professional farmers collective in their local community to unify and standardize the collection and production of cordyceps in order to efficiently scale up local business and provide local villagers with better livelihoods. The couple shares profits with the local villagers. By sharing more profits with their townsfolk and helping them resolve the difficulties with selling local products, the couple has taken real and concrete action to help families in their neighboring communities increase their incomes. They have since established their own brand and prepare to further expand their business. At the same time, they are also preparing to build the first ever homestay in Chitu Township (赤土鄉) in hopes that tourism will further drive economic growth of their hometowns.

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HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We do not operate any production facilities. We are not subject to significant health, work safety, social or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary, adjust our human resources policies to accommodate material changes to relevant labor and work safety laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any fines or other penalties due to non-compliance in relation to health, work safety, social or environmental regulations, and have not had any accident, or claim for personal or property damage made by our employees which had materially and adversely affected our financial condition or business operations.

INSURANCE

We believe we maintain insurance policies covering risks in line with industry standards. We do not maintain property insurance or business interruption insurance. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material and adverse effect on our results of operations. See “Risk Factors — Risks Related to Our Business — We do not currently have business interruption insurance and our limited insurance coverage could expose us to significant costs and business disruption. Any uninsured occurrence of business disruption, material litigation or natural disaster could expose us to significant costs, which could have an adverse effect on our results of operations.”

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PROPERTIES

As of the Latest Practicable Date, we did not own any properties, and operated our businesses through 69 leased properties in China with a total gross floor area of approximately 251,535 square meters. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our headquarters and offices. Our headquarters are based in Beijing, and we have offices in 26 cities in China, the United States, India, Singapore, Indonesia and Brazil. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings, for the reason that, as of September 30, 2020, none of the properties leased by us had a carrying amount of 15% or more of our consolidated total assets.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we had not been a party to, and were not aware of any threat of, any legal, arbitral or administrative proceeding, which, in our opinion, would likely have a material and adverse effect on our business, financial conditions or results of operation. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

BUSINESS

LICENSES AND REGULATORY APPROVALS

Licenses, Permits and Approvals

During the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant regulatory authorities that are material to our operations in China, other than as disclosed in this section below.

The following table sets out a list of material licenses and permits currently held by us:

License/Permit	Entity Holding the License/Permit	Expiration Date
ICB License	Beijing Chenzhong	December 10, 2021
ICP License	Beijing Chenzhong	April 23, 2024
Radio and Television Production Operation License	Beijing Danmu	March 31, 2021
ICP License	Chengdu Kuaigou	January 21, 2025
EDI License	Chengdu Kuaigou	January 21, 2025
ICB License	Chengdu Kuaigou	December 8, 2022
Food Operating License	Chengdu Kuaigou	April 28, 2025
Online Food Provider Platform Filing Certificate	Chengdu Kuaigou	N/A
ICB License	Huayi Huilong	April 4, 2023
Radio and Television Production Operation License	Huayi Huilong	March 31, 2021
Audio-Visual Permit	Huayi Huilong	February 13, 2021
ICP License	Beijing Kuaishou	August 16, 2022
ICB License	Beijing Kuaishou	November 2, 2022
Radio and Television Production Operation License	Beijing Kuaishou	March 31, 2021

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License/Permit	Entity Holding the License/Permit	Expiration Date
ICP License	Beijing Muyuan	May 13, 2024
ICB License	Beijing Muyuan	July 22, 2021
ICP License	Yooooe Xingji	July 25, 2023
ICB License	Yooooe Xingji	February 6, 2023
Audio-Visual Permit	Yooooe Xingji	December 15, 2022
ICP License	Hangzhou Youqu	April 8, 2025
ICB License	Hangzhou Youqu	May 9, 2021
Radio and Television Production Operation License	Hangzhou Youqu	March 31, 2021
Audio-Visual Permit	Hangzhou Youqu	April 11, 2021

Notes:

Pursuant to the ICB Notice and the Abolition Decision, (1) the MCT is no longer responsible for regulating the online games industry in the PRC and has ceased granting or renewing any games-related ICB Licenses; and (2) a currently valid games-related ICB License will remain valid until the term of the license expires. As of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated regarding whether another governmental authority will replace the MCT to regulate online games. Please see “Regulatory Overview — Regulations Relating to Online Games” for details.

Therefore, as advised by the PRC Legal Advisor, a ICB License is no longer required for the operation of online games in accordance with the current PRC effective laws and regulations, thus Beijing Muyuan that operates online games businesses can continue to do so after the expiration of its games-related ICB License, and it will not be subject to penalties or a request to cease its online games operation after the expiration of its games-related ICB License solely because such license has expired and has not been renewed.

In respect of our other subsidiaries that currently hold ICB Licenses set forth in this table, Huayi Huilong, Beijing Kuaishou, Yooooe Xingji and Hangzhou Youqu operate online short video and live streaming platform, Beijing Chenzhong provides online advertising facilitation business, and Chengdu Kuaigou engages in live streaming e-commerce business. Based on the advice from our PRC Legal Advisor, we do not foresee any legal impediment to renew such ICB Licenses if such subsidiaries comply with the requirements for obtaining or renewing the ICB Licenses.

Non-compliance

During the Track Record Period and up to the Latest Practicable Date, we have had incidents of non-compliance relating to an Audio-Visual Permit, none of which we believe could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

Audio-Visual Permit

As required by applicable PRC laws and regulations, any entity that conducts the business of providing internet audio-visual program services is required to hold an Audio-Visual Permit or complete the requisite filing procedures. Effective from January 31, 2008, only state wholly-owned or state-controlled enterprises are eligible to apply for the Audio-Visual Permit, according to the Audio-Visual Regulations. For more information, see “Regulatory Overview — Regulations relating to Internet Audio-Visual Program Services.”

As of the Latest Practicable Date, each of Huayi Huilong, Yooeee Xingji and Hangzhou Youqu holds an Audio-Visual Permit. However, certain websites and/or apps operated by them or their respective subsidiaries have not been registered on the respective Audio-Visual Permit held by them, which is not in strict compliance with the relevant laws and regulations. Such websites and/or apps were launched after the effective date of the Audio-Visual Regulations and we are not eligible to apply for new Audio-Visual Permits or add such websites and/or apps to existing Audio-Visual Permits.

Our PRC Legal Advisor consulted with the competent regulatory authority in relation to the relevant permits. Based on such consultation, as advised by our PRC Legal Advisor, (i) under the Audio-Visual Regulations and as a matter of policy, we do not belong to the category of special entities that may apply for a new Audio-Visual Permit, and it is impracticable for us to add additional websites and/or apps to our existing Audio-Visual Permit either currently or upon the renewal of such Audio-Visual Permit, (ii) Huayi Huilong, Yooeee Xingji and Hangzhou Youqu and their respective subsidiaries may continue to conduct their business in providing internet audio-visual program services as currently conducted, so long as their operations are in compliance with the operating standards required under the Audio-Visual Regulations and other relevant laws and regulations, and (iii) such conduct of business will not result in the suspension of services of Huayi Huilong, Yooeee Xingji and Hangzhou Youqu and their respective subsidiaries, or revocation of the respective Audio-Visual Permit held by them.

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As advised by our PRC Legal Advisor, the maximum potential penalty for operating without the Audio-Visual Permit includes an order to suspend services, the seizure of related equipment used for such operating activities and a fine of one to two times the total investment in the business. Our PRC Legal Advisor has advised us that, based on the above consultation with the competent authority, the likelihood of Huayi Huilong, Yooeee Xingji, Hangzhou Youqu or their subsidiaries being subject to an order to suspend services because of the above situation is low.

Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any material regulatory notice, fines, penalties or enforcement actions on account of such licensing status.

Pre-approval of the content of domestic online games

Beijing Kuaishou and Beijing Muyuan currently operate online games. According to the applicable PRC laws and regulations, an entity providing internet publishing services must, before launching its games online, file an application for pre-approval with NPPA. If we fail to obtain NPPA's pre-approval before commencement of launching online games, we may be ordered to discontinue the operation of such games and shut down the relevant website, and face confiscation of the illegal income and major equipment and specialized tools used for such illegal publishing activities and a fine ranging from five to ten times such illegal income, and other legal sanctions in more serious cases.

Due to the prolonged application process as a result of the temporary suspension by NPPA in approving the applications from March to December 2018, Beijing Kuaishou and Beijing Muyuan are still in the process of obtaining NPPA's pre-approval for certain online games that they operate as of the Latest Practicable Date. For each of the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, the revenue contribution from these games was less than 0.5%.

The non-compliance mentioned above was primarily attributable to administrative oversight and the relevant business managers being unfamiliar with and lack of comprehensive understanding of the applicable requirements as this business is not part of our core business and we only started to operate online games since 2018.

We initiated the application process for all these games shortly after we identified such oversight. We have not been subject to any regulatory notice, fines, penalties or enforcement actions in relation to the lack of pre-approval on these online games.

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To prevent the above-mentioned non-compliance incident from occurring again in the future, we have further enhanced the relevant internal control procedures. Prior to the operation of each game, our games department will work with the legal department to ensure that we have obtained the pre-approval from the NPPA for each game. With the endorsement of our senior management team, we have promulgated a new internal control policy requiring each new game to complete the administrative procedures before its launch, and requiring internal review on licenses that are required for our business operations on a regular basis. Further, we have strengthened our internal control procedures by specifying the following in order to prevent the recurrence of such non-compliance:

- (1) providing regular training to the relevant personnel in respect of the laws and requirements promulgated by the NPPA from time to time;
- (2) engaging external legal advisers from time to time to offer professional advice on the games and licensing management requirements and other regulatory and legal compliance requirements; and
- (3) establishing additional internal procedures requiring that our games department notify our legal department upon the entering of contracts relating to the operation of potential games and an internal system that tracks the progress of the relevant pre-approval application.

The Directors are of the view that the aforementioned non-compliance does not reflect negatively on the Directors' competency and/or willingness to manage our Company in compliance with relevant laws and regulations for the following reasons: (a) such non-compliance was due to administrative oversight, (b) we have initiated the application process for all these games and has strengthened internal control and established additional internal control procedures to prevent the re-occurrence of such non-compliance, and (c) such non-compliance did not and will not have a material adverse effect on our business, financial conditions and results of operations.

Internal Control Measures

We have adopted the following measures to further improve our corporate governance and internal control systems:

- Establishing an Audit Committee comprising independent non-executive Directors to supervise our internal control systems;
- Our legal department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any update to applicable laws and regulations;
- Establishing internal control team to work closely with our business unit to (i) offer professional advice with respect to the risk management, (ii) improve internal process efficiency and monitor internal control effectiveness, and (iii) enhance risk awareness among key managers in our Company; and
- Developing additional measures, including implementation of internal control policy and provision of training programs to the relevant personnel.

Notice 78

According to Notice 78, platforms providing online show live streaming or e-commerce live streaming services shall, among other things, register their information and business operations by November 30, 2020, ensure real-name registration for all live streamers and virtual gifting users, prohibit users that are minors or without real-name registration from virtual gifting, and set a limit on the maximum amount of virtual gifting per time, per day, and per month. For more information, see “Risk Factors — Risks Related to Our Business — Given that the internet business is highly regulated in China, intensified government regulation of the short video, live streaming and e-commerce industries in China could also restrict our ability to maintain or increase our user base or the user traffic to our platform, which will materially and negatively impact our business operations and financial results. Our failure to obtain and maintain requisite approvals, licenses or permits applicable to our business or any changes in government policies or regulations, could harm our business,” and “Regulatory Overview — Regulations Relating to Online Live Streaming Services.”

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We have consulted with our PRC Legal Advisor as to the applicability and interpretation of the requirements under Notice 78 to our business, conducted an internal evaluation of our compliance measures and status of compliance with the requirements under Notice 78. We have employed the following measures to comply with Notice 78:

- (i) we registered the information and business operations of our platform with National Internet Audio-visual Platforms Information Management System (全國網絡視聽平台信息管理系統) prior to November 30, 2020, in accordance with Notice 78;
- (ii) we had previously adopted policies in 2016 to require real-name registration for all streamers, and since 2018, we have implemented policies to require real-name registration for all new users upon registering a new account;
- (iii) we continue to employ a tagging system that separates content by age-appropriateness, which enables us to provide a youth mode for minors since April 2018. Minors are prohibited from virtual gifting under the youth mode. As of the end of December 2020, we have rolled out system updates on our apps to disable the virtual gifting function for all the users who can be identified as minors and attempt to use the virtual gifting function. Based on our internal testing, revenue contribution from minors we could identify on our platform constitute a minimal portion of our virtual gifting revenue. As a result, we do not expect revenue contribution from minors we could identify during the Track Record Period to have been material and do not expect that disabling the virtual gifting function for all minors we can identify will have a material impact on our virtual gifting revenue;
- (iv) with respect to the requirement of setting a cap on the amount of virtual gifting spending, as advised by our PRC Legal Advisor, there has been no clear guidance on the standard for the maximum amount of virtual gifting under Notice 78 as of the Latest Practicable Date. Since we have not received any notice or implementation rules on setting such cap on virtual gifting, we have not been able to set such cap or quantify the impact of such requirement on our business operations and financial performance as of the Latest Practicable Date. We intend to continue communicating with the NRTA and its local branches with respect to the standard for the maximum amount of virtual gifting. Once the NRTA provides specific implementation rules on the maximum amount of virtual gifting, we will be able to take measures to comply with the requirement on a timely basis. We believe we face low concentration risk in terms of user spending amounts on virtual gifting, with our top 50 users in terms of virtual gifting contributing less than 5% of our total gross billings from virtual gifting throughout the Track Record Period; and

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- (v) in relation to the other requirements under Notice 78, we believe that we have effective measures in place to ensure compliance with them in all material respects. However, given that Notice 78 was recently issued in November 2020, certain requirements under Notice 78 remain unclear. We have been communicating with regulatory authorities to seek more detailed guidelines with respect to the implementation of Notice 78.

Based on the above, except for certain requirements under Notice 78 that are subject to further guidance from the relevant regulatory authorities as discussed above, our Directors believe that our Company has effective measures in place, or is in the process of implementing such measures, to ensure compliance with the various requirements under Notice 78 in all material respects. As advised by our PRC Legal Advisor, Notice 78 does not stipulate any timelines for full compliance with the requirements therein, nor any penalties for any non-compliance under Notice 78. We have not received any notice of enforcement actions nor have we been subject to any administrative penalties in connection with any non-compliance under Notice 78 as of the Latest Practicable Date. Except for the requirement of setting a cap on the amount of virtual gifting spending and certain other requirements in Notice 78 that contain ambiguities, for which we are waiting for detailed implementation rules from the relevant regulatory authorities, our PRC Legal Advisor is of the view that we have effective measures in place to ensure compliance with the requirements under Notice 78 in all material respects.

RISK MANAGEMENT AND INTERNAL CONTROL

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethic and legal compliance. The demand in our industry for skilled employees is intense and we may be adversely affected by the departure of any key employees. See “Risk Factors — Risks Related to Our Business — Our business depends substantially on our ability to attract, train and retain qualified personnel, as well as the continuing efforts of our management and other key personnel that support our existing operations and future growth. If we lose their services, our operations and growth prospects may be materially and adversely affected.” Each of our executive officers and key employees has entered into an employment agreement with confidentiality, intellectual property and non-competition provisions with us.

We also require our staff to conform to high ethical standards. We distribute copies of our employee handbook to all of our employees. The employee handbook contains, among other things, a code of conduct that each employee must comply with.

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We provide regular trainings to our staff on work ethic, working procedures, internal policies, management, technical skills and other aspects that are relevant to their day-to-day work. Through these trainings, we ensure their skillset is up-to-date and meets our requirements.

Information Technology Risk Management

See “— Data Security and Privacy” in this section for information about our information security procedures and policies.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We have established strict internal reimbursement and financial activities reporting policies. In particular, our financial department has implemented special inspection and verification procedures on invoices, bills, notes and other financial instruments, checking the legitimacy of the original instruments we receive and use. Our finance department also checks whether the amount and time provided on the face of the instrument match the relevant contracts.

Our finance team is headed by our chief financial officer, Mr. Chong Nicholas Yik Kay, who has extensive experience in finance and financial reporting. All other senior members of our finance department are experienced in finance and accounting. We provide ongoing training to our finance staff to ensure that our financial reporting and risk management policies are well-observed and effectively implemented.

Compliance and Intellectual Property Rights Risk Management

Compliance with PRC laws and regulations, especially laws and regulations governing the short video and live streaming industry, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from violation of third-party intellectual property rights, are major areas of focus in our management of operational risk. As of September 30, 2020, our legal team consisted of 90 employees who had more than eight years of experience practicing PRC law on average. Our legal department is responsible for reviewing and approving contracts, monitoring updates to and changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC law.

Our legal department also assists our business department in ensuring that all necessary applications or filings for trademark, copyright and patent registrations have been timely made to the competent authorities, and that our intellectual properties are under the protection of relevant laws and regulations.