In the following section we discuss our historical financial results for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020. You should read the following discussion and analysis together with our audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 and for the nine months ended September 30, 2020, our unaudited consolidated financial statements for the nine months ended September 30, 2019 and the accompanying notes included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS.

This discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and our financial performance and involves risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Our actual results may differ materially from those anticipated in these forward looking statements as a result of any number of factors. In evaluating our business, you should carefully consider the information provided in this prospectus, including "Risk Factors" and "Business" in this prospectus.

OVERVIEW

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 offers a rich and diverse range of content that matches a broader set of interests and needs and motivates our users to continually create new and unique content. During the Track Record Period, we focused on growing and diversifying our content and creating an inclusive community, which in turn propelled content creation and stimulated user engagement. 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. Content creators constituted 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.

In addition to our content which is primarily in the form of short videos and live streams, we have expanded our platform to include products and services to address needs that arise naturally when users engage with our content. We monetize primarily through the sale of virtual items, provision of various online marketing services, and collection of commissions from e-commerce transactions. We are also actively developing additional monetization opportunities to diversify our revenue streams through online games, online knowledge-sharing and other products and services. We believe our platform has achieved multifaceted network effects, strong revenue growth and increasing operating leverage as one of the largest content-based social platforms globally. Furthermore, we believe our massive user base and strong user engagement will continue to drive our revenue growth through expansion of existing businesses and unlock potential monetization avenues in the future.

We grew rapidly during the Track Record Period. Our revenues grew from RMB8.3 billion in 2017 to RMB20.3 billion in 2018 and RMB39.1 billion in 2019, and grew from RMB27.3 billion in the nine months ended September 30, 2019 to RMB40.7 billion in the nine months ended September 30, 2020. We had net loss of RMB20.0 billion, RMB12.4 billion, RMB19.7 billion, RMB1.6 billion and RMB97.4 billion in 2017, 2018, 2019 and the nine months ended September 30, 2019 and September 30, 2020, respectively. Excluding share-based compensation expenses and fair value changes of convertible redeemable preferred shares, we had adjusted net profit of RMB774.0 million, RMB204.8 million, RMB1.0 billion and RMB1.8 billion in 2017, 2018, 2019 and the nine months ended September 30, 2019, respectively, and adjusted net loss of RMB7.2 billion in the nine months ended September 30, 2020. Our adjusted EBITDA, which excluded also income tax expenses/(benefits), depreciation of property and equipment, depreciation of right-of-use assets, amortization of intangible assets, and finance expense/(income), net, was RMB1.0 billion, RMB1.4 billion, RMB3.6 billion, RMB3.6 billion and negative RMB4.5 billion in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively. Adjusted net profit/(loss) and adjusted EBITDA are non-IFRS measures. For more details, see "— Non-IFRS Measures" in this section.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRS and interpretations issued by IASB applicable to companies reporting under IFRS. The historical financial information has been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 4 to the Accountant's Report in Appendix I to this prospectus. Regarding the change in accounting policy and disclosures, see Note 2 to the Accountant's Report in Appendix I to this prospectus.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by general factors affecting the broader mobile internet industry and internet services in China, which include China's overall economic growth and level of per capita disposable income; the growth of mobile internet usage; the popularity of social platforms, including those of content-based platforms, and their popularity as advertising media; governmental policies and initiatives affecting content-based social platforms in China; and competition from various types of online entertainment formats.

Unfavorable changes in any of these factors could negatively affect demand for our services and materially and adversely affect our results of operations.

Our results of operations are also affected by certain company-specific factors, including the following:

Our ability to grow our user base and enhance user engagement

We are a leading content community and social platform. Our platform offers a rich and diverse range of content that matches a broad set of interests and needs, which motivates our users to create new and differentiated content. Based on short video and live streaming content, we have continuously expanded our platform to develop interactive features as well as products and services to address our users' evolving needs.

Our business depends on our ability to grow our user base and increase user engagement. Our user base has grown rapidly since our inception in 2011. During the Track Record Period, substantially all of our revenues were generated from our Kuaishou App, which is our family of mobile apps comprising Kuaishou Flagship, Kuaishou Express and Kuaishou Concept. Kuaishou App is a trusted and favored destination for users to record and share their experiences. We have become a household brand, and are among the most widely used social platforms in China, according to iResearch.

The following table sets forth our average DAUs, average MAUs and average daily time spent per DAU on Kuaishou App for the periods indicated, respectively:

	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

During the Track Record Period, we focused on growing our user base and improving user engagement by diversifying our content and creating an inclusive community. In the nine months ended September 30, 2020, our users uploaded approximately 1.1 billion average monthly short videos on Kuaishou App, and hosted nearly 1.4 billion live streaming sessions on Kuaishou App. We have built a massive user base with 262 million average DAUs and 483 million average MAUs on Kuaishou App in the nine months ended September 30, 2020. Our users are also highly active and engaged, with our DAUs on average spending over 86 minutes per day on Kuaishou App and accessing Kuaishou App more than 10 times a day in the nine months ended September 30, 2020. Additionally, our content creators constituted approximately 26% of our average MAUs on Kuaishou App in the nine months ended September 30, 2020.

As our platform engenders a highly social and interactive experience and allows users to build connections and engage based on common interests, we foster a vibrant ecosystem for users and businesses to interact on the basis of our rich and diversified content. For example, our users contributed 2.2 trillion likes, 173 billion comments and 9 billion shares on Kuaishou App for the nine months ended September 30, 2020. We continue to innovate and push the boundaries of technology in order to satisfy the needs of our users, improve their experiences and exceed their expectations.

The number of active users, their level of engagement and the quality of experience affect our revenues, as they affect the revenue from virtual gifting, the spending of our advertising customers, as well as the revenue generated from other monetization channels, such as e-commerce.

Our ability to monetize through multiple levers supported by network effects

We have developed a monetization model with a mix of products and services to address the myriad user needs that arise naturally in our ecosystem. Our revenues and profitability are affected by our ability to monetize, which in turn depends on our ability to increase the size of our live streaming, online marketing services, e-commerce and other businesses. We began to monetize in 2016, and we continue to strengthen and diversify our monetization models.

Majority of the revenues we generated during the Track Record Period were from live streaming. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, revenue attributable to live streaming as a percentage of our revenues was 95.3%, 91.7%, 80.4%, 84.1% and 62.2%, respectively. Live streaming revenue has generally increased during the Track Record Period. Our ability to grow our live streaming revenue depends on our ability to provide a vast amount of diverse live streaming content and to increase user engagement during live streaming through our interactive features.

The following table sets forth our average MPUs and monthly ARPPU for our Kuaishou App with respect to live streaming for the periods indicated, respectively:

	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

Although our average MPUs for live streaming increased continuously throughout the Track Record Period, our monthly ARPPU for live streaming decreased from RMB54.9 in 2018 to RMB53.6 in 2019, and further from RMB52.5 in the nine months ended September 30, 2019 to RMB47.0 in the nine months ended September 30, 2020, primarily due to our rapidly expanding user base driven by an increasing number of new users whose spending habits typically take time to develop. Going forward, we aim to continue to cultivate user habits and improve overall user experience, which we expect will increase our monthly ARPPU.

We derived an increasing proportion of our revenues from online marketing services over the Track Record Period. 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. The average online marketing services revenue per DAU on Kuaishou App grew from RMB5.9 in 2017 to RMB14.2 in 2018, and further to RMB42.3

in 2019. In addition, the average online marketing services revenue per DAU on Kuaishou App increased from RMB25.8 in the nine months ended September 30, 2019 to RMB50.9 in the nine months ended September 30, 2020. Online marketing opportunities arise naturally through our massive user base and diverse set of communities with varied interests. Our online marketing services are customizable based on user interests and carefully designed in content and style so that they are not disruptive to our users' experience. Our AI capabilities allow us to help our advertising customers to reach targeted audience more precisely to improve their return on investment. We offer a full suite of online marketing solutions, including advertising services, Kuaishou fans headline services and other marketing services to customers. Our advertising services include performance-based advertising services which allow advertising customers to place links on our platform or third-party internet properties through our AI-powered recommendation engine, and various formats of display-based advertising services.

We also generated revenue from our other services including e-commerce, online games and other value-added services. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, revenue attributable to other services as a percentage of our revenues was nil, 0.1%, 0.6%, 0.3% and 5.0%, respectively. To address the natural demand from users to buy and sell goods via short videos or live streams on our platform, we launched our e-commerce business in August 2018. Our e-commerce revenue grew rapidly during the Track Record Period as it is naturally embedded to the live streaming content and further enhances our user interaction as well as trust. The total GMV of e-commerce transactions facilitated on our platform increased from RMB96.6 million in 2018 to RMB59.6 billion in 2019, and from RMB16.8 billion in the nine months ended September 30, 2019 to RMB204.1 billion in the nine months ended September 30, 2020. Our ability to increase our e-commerce revenue depends on the content through which merchants can effectively raise awareness of their products, businesses or brands, user interactions and the level of trust in our user community. At the same time, we have been growing other revenues from online games and other value-added services by leveraging both our in-house game development capability as well as collaborations with other third parties.

The network effects that arise from the interactions among our ecosystem participants further strengthen our monetization capabilities. These network effects within our ecosystem span multiple value chains, with participants playing dynamic roles in different aspects of our ecosystem. For instance, live streaming involves multiway interactions among streamers and viewers. E-commerce involves interactions between buyers, e-commerce merchants, e-commerce streamers and logistics providers. Advertising involves interactions between users, content creators or creative agencies, advertisers and marketing service providers. Hence, we can generate revenues from a user in multiple ways. Furthermore, interactions within a value chain reinforce our users' trust in our platform, which further stimulate their engagement.

Our ability to provide innovative products and services using technology

In order to attract and retain users and to keep the level of user engagement high, we must continue to innovate our products and services, implement new technologies and improve the features of our platform.

During the Track Record Period, we expanded our platform to offer a number of innovative products and services. For instance, in August 2019, we officially launched Kuaishou Express, a variant of Kuaishou Flagship, in order to provide users with a more immersive entertainment and content consumption experience through a simpler interface. Kuaishou Express' average DAUs exceeded 100 million in August 2020. In 2018, we launched our e-commerce business as a natural extension to our platform. In the same year, we also pioneered an innovative monetization model by launching a matrix of products and services built on our content, including online games, online knowledge-sharing and other products and services.

We have invested significant resources in our data and technology infrastructure. Our strong research and development team of over 6,500 employees has developed industry-leading AI and big data capabilities to facilitate personalized recommendation, content creation and MMU. Our investments in technology allows us to enhance user experience, improve operational efficiency as well as strengthen our monetization capabilities. In addition, it is critical for us to continue to recruit, retain and motivate talented and experienced personnel in order to stay at the forefront of technology. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, we incurred RMB476.6 million, RMB1.8 billion, RMB2.9 billion, RMB2.0 billion and RMB4.1 billion in research and development expenses, respectively, representing 5.6%, 8.6%, 7.5%, 7.5% and 10.1%, respectively, of our total revenues during the same periods. We expect to continue to invest in technology to further improve user experience and improve operational efficiency.

Our ability to manage our costs and expenses

Our results of operations depend on our ability to manage our costs and expenses. Our cost of revenues consists primarily of revenue sharing to streamers and related taxes, bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets. We grew rapidly during the Track Record Period, and our cost of revenues and expenses increased with our growth. We expect our revenue sharing to streamers to continue to increase in absolute amount along with the growth in live streaming revenue. In addition, we expect the absolute amount of our bandwidth expenses and server custody costs, other costs such as depreciation of property and equipment and right-of-use assets, and staff costs to increase as we grow our business scale and user traffic. Our selling and marketing expenses increased in absolute amounts during the Track Record Period, as we continuously grew our user base and enhanced our brand awareness. During the Track Record Period, our selling and marketing expenses grew at a faster rate compared to the growth rate of our total revenues, primarily due to our strategic decision to invest more in our sales and marketing efforts to develop our overall ecosystem, and to grow our user base and enhance user engagement. As we continue to develop our ecosystem, we expect our selling and marketing expenses will continue to be a meaningful portion of our expenses but will decrease as a percentage of our revenues in the future as we continue to grow and diversify our revenues, improve operational efficiency and enjoy economies of scale.

For a vast number of users, we have become the destination of choice for creating, sharing and enjoying a diverse range of content and activities. We believe the self-reinforcing network effects of our platform and associated operating leverage will allow us to compete more effectively and grow user lifetime value in the long run. We believe the increasing range of content and diversity of products and services offered on our platform will attract additional users to our platform and build more social connections, reinforcing the virtuous cycle on our platform. Accordingly, as our business grows, we believe our scale, coupled with the network effects and the virtuous cycle, will allow us to grow our business more cost-effectively.

IMPACT OF COVID-19 ON OPERATIONS

During the outbreak of COVID-19, as China adopted various social distancing initiatives in response to the pandemic, many people turned to online social and entertainment activities in lieu of physical gatherings. Consequently, there was a surge in demand for internet and mobile services. However, the surge in demand was offset by negative factors, such as reduced business activity and incomes as a result of lock-down and mandatory or voluntary social distancing, and reduced consumption as a result of general concerns and uncertainty about the pandemic and the economy.

Our results of operations in the nine months ended September 30, 2020 were affected by the following specific factors: (i) changes in user behaviors online which impacted our live streaming business; (ii) an increase in demand for online services led to stronger growth in our user base and engagement, which in turn attracted more online marketing customers; (iii) an increase in online purchases in lieu of offline transactions due to social distancing measures contributed to the growth of our e-commerce business, as evidenced by the amount of sales transacted on our platform; (iv) a surge in demand for online social and entertainment services in lieu of physical gatherings due to social distancing measures resulted in higher user traffic on our platform, which increased our bandwidth expenses, server custody costs and other similar costs; and (v) in response to the outbreak, we took a series of measures to protect our employees, including providing our employees with protective equipment immediately after the outbreak, which increased our operating costs.

In addition, due to governments' measures to contain the spread of the virus such as restrictions on mobility and travel and cancellation of public activities, our operations have, to a certain extent, been impacted by delays in business activities and commercial transactions as well as general uncertainties surrounding the duration of the governments' extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in size or even cancellation of our offline events, which temporarily adversely affected some of our marketing activities. Moreover, we took a series of measures in response to the outbreak to protect our employees in compliance with governments' measures, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations.

There remains significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. Should China experience further outbreak, China may again take emergency measures to combat it, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact online businesses. As a result, the extent of the disruption to our business and the related impact on our financial results and outlook for 2020 cannot be reasonably estimated at this time. Our results of operations and consolidated financial position for 2020 will depend on the future development of the outbreak, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable. For more details, see "Risk Factors — Risks Related to Our Business — Our business operations and financial performance have been affected by the COVID-19 outbreak."

MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

During the Track Record Period, we generated revenues from live streaming, online marketing services and other services. We mainly operated our businesses in China, and substantially all of our revenues were generated from customers in China.

The following table sets forth our revenues by business line in absolute amounts and as percentages of our revenues for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
							(unaudited)			
Live streaming	7,948,997	95.3	18,615,130	91.7	31,442,341	80.4	22,922,116	84.1	25,309,312	62.2
Online marketing services	390,581	4.7	1,665,095	8.2	7,418,502	19.0	4,267,512	15.6	13,343,194	32.8
Other services	—	—	20,420	0.1	259,505	0.6	78,340	0.3	2,024,935	5.0
Total	**8,339,578**	**100.0**	**20,300,645**	**100.0**	**39,120,348**	**100.0**	**27,267,968**	**100.0**	**40,677,441**	**100.0**

Live streaming

During the Track Record Period, we generated a majority of our revenues from our live streaming business. Our live streaming business generates revenue from sales of virtual items to viewers who purchase such virtual items and present them as gifts to streamers to show their support and appreciation. We recognize revenue when the virtual items are gifted by viewers to streamers as we have no further obligations related to virtual items once they are gifted to streamers. The proceeds received from the sales of virtual items before they are gifted by viewers to streamers are recorded as advances from customers.

Our live streaming revenue is affected by the number of our paying users and ARPPU for live streaming.

During the Track Record Period, the number of paying users for live streaming increased as we continuously grew our user base and improved user engagement. We expect the number of paying users for live streaming to continue to grow as we further diversify and enrich the content on our platform.

We calculate monthly ARPPU for live streaming in a certain period by dividing revenue from our live streaming business for the period by average MPUs for live streaming during the period. As our user base expands, our ARPPU for live streaming may fluctuate from period to period.

For more details, see "— Major Factors Affecting Our Results of Operations" in this section.

Other factors that directly or indirectly affect our live streaming revenue include our ability to increase our popularity by offering new and attractive content, products and services that allow us to monetize our live streaming content and our ability to attract and retain streamers.

Online marketing services

During the Track Record Period, we generated an increasing portion of our revenues from online marketing services. We offer customers a full suite of online marketing solutions, primarily including performance-based and display-based advertising services, as well as Kuaishou fans headline services, to help them effectively reach their target audience. The performance-based advertising services are primarily presented and delivered in the way of short videos with clickable thumbnails and recognized as revenue upon click by the users on the customer-sponsored links. Display-based advertisement appears in the form of opening-page splash advertisements, traditional banner ads, logos and sponsored filters on various interfaces of the platform and is recognized as revenue over the display period. We also provide Kuaishou fans headline services where the customers pay for exposure of their short videos or live streams to a targeted number of viewers for a specified period of time on Kuaishou App. The revenue generated from Kuaishou fans headline services is recognized over the contracted exposure time. We expect our revenue from online marketing services will continue to grow, as we become increasingly appealing to online marketing customers.

Other services

During the Track Record Period, we generated revenue from other businesses, including our e-commerce business, online games and other value-added services. For our e-commerce business, we allow merchants to promote and sell goods on our platform and charge commissions on the sales of goods completed through our platform. We recognize revenue relating to our e-commerce business at a point in time when the sale of goods is completed. For online games and other value-added services, we recognize revenue when we have satisfied the performance of our obligations under the service contracts.

We intend to continue exploring diversified monetization models and opportunities to develop our robust and comprehensive e-commerce platform and to improve our online game and other value-added services.

Cost of Revenues

Our cost of revenues comprises (i) revenue sharing to streamers and related taxes; (ii) bandwidth expenses and server custody costs; (iii) depreciation of property and equipment and right-of-use assets, and amortization of intangible assets; (iv) payment processing costs; and (v) other cost of revenues. Other cost of revenues primarily comprises (i) employee benefit expenses, which primarily consist of employee salaries, bonuses, social insurance premiums and share-based compensation expenses incurred in connection with the Pre-IPO ESOP; (ii) other services cost which primarily includes costs incurred in connection with advertisement placements on third-party platforms we cooperate with to provide online marketing services to our customers and other costs incurred in connection with the delivery of online marketing services; (iii) tax surcharges; and (iv) other cost of revenue which primarily includes outsourcing and other labor costs, and other miscellaneous costs. The following table sets forth the components of our cost of revenues in absolute amounts and as percentages of our revenues for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Revenue sharing to streamers and related taxes	4,395,623	52.7	10,396,086	51.2	18,149,248	46.4	13,290,820	48.7	14,302,621	35.2
Bandwidth expenses and server custody costs(1)	807,902	9.7	1,830,875	9.0	2,650,623	6.8	1,824,369	6.7	3,920,498	9.6
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets(1)	89,214	1.1	1,093,797	5.4	1,991,084	5.1	1,249,254	4.6	3,234,815	8.0
Payment processing costs	269,338	3.2	488,770	2.4	642,155	1.6	480,527	1.8	687,335	1.7
Other cost of revenues	166,671	2.0	688,895	3.4	1,583,664	4.0	953,166	3.5	3,221,367	7.9
Total	**5,728,748**	**68.7**	**14,498,423**	**71.4**	**25,016,774**	**63.9**	**17,798,136**	**65.3**	**25,366,636**	**62.4**

Note:

(1) Server custody costs included the custody fee of internet data centers with a lease term of one year or less which is exempted under the new standard of IFRS 16 — Leases. Leases of internet data centers with a term of over one year were recorded as right-of-use assets, and recorded as depreciation charge in cost of revenues.

Revenue sharing to streamers and related taxes

Revenue sharing to streamers and related taxes represent the portion of revenue generated from virtual gifting that we share with streamers based on pre-agreed arrangements, along with the associated tax incurred on such shared revenue.

Bandwidth expenses and server custody costs

Bandwidth expenses and server custody costs primarily consist of fees that we pay to telecommunication and other service providers for bandwidth and custody services for our servers at internet data centers. Leases of internet data centers with a term of one year or less are recorded as server custody costs. Bandwidth expenses and server custody costs are impacted by user traffic and the scale of our user base.

Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets

Depreciation of property and equipment and right-of-use assets is primarily the depreciation of our computers, servers and other IT equipment, and server custody costs with internet data centers with a lease term of over one year. Amortization of intangible assets primarily includes amortization of our licenses, copyrights and software. Depreciation of property and equipment and right-of-use assets is impacted by user traffic and the scale of our user base.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit both in absolute amount and as percentages of our revenues, or gross profit margin, for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Gross profit	2,610,830	31.3	5,802,222	28.6	14,103,574	36.1	9,469,832	34.7	15,310,805	37.6

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of promotion and advertising expenses.

The following table sets forth the components of our selling and marketing expenses in absolute amounts and as percentages of our total revenues for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Promotion and advertising expenses	1,264,725	15.2	4,077,084	20.1	9,422,745	24.1	5,293,916	19.4	19,103,231	47.0
Employee benefit expenses	77,145	0.9	161,011	0.8	382,511	0.9	254,869	0.9	585,809	1.4
Other selling and marketing expenses	17,754	0.3	23,951	0.1	59,770	0.2	29,824	0.2	144,231	0.4
Total	**1,359,624**	**16.4**	**4,262,046**	**21.0**	**9,865,026**	**25.2**	**5,578,609**	**20.5**	**19,833,271**	**48.8**

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.

Our promotion and advertising expenses increased significantly during the Track Record Period. We officially launched Kuaishou Express in August 2019 and incurred expenses in connection with 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 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 from its official launch, the average DAUs on Kuaishou Express exceeded 100 million. Our 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. For details about the underlying reasons for the increase in our selling and marketing expenses during the Track Record Period, see "Business — Business Sustainability."

On the basis of the historical growth in user base and user engagement and the increase in brand awareness driven by our increased investment in selling and marketing efforts, we believe we will be able to further grow and diversify our revenues and increase operating leverage, and the growth of user base and user engagement will benefit the overall virtuous cycle of our ecosystem and improve the monetization potential of our platform. In addition, we believe that our brand marketing campaigns would increase our brand recognition, which, together with our user acquisition and retention efforts, would in turn increase the attractiveness of our platform in the long run.

We expect our selling and marketing expenses will continue to grow in absolute amounts as we continue to grow our use base and user engagement, as well as enhance our brand awareness in the foreseeable future. However, we expect our selling and marketing expenses as a percentage of our revenues to decrease as we continue to grow and diversify our revenues, achieve greater operating efficiency and economies of scale.

Administrative Expenses

Our administrative expenses primarily consist of employee benefit expenses for our administrative personnel.

The following table sets forth the components of our administrative expenses in absolute amounts and as percentages of our total revenues for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Employee benefit expenses	179,433	2.2	361,575	1.8	563,469	1.4	379,441	1.4	680,674	1.7
Other administrative expenses	48,535	0.5	180,842	0.9	301,906	0.8	193,233	0.7	400,673	1.0
Total	**227,968**	**2.7**	**542,417**	**2.7**	**865,375**	**2.2**	**572,674**	**2.1**	**1,081,347**	**2.7**

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses for our research and development personnel and (ii) depreciation and amortization costs. During the Track Record Period, we expensed all research and development expenses as incurred and did not capitalize research and development expenses.

The following table sets forth the components of our research and development expenses in absolute amounts and as percentages of our total revenues for the periods indicated, respectively:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Employee benefit expenses	442,711	5.3	1,589,092	7.8	2,663,501	6.8	1,872,771	6.9	3,759,995	9.2
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets	12,478	0.1	51,163	0.3	94,119	0.2	64,324	0.2	104,491	0.3
Other research and development expenses	21,429	0.2	115,069	0.5	186,657	0.5	112,469	0.4	253,421	0.6
Total	**476,618**	**5.6**	**1,755,324**	**8.6**	**2,944,277**	**7.5**	**2,049,564**	**7.5**	**4,117,907**	**10.1**

Other Income

Other income primarily comprises government grants and VAT subsidies. Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and we comply with all the conditions attached to the grant.

Other Gains/(Losses), Net

Our other gains/(losses), net primarily include net fair value gains/(losses) on financial assets at fair value through profit or loss of wealth management products and investments in listed and unlisted entities, net foreign exchange gains/(losses), donations and others.

Finance Income/(Expense), Net

Finance income/(expense), net primarily comprises of finance income net of finance expense. Finance income includes interest income from bank deposits, and finance expense includes interest expense from lease liabilities and transaction costs directly attributable to our financings through issuance of convertible redeemable preferred shares.

Fair Value Changes of Convertible Redeemable Preferred Shares

Fair value changes of convertible redeemable preferred shares represent changes in the fair value of the convertible redeemable preferred shares issued by our Company. For the years ended December 31, 2017, 2018 and 2019 and in the nine months ended September 30, 2019 and 2020, our fair value changes of convertible redeemable preferred shares were RMB20.5 billion, RMB11.9 billion, RMB19.9 billion, RMB2.9 billion and RMB89.2 billion, respectively.

TAXATION

In 2017, 2018 and 2019 and the nine months ended September 30, 2019, we had income tax expenses of RMB104.4 million, RMB28.2 million, RMB386.1 million and RMB396.9 million, respectively. In the nine months ended September 30, 2020, we had income tax benefits of RMB747.6 million. The fluctuations in income tax (expenses)/benefits were primarily due to the fluctuations in enacted tax rates in relation to the preferential tax treatments received by our PRC entities, changes in loss before income tax, and the recognition of deferred tax assets and liabilities for losses and gains to be carried forward. For more details, see "— Taxation — PRC" in this section. As of the Latest Practicable Date, we did not have any disputes with any tax authority.

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, the BVI, Hong Kong and the PRC, which we believe are significant.

Cayman Islands

We are incorporated as an exempted company with limited liability under the Companies Act and are not subject to tax on income or capital gains. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

BVI

Our subsidiaries established under the International Business Companies Act of the BVI are not subject to tax on their income or capital gains.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before April 1, 2018. Starting from the financial year commencing on April 1, 2018, a two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

PRC

Our PRC subsidiaries, and controlled entities and their subsidiaries were subject to statutory tax rate of 25% on the assessable profits for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020 based on the existing legislation, interpretation and practices in respect thereof and under the EIT Laws which are effective from January 1, 2008, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Beijing Dajia, our WFOE, became accredited as a high and new technology enterprise enabling it to enjoy a preferential tax rate of 15% commencing from 2017. In addition, Beijing Dajia was granted as "software enterprise," which entitled it to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. The tax exemption under "software enterprise" for Beijing Dajia was obtained in May 2018 with retroactive application since 2017. Accordingly, Beijing Dajia preliminarily used the tax rate of 15% on its estimated assessable profits for the year ended December 31, 2017, and then made an equivalent reversal in 2018. In 2020, Beijing Dajia also obtained the qualification of "key national software enterprise" which entitled it to a further reduced preferential income tax rate of 10% starting from 2019, subject to annual assessment by relevant authorities. Due to the uncertainty to obtain the qualification, Beijing Dajia accrued income tax expenses by applying the preferential tax rate of 12.5% in 2019 and a reversal was made in the second quarter of 2020 for the change in enacted tax rate as the uncertainty was eliminated then.

According to the relevant laws and regulations promulgated by the SAT that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expense so incurred as tax deductible expense when determining their assessable profit for that year ("**Super Deduction**"). The SAT announced in September 2018 that enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018. We have made our best estimate for the Super Deduction to be claimed for our entities in ascertaining their assessable profits during the year.

Under the EIT Laws, beginning January 1, 2008, distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor.

We do not have any plan in the foreseeable future to require our subsidiaries in the PRC to distribute their retained earnings, and intend to retain them to operate and expand our business in the PRC. Accordingly, no deferred income tax liability related to withholding tax on undistributed earnings was accrued as of December 31, 2017, 2018, 2019 and September 30, 2020.

BUSINESS COMBINATIONS

During the Track Record Period, we have grown organically and by acquiring other businesses, some of which have been accounted for as business combinations. See "— Critical Accounting Policies and Estimates — Business Combinations" in this section and Notes 2 and 33 to the Accountant's Report in Appendix I to this prospectus for a description of the accounting treatment of our business combinations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified the accounting policies that we believe are the most significant to the preparation of our consolidated financial statements. Some of our critical accounting policies involve subjective assumptions and estimates and complex judgments by our management relating to accounting items. Our significant accounting policies are set out in detail in the Accountant's Report in Appendix I to this prospectus.

The estimates and associated assumptions, which we believe are reasonable under the circumstances, are based on our historical experience and other factors, and form the basis of our judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in future periods, and as a result, actual results could differ from those estimates.

Revenue Recognition

We derive revenues from sales of virtual items on our live streaming platform, online marketing services and other services. We recognize revenue when or as the control of the promised goods or services is transferred to a customer, net of VAT, rebates and certain sales incentives. If control of the services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services. Contracts with customers may include multiple performance obligations. For such arrangements, we allocate transaction price to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers.

Determining whether we are acting as a principal or as an agent when third-party is involved in the provision of certain services to our customers requires judgment and consideration of all relevant facts and circumstances. In the evaluation of our role as a principal or agent, we consider factors to determine whether we control the specified goods or service before transferred to the customer, which include but are not limited to the following: (a) whether we are primarily responsible for fulfilling the contract, (b) whether we are subject to inventory risk and (c) whether we have discretion in establishing prices.

The following sets forth the accounting policies for revenue from live streaming, online marketing services and other services. See Note 2 to the Accountant's Report in Appendix I to this prospectus for more details.

Live streaming

We operate and maintain mobile platforms where users can enjoy live stream performances provided by streamers and interact with them on a real-time basis for free. We operate a virtual item system, under which viewers can purchase virtual items and present them as gifts to streamers to show their support and appreciation. We generate revenue from the sales of virtual items on the platform and the viewers are our customers. We produce and deliver the virtual items. Sales of virtual items are recognized as revenue when the virtual items are gifted by viewers to the streamers as we have no more obligations related to virtual items once they are gifted to the streamers. The proceeds received from the sales of virtual items before they are gifted by viewers to the streamers are recorded as advances from customers.

In order to attract streamers to the platforms, we share revenue with the streamers in accordance with our agreements with them.

We have evaluated and concluded that we are the principal for the sales of the virtual items on the platforms. We produce and control the virtual items before they are transferred to customers and we set the prices of virtual items. Therefore, revenue from the sales of virtual items is recorded on a gross basis and the revenue sharing to streamers based on the predetermined percentage in the agreements is recognized as "cost of revenues" in the consolidated income statements.

Online marketing services

We offer diversified online marketing solutions including advertising services, Kuaishou fans headline services and other marketing services to customers. We provide rebates to customers including advertising agencies based on contracted rebate rates and estimated revenue volume, which are accounted for as variable consideration and are estimated by applying the most likely amount method. Revenue is recognized based on the price charged to customers, net of rebates provided to the customers.

To fulfill contracts with certain customers, we enter into cooperation agreements with third-party platforms and place our customers' advertisements on those third-party platforms. For the services mentioned below, we are the principal for fulfilling these marketing service contracts as we have obtained controls over the third-party platform services through cooperation contracts and, in some cases, have integrated such services with other services before they are transferred to our customers. We are also primarily responsible for fulfilling these marketing services as we are the only party that our customers entered into agreements with. As such, we recognize revenue from contracts with customers on a gross basis and records charges from third-party platforms as cost of revenues.

Advertising services

Performance-based advertising services

We provide performance-based advertising services which allow advertising customers to place links on our mobile platforms or third-party internet properties. Performance-based advertising services are primarily presented and delivered via short videos with clickable thumbnails together with other recommended short videos or displayed between other short videos at variant frequency. We charge fees to advertising customers based on active clicks. We have determined that each click represents one performance obligation. In this model, revenue is recognized when the user clicks on the customer-sponsored links.

Display-based advertising services

Display-based advertisements appear in the form of opening-page splash advertisements, traditional banner ads, logos and sponsored filters, etc. on various interfaces of the platform. The revenue is recognized ratably over the period that the advertising is displayed. Generally, the terms of these display-based advertisements are for short terms.

Kuaishou fans headline services

We also provide Kuaishou fans headline services where the customers pay for exposure of their short videos or live streaming sessions to a targeted number of viewers for a specified period of time on Kuaishou App. We have determined that each exposure to a target viewer for a specified period of time represents one performance obligation. Revenue from each exposure performance obligation is recognized over the contracted exposure time which is generally very short.

Other services

Other services revenue primarily includes revenue from the e-commerce business, online games and other value-added services. For the e-commerce business, we allow merchants to promote and sell goods on our platform and charges commissions on the sales of goods completed through our platform based on agreed commission rates. We do not take controls of goods sold through our platform. Commission revenue related to e-commerce business are recognized at a point in time when the sale transaction of goods is completed. For online games and other value-added services, revenue is recognized when we have satisfied the performance obligations under the service contracts.

Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred; liabilities incurred to the former owners of the acquired business; equity interests issued by our Group; the fair value of any asset or liability resulting from a contingent consideration arrangement; and the fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gain or loss arising from such remeasurement is recognized in profit or loss.

Under the acquisition method, the determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. We determine discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected lives of assets, the forecasted life cycles and forecasted cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost, net of residual values, over their estimated useful lives, as follows:

- Servers, computers and equipment — 3 years
- Office equipment — 3-5 years
- Leasehold improvements — the shorter of the term of the lease or the estimated useful lives of the assets

Property and equipment arising from business acquisition is depreciated over the remaining useful life. The residual values and useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period. The carrying amount of property and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses), net" in our consolidated income statements.

Leases

Our Group, as a lessee, leases internet data centers and office buildings. Lease contracts are typically made for fixed periods of several months to five years. Lease is recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by our Group.

Contracts may contain both lease and non-lease components. Our Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. We use the incremental borrowing rate, for the implicit rate cannot be readily determined, which is the rate that our Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

- the amount of the initial measurement of lease liabilities;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the aggregate purchase consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. As of December 31, 2017, 2018 and 2019 and September 30, 2020, goodwill included in intangible assets accounted for nil, RMB816.1 million, RMB837.0 million and RMB837.0 million, respectively.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes. The carrying value of the CGUs containing goodwill is compared to the recoverable amount, which is the higher of value in use and the sale value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Such groups of CGUs represent our lowest level for which the goodwill is monitored for internal management purpose. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by our management for recent years with a terminal value related to the future cash flows extrapolated using the estimated growth rates. We believe that it is appropriate to cover six years in our cash flow projections according to the approved budget, because it captures the development stage of our businesses during which we expect to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by us. Our management leveraged their extensive experience in the industries and provided forecasts based on past performance and their expectation of future business plans and market developments.

Impairment review of our goodwill was conducted by our management as of December 31, 2018 and 2019 according to IAS 36 "Impairment of assets." Our management forecasted the average annual revenue growth rate for six years to be 17% to 21%, and the cash flows beyond the aforementioned period were extrapolated using an estimated annual growth rate of 3%. A pre-tax discount rate from 22% to 26% was used to reflect market assessment of time value and the specific risks relating to the CGU.

We determined that we only had one CGU during the Track Record Period. Based on the result of goodwill impairment testing, the estimated headroom was approximately RMB70.2 billion, RMB96.8 billion and RMB248.0 billion as of December 31, 2018 and 2019 and September 30, 2020, respectively. As the recoverable amount was significantly above the carrying amount, no impairment was identified in respect of goodwill as of December 31, 2018, 2019 and September 30, 2020, respectively. Management forecasted the average annual revenue growth rate for six years was 34% and the cash flows beyond the aforementioned period were extrapolated using the estimated annual growth rate of 3%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGU.

Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets including property and equipment and right-of-use assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Current and deferred income tax

We are subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences or tax losses are recognized when management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. As of September 30, 2020, we did not recognize deferred tax assets of RMB716.4 million in respect of cumulative tax losses, that can be carried forward against future taxable income. The outcome of their actual utilization may be different from management's estimation.

Share-based Compensation

On December 22, 2014, our Board approved the establishment of the Pre-IPO ESOP with the purpose of attracting, motivating, retaining and rewarding key employees, Directors and other eligible persons. The Pre-IPO ESOP is valid and effective for 10 years from the approval of our Board.

The fair value of options granted under the Pre-IPO ESOP is recognized as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted on the grant date by using binomial option-pricing models:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, using graded vesting method. At the end of each period, we revise our estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. We recognize the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Significant estimates and assumptions, including forfeiture rate, underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the Directors and third-party valuer. See Note 27 to the Accountant's Report in Appendix I to this prospectus.

In 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, our share-based compensation expenses were RMB296.5 million, RMB701.6 million, RMB742.3 million, RMB564.0 million and RMB977.1 million, respectively.

Convertible Redeemable Preferred Shares

Convertible redeemable preferred shares issued by our Company are redeemable at the option of the holders upon occurrence of certain events. These instruments can also be converted into our ordinary shares at any time at the option of the holders, or automatically upon occurrence of an initial public offering of our Company. See Note 32(b) to Appendix I to this prospectus.

We designated our convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized in profit or loss. Fair value changes relating to market risk are recognized in profit or loss, and the component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income relating to credit risk are not subject to recycling in profit or loss, but are transferred to accumulated losses when they are realized.

The convertible redeemable preferred shares are not traded in an active market and their fair value is determined using valuation techniques. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions, such as discount rate, risk-free interest rate, lack of marketability discount and volatility, as well as the probability weight among the timing of the liquidation, redemption or initial public offering event scenarios based on our best estimates. See Note 32 to the Accountant's Report in Appendix I to this prospectus.

Our convertible redeemable preferred shares are classified as non-current liabilities unless holders of the convertible redeemable preferred shares can demand us to redeem the convertible redeemable preferred shares within 12 months after the end of the reporting period.

Estimation of the Fair Value of the Level 3 Financial Instruments

Our Level 3 instruments include investments in unlisted entities and wealth management products measured at fair value through profit or loss, and convertible redeemable preferred shares issued by our Company. As these instruments are not traded in active markets, their fair values have been determined by using applicable valuation techniques.

In relation to the valuation of our level 3 financial assets and liabilities, our Directors adopted the following procedures: (i) reviewed the terms of investment agreements, terms of wealth management products and subscription agreements for preferred shares; (ii) engaged independent and competent third-party valuers to appraise the fair value of unlisted equity securities and convertible redeemable preferred shares, and performed valuation assessments for wealth management products based on their expected returns; (iii) considered and discussed the financial and operating data, as well as the development and the business plans of the investees; (iv) reviewed and agreed on the valuation approaches adopted and key assumptions and inputs used, including expected volatility, discount rate, risk-free interest rate, lack of marketability discount and volatility, as well as the probability weight among different scenarios including liquidation, redemption and initial public offering; and (v) reviewed the valuation working papers and results prepared by the valuers. Based on the above procedures, our Directors are of the view that the valuation analysis performed by us is fair and reasonable, and the fair value measurements of level 3 financial assets and liabilities in our financial statements are properly prepared.

Details of the fair value measurement of level 3 financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements, are disclosed in note 3.3(c) to the Historical Financial Information of our Company for the Track Record Period as set out in the Accountant's Report set forth in Appendix I to this prospectus prepared by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The historical financial information in the Accountant's Report gives a true and fair view of the financial position of our Group as well as our financial performance and cash flows for the Track Record Period as a whole.

In relation to the valuation of our level 3 financial assets and liabilities, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) review of relevant notes in the Accountant's Report set forth in Appendix I to this prospectus; (ii) discussed with us to understand (a) the procedures performed for such valuation, (b) the key factors, valuation methodologies, and key assumptions taken into account by us as advised by our external valuers, and (c) the internal control process undertaken by us for reviewing the relevant valuation; (iii) review of the professional qualification and previous experience of the external valuers engaged by us through desktop search; and (iv) discussed with the Reporting Accountant on its work performed in this regard. Having considered the work done by the Directors and Reporting Accountant and the relevant due diligence done as stated above, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to disagree with the views of the Directors and the Reporting Accountant in respect of the valuation of level 3 financial instrument.

New and Amended Standards Adopted by Us

All effective standards, amendments to standards and interpretations that are required to be applied for the financial year beginning on January 1, 2020 are consistently applied for the Track Record Period, except for IFRS 9 — Financial Instruments ("**IFRS 9**"). IFRS 9 is mandatorily effective and applied by us for financial year beginning on January 1, 2018. In preparation of our historical financial information, we have adopted IFRS 15 — Revenue from Contracts with Customers ("**IFRS 15**") and IFRS 16 — Leases ("**IFRS 16**") consistently throughout the Track Record Period.

IFRS 9

Before adoption of IFRS 9, impairment of financial assets were assessed on a group basis. The credit period granted to the customers was usually not more than 90 days and the credit quality of these customers were assessed, taking into account their financial position, past performance and other factors. Provisions were made for past due balances when our management considers the loss from the customers is likely. Upon the adoption of IFRS 9 on January 1, 2018, there was no change on the classifications of categories of our financial assets, and the impact on the adoption of the new IFRS 9 expected credit loss model on trade and other receivables was not material to the opening retained earnings on January 1, 2018. Therefore, the application of IFRS 9 did not have significant impact on our financial position and performance compared to the requirement of IAS 39. Set out below are the areas that have been affected after adoption of IFRS 9.

Trade receivables

We applied the simplified approach of IFRS 9 commencing January 1, 2018 to measure expected credit losses under which the lifetime expected credit losses for all trade receivables are estimated. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating. The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institutions, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Other receivables (including loan receivables)

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

Others

While cash and cash equivalents, time deposits and restricted cash are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

IFRS 15 and IFRS 16

We adopted a full retrospective application of IFRS 15, which have been applied on a consistent basis throughout the Track Record Period. Based on our assessment, our Directors concluded that the adoption of IFRS 15 did not have any significant impact on our financial position and performance during the Track Record Period.

We lease internet data centers and office buildings. We applied the lessee accounting requirements of IFRS 16 retrospectively and consistently during the Track Record Period. Under IFRS 16, leases, which were previously classified as "operating leases" under IAS 17, are recognised as right-of-use assets and corresponding lease liabilities at the date of which the leased assets are available for use by us. Each lease payment is allocated between the lease liabilities and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liabilities of each period. The right-of-use assets are depreciated over the lease term on a straight-line basis. Therefore, compared with IAS 17, the application of IFRS 16 did not have significant impact on our key financial ratios (e.g. gearing ratio, current ratio and quick ratio, etc.) and performance (i.e., net loss). However, the application of IFRS 16 had significant impact on the total assets and total liabilities due to the recognition of right-of-use assets and corresponding lease liabilities.

RESULTS OF OPERATIONS

The following table sets forth our consolidated income statements, both in absolute amounts and as percentages of our total revenues, for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
							(unaudited)			
Revenues	**8,339,578**	**100.0**	**20,300,645**	**100.0**	**39,120,348**	**100.0**	**27,267,968**	**100.0**	**40,677,441**	**100.0**
Cost of revenues	(5,728,748)	(68.7)	(14,498,423)	(71.4)	(25,016,774)	(63.9)	(17,798,136)	(65.3)	(25,366,636)	(62.4)
Gross profit	**2,610,830**	**31.3**	**5,802,222**	**28.6**	**14,103,574**	**36.1**	**9,469,832**	**34.7**	**15,310,805**	**37.6**
Selling and marketing expenses	(1,359,624)	(16.4)	(4,262,046)	(21.0)	(9,865,026)	(25.2)	(5,578,609)	(20.5)	(19,833,271)	(48.8)
Administrative expenses	(227,968)	(2.7)	(542,417)	(2.7)	(865,375)	(2.2)	(572,674)	(2.1)	(1,081,347)	(2.7)
Research and development expenses	(476,618)	(5.6)	(1,755,324)	(8.6)	(2,944,277)	(7.5)	(2,049,564)	(7.5)	(4,117,907)	(10.1)
Other income	19,290	0.2	107,575	0.5	292,631	0.7	183,139	0.7	396,151	1.0
Other gains/(losses), net	42,041	0.5	129,277	0.6	(32,843)	(0.1)	211,180	0.8	383,141	1.0
Operating profit/(loss)	**607,951**	**7.3**	**(520,713)**	**(2.6)**	**688,684**	**1.8**	**1,663,304**	**6.1**	**(8,942,428)**	**(22.0)**
Finance (expense)/income, net	(26,076)	(0.3)	52,164	0.3	(11,037)	(0.0)	6,284	0.0	(26,571)	(0.1)
Fair value changes of convertible redeemable preferred shares	(20,522,376)	(246.1)	(11,932,515)	(58.8)	(19,943,114)	(51.0)	(2,890,090)	(10.6)	(89,150,056)	(219.1)
Loss before income tax	**(19,940,501)**	**(239.1)**	**(12,401,064)**	**(61.1)**	**(19,265,467)**	**(49.2)**	**(1,220,502)**	**(4.5)**	**(98,119,055)**	**(241.2)**
Income tax (expenses)/benefits	(104,449)	(1.3)	(28,221)	(0.1)	(386,067)	(1.0)	(396,943)	(1.4)	747,593	1.8
Loss for the year/period attributable to the equity holders of the Company	**(20,044,950)**	**(240.4)**	**(12,429,285)**	**(61.2)**	**(19,651,534)**	**(50.2)**	**(1,617,445)**	**(5.9)**	**(97,371,462)**	**(239.4)**
Non-IFRS Measures:										
Adjusted net profit/(loss) (unaudited)[(1)]	**773,961**	**9.3**	**204,831**	**1.0**	**1,033,883**	**2.6**	**1,836,684**	**6.7**	**(7,244,319)**	**(17.8)**
Adjusted EBITDA (unaudited)[(2)]	**1,019,986**	**12.2**	**1,360,473**	**6.7**	**3,591,370**	**9.2**	**3,594,790**	**13.2**	**(4,543,362)**	**(11.2)**

Notes:

(1) Adjusted net profit/(loss) is a non-IFRS measure. We define "adjusted net profit/(loss)" as loss for the year or period adjusted by adding back share-based compensation expenses and fair value changes of convertible redeemable preferred shares. Adjusted net profit/(loss) is not a measure required by, or presented in accordance with, IFRS. The use of adjusted net profit/(loss) has limitations as an analytical tool, and you should not consider it in isolation from, as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For more details, see "— Non-IFRS Measures" in this section.

(2) Adjusted EBITDA is a non-IFRS measure. We define "adjusted EBITDA" as adjusted net profit/(loss) for the year or period adjusted by adding back income tax expenses/(benefits), depreciation of property and equipment, depreciation of right-of-use assets, amortization of intangible assets, and finance expense/(income), net. Adjusted EBITDA is not a measure required by, or presented in accordance with IFRS. The use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, or superior to, our results of operations or financial condition as reported under IFRS. For more details, see "— Non-IFRS Measures" in this section.

NON-IFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we use adjusted net profit/(loss) and adjusted EBITDA as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating the potential impact of items that our management does not consider to be indicative of our operating performance, such as certain non-cash items. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies, and may not be comparable to other similarly titled measures used by other companies. Our presentation of these non-IFRS measures should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The following table sets forth a reconciliation of our non-IFRS financial measures for the years ended December 31, 2017, 2018 and 2019 and for the nine months ended September 30, 2019 and 2020 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,			Nine months ended September 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(in RMB thousands)		
				(unaudited)	
Loss for the year/period attributable to the equity holders of the Company	**(20,044,950)**	**(12,429,285)**	**(19,651,534)**	**(1,617,445)**	**(97,371,462)**
Add:					
Share-based compensation expenses(1)	296,535	701,601	742,303	564,039	977,087
Fair value changes of convertible redeemable preferred shares(2)	20,522,376	11,932,515	19,943,114	2,890,090	89,150,056
Adjusted net profit/(loss) (unaudited)(3)	**773,961**	**204,831**	**1,033,883**	**1,836,684**	**(7,244,319)**

	Year ended December 31,			Nine months ended September 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(in RMB thousands)		
				(unaudited)	
Adjusted net profit/(loss) (unaudited)(3)	**773,961**	**204,831**	**1,033,883**	**1,836,684**	**(7,244,319)**
Add:					
Income tax expenses/(benefits)	104,449	28,221	386,067	396,943	(747,593)
Depreciation of property and equipment	84,186	828,980	1,405,313	906,771	2,174,192
Depreciation of right-of-use assets	24,085	325,831	692,228	418,679	1,157,218
Amortization of intangible assets	7,229	24,774	62,842	41,997	90,569
Finance expense/(income), net	26,076	(52,164)	11,037	(6,284)	26,571
Adjusted EBITDA (unaudited)(3)	**1,019,986**	**1,360,473**	**3,591,370**	**3,594,790**	**(4,543,362)**

Notes:

(1) Share-based compensation expenses mainly represent share-based compensation expenses incurred in connection with our Pre-IPO Share Option Scheme. Share-based compensation expenses are not expected to result in future cash payments and are not indicative of our core operating results.

(2) Fair value changes of convertible redeemable preferred shares represent changes in the fair value of the convertible redeemable preferred shares issued by our Company and relate to changes in the valuation of our Company. Fair value changes of the convertible redeemable preferred shares are not directly related to our ability to generate revenue from our daily operations, and we do not expect to record any further fair value changes of the convertible redeemable preferred shares as such convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing.

(3) A non-IFRS measure.

By excluding primarily the fair value changes of convertible redeemable preferred shares of RMB89.2 billion from our net loss of RMB97.4 billion in the nine months ended September 30, 2020, our adjusted net loss of RMB7.2 billion in the same period was mainly due to our strategic decision to invest more in selling and marketing efforts to continue to grow our user base and user engagement, enhance our brand recognition and develop our overall ecosystem. Our adjusted EBITDA of negative RMB4.5 billion in the nine months ended September 30, 2020 was largely due to the aforementioned reasons.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Revenues

Our revenues increased by 49.2% from RMB27.3 billion in the nine months ended September 30, 2019 to RMB40.7 billion in the nine months ended September 30, 2020. The increase was primarily attributable to our live streaming business and online marketing services.

Live streaming

Revenue from our live streaming business increased by 10.4% from RMB22.9 billion in the nine months ended September 30, 2019 to RMB25.3 billion in the nine months ended September 30, 2020, primarily due to the increase in the number of our paying users attributable to the growth in our user base, with average MPUs for live streaming growing from 48.5 million in the nine months ended September 30, 2019 to 59.9 million in the nine months ended September 30, 2020.

Online marketing services

Revenue from our online marketing services increased by 212.7% from RMB4.3 billion in the nine months ended September 30, 2019 to RMB13.3 billion in the nine months ended September 30, 2020, primarily attributable to the growth in our user base which attracted more online marketing customers and improved effectiveness of our online marketing services driven by our strong AI and big data capabilities.

Other services

Revenue from our other services increased by more than 24 fold from RMB78.3 million in the nine months ended September 30, 2019 to RMB2.0 billion in the nine months ended September 30, 2020, primarily due to the growth of our e-commerce business.

Cost of revenues

Our cost of revenues increased by 42.5% from RMB17.8 billion in the nine months ended September 30, 2019 to RMB25.4 billion in the nine months ended September 30, 2020, primarily attributable to (i) an increase in revenue sharing to streamers and related taxes along with the growth of our live streaming business, (ii) increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets in line with an increase in user traffic attributable to the enlarged user base and the growth of our business, and (iii) an increase in other cost of revenues by 238% from RMB953.2 million to RMB3.2 billion primarily due to an increase in employee benefit expenses as a result of increasing the headcount of employees to support our business growth and an increase in other services cost in line with the expansion of our online marketing services.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 61.7% from RMB9.5 billion in the nine months ended September 30, 2019 to RMB15.3 billion in the nine months ended September 30, 2020. Our gross profit margin increased from 34.7% in the nine months ended September 30, 2019 to 37.6% in the nine months ended September 30, 2020, mainly because our cost of revenues decreased as a percentage of our total revenues from 65.3% in the nine months ended September 30, 2019 to 62.4% in the corresponding period in 2020 primarily due to a decrease in our revenue sharing to streamers and related taxes as a percentage of our total revenues, as our live streaming revenue decreased as a percentage of our total revenues due to the expansion and growth of our other business lines such as online marketing services and e-commerce business.

Selling and marketing expenses

Our selling and marketing expenses increased by 255.5% from RMB5.6 billion in the nine months ended September 30, 2019 to RMB19.8 billion in the nine months ended September 30, 2020, primarily due to increases in marketing, brand promotion and advertising activities. Our marketing, brand promotion and advertising expenses in this period mainly included user acquisition and maintenance costs and expenses associated with our brand marketing campaigns. The increase in brand promotion and advertising expenses in the nine months ended September 30, 2020 was primarily attributable to our marketing expenses for promoting Kuaishou Express and our other apps and an increase in our brand marketing campaign expenses.

Administrative expenses

Our administrative expenses increased by 88.8% from RMB572.7 million in the nine months ended September 30, 2019 to RMB1.1 billion in the nine months ended September 30, 2020, primarily due to an increase in employee benefits expenses as a result of an increase in the headcount of administrative personnel to support our business growth.

Research and development expenses

Our research and development expenses increased by 100.9% from RMB2.0 billion in the nine months ended September 30, 2019 to RMB4.1 billion in the nine months ended September 30, 2020, primarily due to an increase in employee benefit expenses attributable to a significant increase in the number of research and development personnel as we continue to invest in AI, big data and other advanced technologies.

Other income

Our other income increased by 116.3% from RMB183.1 million in the nine months ended September 30, 2019 to RMB396.2 million in the nine months ended September 30, 2020, primarily due to more VAT subsidies in the nine months ended September 30, 2020 as compared to the same period in 2019.

Other gains/(losses), net

Our other gains, net increased by 81.4% from RMB211.2 million in the nine months ended September 30, 2019 to RMB383.1 million in the nine months ended September 30, 2020, primarily due to increases in the net fair value gains on financial assets at fair value through profit or loss of wealth management products and investments in listed and unlisted entities, partially offset by charitable donations. In January 2020, we made RMB100.0 million of charitable donations in response to the COVID-19 outbreak.

Operating profit/(loss)

As a result of the foregoing, we had an operating profit of RMB1.7 billion and an operating margin of 6.1% in the nine months ended September 30, 2019 and an operating loss of RMB8.9 billion and a negative operating margin of 22.0% in the nine months ended September 30, 2020. Our operating loss of RMB8.9 billion in the nine months ended September 30, 2020 was primarily attributable to the increased selling and marketing expenses as a percentage of our total revenues to grow our user base and user engagement, enhance our brand recognition and develop our overall ecosystem.

Finance income/(expense), net

Our finance income, net was RMB6.3 million in the nine months ended September 30, 2019, primarily attributable to interest income from bank deposits, which was partially offset by interest expense from lease liabilities. Our finance expense, net was RMB26.6 million in the nine months ended September 30, 2020, primarily attributable to interest expense from lease liabilities, which was partially offset by interest income from bank deposits. The interest expense from lease liabilities was in connection with the leasing of internet data centers to host additional servers to meet the growth of our user base and the leasing of office buildings.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were negative RMB2.9 billion in the nine months ended September 30, 2019, and negative RMB89.2 billion in the nine months ended September 30, 2020, primarily due to changes in the valuation of our Company. See Note 32 to the Accountant's Report in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, we had a loss before income tax of RMB1.2 billion and RMB98.1 billion in the nine months ended September 30, 2019 and 2020, respectively.

Income tax (expenses)/benefits

We incurred income tax expenses of RMB396.9 million in the nine months ended September 30, 2019. We had an income tax benefit of RMB747.6 million in the nine months ended September 30, 2020. The income tax benefit in the nine months ended September 30, 2020 was primarily due to the recognition of deferred tax assets attributable to the net losses incurred by certain subsidiaries and promotion and advertising expenses in excess of deductible limit. Furthermore, a reversal was made in the second quarter of 2020 for the change in enacted tax rate as the uncertainty in the qualification of key national software enterprise was eliminated then. See "— Taxation — PRC" in this section.

Loss for the period attributable to the equity holders of the Company

As a result of the foregoing, our loss attributable to the equity holders of the Company was RMB1.6 billion in the nine months ended September 30, 2019 and RMB97.4 billion in the nine months ended September 30, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

Our revenues increased by 92.7% from RMB20.3 billion in 2018 to RMB39.1 billion in 2019. The increase was primarily attributable to increases in revenue generated from our live streaming business and online marketing services.

Live streaming

Revenue from our live streaming business increased by 68.9% from RMB18.6 billion in 2018 to RMB31.4 billion in 2019, primarily due to the increase in the number of our paying users attributable to the growth in our user base, with average MPUs for live streaming growing from 28.3 million in 2018 to 48.9 million in 2019.

Online marketing services

Revenue from our online marketing services increased by 345.5% from RMB1.7 billion in 2018 to RMB7.4 billion in 2019, primarily attributable to (i) the growth in our user base which attracted more online marketing customers and (ii) improved effectiveness of our online marketing services driven by our strong AI and big data capabilities.

Other services

Revenue from our other services increased by 1,170.8% from RMB20.4 million in 2018 to RMB259.5 million in 2019, primarily due to the growth of our e-commerce business.

Cost of revenues

Our cost of revenues increased by 72.5% from RMB14.5 billion in 2018 to RMB25.0 billion in 2019, primarily attributable to (i) an increase in revenue sharing to streamers and related taxes due to the growth of our live streaming business, (ii) increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets in line with an increase in user traffic attributable to the enlarged user base and the growth of our business, and (iii) an increase in other cost of revenues primarily due to an increase in employee benefit expenses as a result of increasing the headcount of employees to support our business growth, an increase in other services cost in line with the expansion of our online marketing services, and an increase in tax surcharges.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 143.1% from RMB5.8 billion in 2018 to RMB14.1 billion in 2019. Our gross profit margin increased from 28.6% in 2018 to 36.1% in 2019, mainly because our cost of revenues decreased as a percentage of our total revenues from 71.4% in 2018 to 63.9% in 2019 primarily due to a decrease in our revenue sharing to streamers and related taxes as a percentage of our total revenues, as our live streaming revenue decreased as a percentage of our total revenues due to the expansion and growth of our other business lines such as online marketing services.

Selling and marketing expenses

Our selling and marketing expenses increased by 131.5% from RMB4.3 billion in 2018 to RMB9.9 billion in 2019, primarily due to increases in our marketing, brand promotion and advertising activities. The increase in brand promotion and advertising expenses in 2019 was primarily attributable to our marketing expenses for promoting Kuaishou Express and our other apps and an increase in our brand marketing campaign expenses.

Administrative expenses

Our administrative expenses increased by 59.5% from RMB542.4 million in 2018 to RMB865.4 million in 2019, primarily due to an increase in employee benefits expenses as a result of an increase in the headcount of administrative personnel to support our business growth.

Research and development expenses

Our research and development expenses increased by 67.7% from RMB1.8 billion in 2018 to RMB2.9 billion in 2019, primarily due to an increase in employee benefit expenses attributable to a significant increase in the number of research and development personnel to keep our technology innovation in AI, big data and other technologies.

Other income

Our other income increased by 172.0% from RMB107.6 million in 2018 to RMB292.6 million in 2019, primarily due to an increase in VAT subsidies.

Other gains/(losses), net

We had other gains, net of RMB129.3 million in 2018, and other losses, net of RMB32.8 million in 2019. The change from gains to losses was primarily due to the net fair value losses on financial assets at fair value through profit or loss of our investments in unlisted entities, partially offset by net fair value gains on financial assets at fair value through profit or loss of wealth management products.

Operating profit/(loss)

As a result of the foregoing, we had an operating loss of RMB520.7 million and an operating margin of negative 2.6% in 2018, and we had an operating profit of RMB688.7 million and an operating profit margin of 1.8% in 2019.

Finance income/(expense), net

We had a finance income, net of RMB52.2 million in 2018, primarily attributable to interest income from bank deposits, which was partially offset by interest expense from lease liabilities. We had a finance expense, net of RMB11.0 million in 2019, primarily attributable to interest expense from lease liabilities, which was partially offset by interest income from bank deposits.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were negative RMB11.9 billion in 2018 and negative RMB19.9 billion in 2019, primarily due to changes in the valuation of our Company. See Note 32 to the Accountant's Report in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, our loss before income tax increased from RMB12.4 billion in 2018 to RMB19.3 billion in 2019.

Income tax expenses

Our income tax expenses increased from RMB28.2 million in 2018 to RMB386.1 million in 2019. We had lower income tax expenses in 2018 primarily because Beijing Dajia, our WFOE, which initially utilized a tax rate of 15% on its estimated assessable profits in 2017, had an equivalent reversal in 2018 after being eligible for tax exemption as a software enterprise. In 2019, considering the uncertainty to obtain the qualification as a key national software enterprise, Beijing Dajia accrued the income tax expenses by applying the preferential tax rate of 12.5% in 2019 and a reversal was made in the second quarter of 2020 for the change in enacted tax rate as the uncertainty was eliminated then. See "— Taxation — PRC" in this section.

Loss for the year attributable to the equity holders of the Company

As a result of the foregoing, our loss for the year attributable to the equity holders of the Company increased by 58.1% from RMB12.4 billion in 2018 to RMB19.7 billion in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Our revenues increased by 143.4% from RMB8.3 billion in 2017 to RMB20.3 billion in 2018. The increase was primarily contributed by our live streaming business and online marketing services.

Live streaming

Revenue from our live streaming business increased by 134.2% from RMB7.9 billion in 2017 to RMB18.6 billion in 2018, primarily due to the increase in the number of our paying users, with average MPUs for live streaming growing from 12.6 million in 2017 to 28.3 million in 2018.

Online marketing services

Revenue from our online marketing services increased by 326.3% from RMB390.6 million in 2017 to RMB1.7 billion in 2018, primarily due to an increasing demand for our online marketing services attributable to (i) the growth in our user base which attracted more online marketing customers and (ii) improved effectiveness of our online marketing services driven by our strong AI and big data capabilities.

Cost of revenues

Our cost of revenues increased by 153.1% from RMB5.7 billion in 2017 to RMB14.5 billion in 2018, attributable to (i) an increase in revenue sharing to streamers and related taxes due to the growth of our live streaming business, (ii) increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets in line with an increase in user traffic attributable to the enlarged user base and the growth of our business, and (iii) an increase in other cost of revenues primarily due to an increase in employee benefit expenses as a result of increasing the headcount of employees to support our business growth.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 122.2% from RMB2.6 billion in 2017 to RMB5.8 billion in 2018. Our gross profit margin decreased from 31.3% in 2017 to 28.6% in 2018, primarily due to an increase in the depreciation of property and equipment as a percentage of our total revenues, along with an increase in user traffic attributable to the enlarged user base and the growth of our business.

Selling and marketing expenses

Our selling and marketing expenses increased by 213.5% from RMB1.4 billion in 2017 to RMB4.3 billion in 2018, primarily due to an increase in our marketing, brand promotion and advertising activities attributable to our increased promotions on pre-installation on mobile phones and our own platform, brand marketing campaigns and the promotion of new product and service offerings.

Administrative expenses

Our administrative expenses increased by 137.9% from RMB228.0 million in 2017 to RMB542.4 million in 2018, primarily due to an increase in employee benefits expenses as a result of an increase in the headcount of administrative personnel to support our business growth.

Research and development expenses

Our research and development expenses increased by 268.3% from RMB476.6 million in 2017 to RMB1.8 billion in 2018, primarily due to an increase in employee benefit expenses attributable to a significant increase in the number of research and development personnel to meet the increasing demand for research and development of AI, big data and video and audio technologies.

Other income

Our other income increased by 457.7% from RMB19.3 million in 2017 to RMB107.6 million in 2018, primarily due to an increase in government grants.

Other gains/(losses), net

Our other gains, net, increased by 207.5% from RMB42.0 million in 2017 to RMB129.3 million in 2018, primarily due to the net fair value gains on financial assets at fair value through profit or loss of wealth management products and investments in listed and unlisted entities.

Operating profit/(loss)

As a result of the foregoing, we had an operating profit of RMB608.0 million and an operating profit margin of 7.3% in 2017, and we had an operating loss of RMB520.7 million in 2018. Our operating loss of RMB520.7 million in 2018 was primarily attributable to the increased selling and marketing expenses as a percentage of our total revenues to grow our user base and user engagement, enhance our brand recognition and develop our overall ecosystem.

Finance income/(expense), net

We had a finance expense, net of RMB26.1 million in 2017, primarily attributable to interest expense from lease liabilities, which was partially offset by interest income from bank deposits. We had a finance income, net of RMB52.2 million in 2018, primarily attributable to interest income from bank deposits, which was partially offset by interest expense from lease liabilities.

Fair value changes of convertible redeemable preferred shares

Our fair value changes of convertible redeemable preferred shares were negative RMB11.9 billion in 2018, compared to negative RMB20.5 billion in 2017, primarily due to changes in the valuation of our Company. See Note 32 to the Accountant's Report in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, our loss before income tax decreased from RMB19.9 billion in 2017 to RMB12.4 billion in 2018.

Income tax expenses

Our income tax expenses decreased from RMB104.4 million in 2017 to RMB28.2 million in 2018, primarily due to the change in enacted tax rate for one of our subsidiaries in the PRC with a preferential tax rate applicable in 2018. See "— Taxation — PRC" in this section.

Loss for the year attributable to the equity holders of the Company

As a result of the foregoing, our loss attributable to the equity holders of the Company for the year decreased by 38.0% from RMB20.0 billion in 2017 to RMB12.4 billion in 2018.

ANALYSIS OF SELECTED BALANCE SHEET ITEMS

The following table sets forth information from our consolidated balance sheets as of the dates indicated, which has been extracted from the Accountant's Report in Appendix I to this prospectus:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
ASSETS				
Non-current assets				
Property and equipment	1,057,278	2,420,770	6,232,305	7,021,382
Right-of-use assets	865,623	1,272,218	4,352,638	5,394,482
Intangible assets	34,875	1,045,816	1,120,308	1,253,694
Financial assets at fair value through profit or loss	49,200	677,919	2,258,272	3,998,760
Deferred tax assets	7,811	161,920	860,185	2,151,821
Long-term time deposits	—	—	110,000	610,000
Other non-current assets	37,466	117,738	169,594	208,828
	2,052,253	5,696,381	15,103,302	20,638,967
Current assets				
Trade receivables	136,641	129,045	1,107,440	1,812,648
Prepayments, other receivables and other current assets	92,557	724,950	2,032,754	2,179,047
Financial assets at fair value through profit or loss	2,472,037	4,273,517	8,902,270	8,546,045
Short-term time deposits	—	—	1,270,994	10,634,150
Restricted cash	251,893	285,274	1,386	5,253
Cash and cash equivalents	2,688,512	5,370,332	3,996,236	7,703,012
	5,641,640	10,783,118	17,311,080	30,880,155
Total assets	**7,693,893**	**16,479,499**	**32,414,382**	**51,519,122**

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
EQUITY AND LIABILITIES				
Equity attributable to the equity holders of the Company				
Share capital	30	30	30	30
Other reserves	1,016,820	(28,397)	(321,281)	4,437,845
Accumulated losses	(23,202,335)	(35,676,115)	(55,407,785)	(152,779,247)
Total equity	**(22,185,485)**	**(35,704,482)**	**(55,729,036)**	**(148,341,372)**
LIABILITIES				
Non-current liabilities				
Lease liabilities	695,784	892,257	3,287,984	3,945,201
Deferred tax liabilities	—	37,885	37,500	33,589
Convertible redeemable preferred shares	26,652,555	47,211,431	69,444,163	52,389,987
	27,348,339	48,141,573	72,769,647	56,368,777
Current liabilities				
Borrowings	—	—	—	300,000
Accounts payables	1,802,517	2,025,563	9,055,133	10,913,350
Other payables and accruals	271,324	844,619	3,027,568	4,092,739
Advances from customers	190,074	475,553	1,529,608	3,031,158
Income tax liabilities	91,923	198,132	424,414	435,136
Convertible redeemable preferred shares	—	—	—	122,847,844
Lease liabilities	175,201	498,541	1,337,048	1,871,490
	2,531,039	4,042,408	15,373,771	143,491,717
Total liabilities	**29,879,378**	**52,183,981**	**88,143,418**	**199,860,494**
Total equity and liabilities	**7,693,893**	**16,479,499**	**32,414,382**	**51,519,122**

Working Capital

Net current assets/(liabilities)

We recorded net current assets of RMB3.1 billion, RMB6.7 billion, RMB1.9 billion and RMB9.0 billion as of December 31, 2017, 2018 and 2019 and November 30, 2020, respectively. We recorded net current liabilities of RMB112.6 billion as of September 30, 2020. The following table sets forth our current assets and current liabilities as of the dates indicated, respectively:

	As of December 31,			As of September 30,	As of November 30,
	2017	2018	2019	2020	2020
	(in RMB thousands)				
					(unaudited)
Current assets					
Trade receivables	136,641	129,045	1,107,440	1,812,648	2,288,054
Prepayments, other receivables and other current assets	92,557	724,950	2,032,754	2,179,047	2,340,161
Financial assets at fair value through profit or loss	2,472,037	4,273,517	8,902,270	8,546,045	4,860,872
Short-term time deposits	—	—	1,270,994	10,634,150	2,640,489
Restricted cash	251,893	285,274	1,386	5,253	4,409
Cash and cash equivalents	2,688,512	5,370,332	3,996,236	7,703,012	19,644,929
Total current assets	**5,641,640**	**10,783,118**	**17,311,080**	**30,880,155**	**31,778,914**
Current liabilities					
Borrowings	—	—	—	300,000	300,000
Accounts payables	1,802,517	2,025,563	9,055,133	10,913,350	11,228,987
Other payables and accruals	271,324	844,619	3,027,568	4,092,739	5,699,996
Advances from customers	190,074	475,553	1,529,608	3,031,158	3,051,453
Income tax liabilities	91,923	198,132	424,414	435,136	485,915
Convertible redeemable preferred shares	—	—	—	122,847,844	—
Lease liabilities	175,201	498,541	1,337,048	1,871,490	2,035,010
Total current liabilities	**2,531,039**	**4,042,408**	**15,373,771**	**143,491,717**	**22,801,361**
Net current assets/(liabilities)	**3,110,601**	**6,740,710**	**1,937,309**	**(112,611,562)**	**8,977,553**

Our net current assets were primarily attributable to (i) our financial assets at fair value through profit or loss, (ii) our cash and cash equivalents, restricted cash and short-term time deposits, (iii) our prepayments, other receivables and other current assets and (iv) our trade receivables, partially offset by our accounts payables, other payables and accruals, advances from customers, and lease liabilities.

As of September 30, 2020, we had net current liabilities primarily due to (i) accounting treatment for the increase in the fair values of our convertible redeemable preferred shares driven by the increase in the valuation of our Company and (ii) the redemption rights of our convertible redeemable preferred shares. These outstanding convertible redeemable preferred shares of RMB122.8 billion were classified as our current liabilities as of September 30, 2020, as the holders of these preferred shares can demand us to redeem these preferred shares within one year from September 30, 2020. In October 2020, all the holders of our preferred shares agreed to modify the redemption commencement date to April 30, 2022. We are no longer in net current liability position after the modification. As of November 30, 2020, our net current assets amounted to RMB9.0 billion. See Note 2 and Note 32 to the Accountant's Report in Appendix I to this prospectus. All the redemption rights of our convertible redeemable preferred shares will be terminated upon the Listing.

Trade Receivables

Trade receivables are primarily amounts due from online marketing services customers and third party e-commerce platforms for services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

The following table sets forth our trade receivables as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	**2018**	**2019**	**2020**
	(in RMB thousands)			
Trade receivables from contracts with customers	136,641	129,120	1,112,214	1,835,477
Less: Credit loss allowance	—	(75)	(4,774)	(22,829)
Total	**136,641**	**129,045**	**1,107,440**	**1,812,648**

Our trade receivables decreased by 5.6% from RMB136.6 million as of December 31, 2017 to RMB129.0 million as of December 31, 2018, primarily due to improved efficiency in trade receivables collection. Our trade receivables increased by 758.2% from RMB129.0 million as of December 31, 2018 to RMB1.1 billion as of December 31, 2019, and further by 63.7% to RMB1.8 billion as of September 30, 2020, primarily due to (i) an increase in trade receivables from our advertising customers attributable to an increase in revenue generated from our online marketing services and our grant of credit terms to more advertising customers since 2019, and (ii) an increase in trade receivables from third party e-commerce platforms, attributable to the launch of our e-commerce business in 2018 and the growth of our e-commerce business in 2019 and the nine months ended September 30, 2020.

We generally allow a credit period of 90 days to our customers. The following table sets forth an aging analysis of our trade receivables, based on the invoice date, as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	**2018**	**2019**	**2020**
	(in RMB thousands)			
Up to 3 months	136,641	129,120	1,104,662	1,624,531
3 to 6 months	—	—	7,552	210,946
Total	**136,641**	**129,120**	**1,112,214**	**1,835,477**

As of December 31, 2017, 2018, 2019 and September 30, 2020, except for impaired receivables, the majority of trade receivables are due from our customers of online marketing services, which usually settle the amounts due within a period of 30 to 90 days.

Since January 1, 2018, we have applied the IFRS 9 simplified approach to measure expected credit losses, under which the lifetime expected credit losses for all trade receivables are estimated. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating.

The expected loss rates are based on historical payment profiles, historical loss rates and data published by external credit rating institutions, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the GDP of the PRC to be the most relevant factor, and accordingly adjust the historical loss rates based on expected changes in this factor.

On that basis, the loss allowances of trade receivables as of January 1, 2018, December 31, 2018 and 2019 and September 30, 2019 and 2020 were determined as follows:

	As of January 1,	As of December 31,		As of September 30,	
	2018	2018	2019	2019	2020
	(in RMB thousands, except for percentages)				
				(unaudited)	
Expected loss rate	—	0.06%	0.43%	0.25%	1.24%
Gross carrying amount	136,641	129,120	1,112,214	494,361	1,835,477
Loss allowance provision	—	75	4,774	1,257	22,829

We seek to maintain strict control over our credit granting policy to minimize credit risk. Overdue balances are reviewed regularly by our senior management. In view of the aforementioned and the fact that our trade receivables relate to diverse customers, there is no significant concentration of credit risk. We do not hold any collateral or other credit enhancements over our trade receivable balances. The balances of trade receivables are non-interest-bearing.

As of November 30, 2020, RMB1.4 billion, or 75.7% of our trade receivables outstanding as of September 30, 2020, was settled.

Prepayments, Other Receivables and Other Current Assets

Our prepayments, other receivables and other current assets mainly relate to prepaid promotion and advertising fees and recoverable VAT and other tax prepayments. As of November 30, 2020, the utilization of recoverable VAT and other tax prepayments as of December 31, 2019 and September 30, 2020 were RMB487.3 million (or 96% of the related balance as of December 31, 2019) and RMB958.5 million (or 61% of the related balance as of September 30, 2020), respectively.

The following table sets forth our prepayments, other receivables and other current assets as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Prepaid promotion and advertising fees	32,248	130,023	1,354,825	391,108
Recoverable VAT and other tax prepayments	16,433	405,595	505,219	1,561,430
Deposit	3,469	48,500	66,381	77,335
Loan receivables	—	34,316	34,881	34,051
Interest receivable	561	6,169	13,111	24,815
Rental prepayments	318	5,671	7,986	17,655
Prepaid bandwidth fee	1,641	61,656	2,083	—
Others	37,887	33,985	66,832	90,979
	92,557	725,915	2,051,318	2,197,373
Less: credit loss allowance	—	(965)	(18,564)	(18,326)
Total	**92,557**	**724,950**	**2,032,754**	**2,179,047**

Our prepayments, other receivables and other current assets increased by 683.2% from RMB92.6 million as of December 31, 2017 to RMB725.0 million as of December 31, 2018, primarily due to (i) an increase in recoverable VAT and other tax prepayments, which mainly represented the VAT input credits during the Track Record Period, which were expected to be utilized within one year from the respective balance sheet dates to offset our VAT payable that arose from our business operations, (ii) an increase in prepaid promotion and advertising fees for our marketing and brand promotion activities, and (iii) an increase in prepaid bandwidth fee. Our prepayments, other receivables and other current assets increased by 180.4% from RMB725.0 million as of December 31, 2018 to RMB2.0 billion as of December 31, 2019, primarily due to an increase in prepaid promotion and advertising fees for our marketing and brand promotion activities. Our prepayments, other receivables and other current assets increased by 7.2% from RMB2.0 billion as of December 31, 2019 to RMB2.2 billion as of September 30, 2020, primarily due to an increase in recoverable VAT and other tax prepayments, partially offset by a decrease in prepaid promotion and advertising fees.

Property and Equipment

Our property and equipment primarily consist of servers, computers and equipment, office equipment, leasehold improvements and construction in progress.

Our property and equipment increased by 129.0% from RMB1.1 billion as of December 31, 2017 to RMB2.4 billion as of December 31, 2018, further by 157.5% to RMB6.2 billion as of December 31, 2019 and further by 12.7% to RMB7.0 billion as of September 30, 2020, primarily due to an increase in servers, computers and equipment to accommodate the increases in user traffic and videos uploaded to our platform. Our servers, computers and equipment have a useful life of three years, and our office equipment has a useful life of three to five years. Our leasehold improvements are generally depreciated over the shorter of the term of the lease or the estimated useful lives of the assets.

Right-of-Use Assets

Our right-of-use assets relate to leases of internet data centers and office buildings. The following table sets forth our right-of-use assets as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Internet data centers	822,078	790,429	3,823,058	4,705,048
Office buildings	43,545	481,789	529,580	689,434
Total	**865,623**	**1,272,218**	**4,352,638**	**5,394,482**

Our right-of-use assets increased from RMB865.6 million as of December 31, 2017 to RMB1.3 billion as of December 31, 2018, and further to RMB4.4 billion as of December 31, 2019 and RMB5.4 billion as of September 30, 2020. These increases were primarily due to increases in leases of internet data centers and office buildings to support the growth of our business. Our right-of-use assets are generally depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis.

Intangible Assets

Our intangible assets primarily consist of goodwill and other intangible assets, including licenses and copyrights, trademarks and domain names, software and others. We recorded intangible assets of RMB34.9 million, RMB1.0 billion, RMB1.1 billion and RMB1.3 billion as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively.

Our goodwill relates to our business acquisitions. We recorded goodwill of nil as of December 31, 2017, RMB816.1 million as of December 31, 2018, RMB837.0 million as of December 31, 2019 and RMB837.0 million as of September 30, 2020.

Based on the result of goodwill impairment testing, which we conduct at least annually, no impairment was identified in respect of goodwill as of December 31, 2018 and 2019, respectively. For the nine months ended September 30, 2020, we also performed impairment testing and no impairment was identified.

We recorded other intangible assets of RMB34.9 million, RMB229.7 million, RMB283.3 million and RMB416.7 million as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively. The increases in our intangible assets were mainly attributable to our business acquisitions and our purchases of licenses, copyrights and software. Each of the licenses and copyrights, trademarks and domain name, software, and others has a useful life of 2 to 10 years, 2 to 10 years, 2 to 7 years and 3 to 4 years, respectively.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss comprise unlisted equity securities and wealth management products, at fair value, and listed equity securities, at market value. See Note 3 to the Accountant's Report in Appendix I to this prospectus for details of fair value estimation. The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Non-current assets				
Investments in unlisted entities	49,200	677,919	2,258,272	3,998,760
Current assets				
Investments in listed entities				
— Hong Kong listed	—	—	77,202	95,737
Wealth management products	2,472,037	4,273,517	8,825,068	8,450,308
	2,472,037	4,273,517	8,902,270	8,546,045
Total	**2,521,237**	**4,951,436**	**11,160,542**	**12,544,805**

Our financial assets at fair value through profit and loss mainly relate to our investments in wealth management products, listed and unlisted equity securities. Short-term investments in wealth management products were mainly the investment products purchased from reputable financial institutions in the PRC and international financial institutions outside of the PRC with floating rates. From the perspective of cash management and risk control, we diversify our investment portfolios and mainly purchase low risk products from reputable financial institutions and prefer those products with high liquidity. Our financial assets at fair value through profit or loss increased from RMB2.5 billion as of December 31, 2017 to RMB5.0 billion as of December 31, 2018 and further to RMB11.2 billion as of December 31, 2019, primarily due to the addition of wealth management products. Our financial assets at fair value through profit and loss further increased to RMB12.5 billion as of September 30, 2020 primarily due to increase in investments in unlisted entities. The increase in investments in unlisted entities from RMB677.9 million as of December 31, 2018 to RMB2.3 billion as of December 31, 2019 was primarily attributable to our investment in Zhihu Technology Limited in August 2019 in the form of convertible redeemable preferred shares. The further increase in investments in unlisted entities to RMB4.0 billion as of September 30, 2020 was primarily attributable to our investments in Leading Smart Holdings Limited and SHAREit Technology Holdings Inc. in March 2020 and April 2020, respectively, in the form of convertible redeemable preferred shares.

The following table sets forth a breakdown of the carrying amounts of our investments in unlisted entities by investee entity as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Zhihu Technology Limited	—	—	1,744,050	1,766,335
Leading Smart Holdings Limited	—	—	—	432,833
SHAREit Technology Holdings Inc.	—	—	—	883,989
Others	49,200	677,919	514,222	915,603
Total	**49,200**	**677,919**	**2,258,272**	**3,998,760**

The following table sets forth a breakdown of the changes in fair value of our investments in unlisted entities by investee entity for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Zhihu Technology Limited	—	—	—	66,335
Leading Smart Holdings Limited	—	—	—	24,239
SHAREit Technology Holdings Inc.	—	—	—	(36,825)
Others	—	36,835	(297,368)	40,894
Total	**—**	**36,835**	**(297,368)**	**94,643**

Accounts payables

Accounts payables represent liabilities for goods and services provided to us prior to the end of a period which are unpaid. Accounts payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Our accounts payables increased from RMB1.8 billion as of December 31, 2017 to RMB2.0 billion as of December 31, 2018, further to RMB9.1 billion as of December 31, 2019, and further to RMB10.9 billion as of September 30, 2020, primarily attributable to increases in promotion and advertising expenses, bandwidth expenses, advertising rebates, revenue sharing to streamers and acquisition of fixed assets along with the growth of our business. In addition, the increase from December 31, 2019 to September 30, 2020 was partially offset by the settlement in 2020 of a large number of fixed assets purchased in 2019.

The following table sets forth an aging analysis of our accounts payables, based on invoice date, as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	**2018**	**2019**	**2020**
	(in RMB thousands)			
Accounts payables				
— Up to 3 months	1,536,489	1,509,058	7,014,917	7,979,085
— 3 to 6 months	120,277	175,436	803,711	2,139,156
— 6 months to 1 year	103,968	121,899	717,250	676,903
— over 1 year	41,783	219,170	519,255	118,206
Total	**1,802,517**	**2,025,563**	**9,055,133**	**10,913,350**

As of November 30, 2020, RMB6.0 billion, or 55.1% of our accounts payables outstanding as of September 30, 2020, was settled.

Other Payables and Accruals

Other payables and accruals primarily include employee benefit payables, refundable deposits from customers, collection on behalf of others and other taxes payable. Other payables and accruals due within 12 months after the reporting period are presented as current liabilities. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

The following table sets forth our other payables and accruals as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Employee benefit payables	150,914	540,525	1,066,601	1,270,519
Refundable deposits from customers	3,100	6,403	495,611	1,375,732
Collection on behalf of others	—	1,356	847,064	917,916
Other taxes payable	109,971	256,567	559,750	466,940
Others	7,339	39,768	58,542	61,632
Total	**271,324**	**844,619**	**3,027,568**	**4,092,739**

Our other payables and accruals increased from RMB271.3 million as of December 31, 2017 to RMB844.6 million as of December 31, 2018, and further to RMB3.0 billion as of December 31, 2019, primarily due to (i) the increases in employee benefit payables, which were primarily attributable to increases in the number of employees; (ii) increases in refundable deposits from customers, which were mainly attributable to deposits paid by new business partners such as merchants establishing storefronts in Kwai Shop; (iii) an increase in collection on behalf of merchants on our platform, which was attributable to our expanded e-commerce business; and (iv) the increases in other taxes payable, which mainly comprised output VAT, which were attributable to expanded business operations and increased revenues. Our other payables and accruals further increased to RMB4.1 billion as of September 30, 2020, mainly due to an increase in refundable deposits from customers and employee benefit payables, partially offset by a decrease in other taxes payable.

Advances from Customers

Advances from customers primarily represent advances from live streaming customers, which represent the advances for the purchase of virtual items, and advances from online marketing services customers, which represent contractual liability in connection with the advanced cash receipt from customers for online marketing services. The following table sets forth our advances from customers as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Advances from live streaming customers	132,498	318,783	1,009,519	1,622,722
Advances from online marketing services customers	57,441	151,560	499,093	1,394,859
Others	135	5,210	20,996	13,577
Total	**190,074**	**475,553**	**1,529,608**	**3,031,158**

Our advances from customers during the Track Record Period increased primarily due to increases in the number of live streaming customers and online marketing services customers.

As of the Latest Practicable Date, RMB1.6 billion, representing 51.6% of the balance of our advances from customers as of September 30, 2020, had been subsequently recognized as revenues.

Borrowings

Our total outstanding borrowings amounted to nil, nil, nil and RMB300.0 million as of December 31, 2017, 2018, 2019 and September 30, 2020, respectively. See "— Indebtedness" in this section for more discussion.

Lease Liabilities

We recognized lease liabilities of RMB871.0 million, RMB1.4 billion, RMB4.6 billion and RMB5.8 billion as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively. The increases were primarily attributable to our lease of additional internet data centers and office buildings to support the growth of our business. For further information regarding our lease liabilities, see Note 16 to the Accountant's Report in Appendix I to this prospectus.

Convertible Redeemable Preferred Shares

Since the date of incorporation, we have completed several rounds of financing by issuing preferred shares from Series A to Series F-2. Preferred shares issued by us are redeemable at the option of the holder or after the redemption commencement date. These instruments can also be converted into our Class B Shares at any time at the option of the holders, or automatically upon our initial public offering. See Note 24 and Note 32 to the Accountant's Report in Appendix I to this prospectus.

We designated the preferred shares as financial liabilities at fair value through profit or loss. We applied the discount cash flow method to determine our underlying equity value and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares.

The preferred shares were classified as non-current liabilities unless the holders of the preferred shares can demand us to redeem the preferred shares within 12 months after the end of the reporting period. The outstanding convertible redeemable preferred shares of RMB122.8 billion were classified as our current liabilities as of September 30, 2020 as the holders of these preferred shares can demand us to redeem these preferred shares within one year from September 30, 2020. In October 2020, all the holders of our preferred shares agreed to modify the redemption commencement date to April 30, 2022. See Note 2 and Note 32 to the Accountant's Report in Appendix I to this prospectus.

The following table sets forth convertible redeemable preferred shares recorded as current liabilities and non-current liabilities as of the dates indicated, respectively:

	As of December 31,			**As of September 30,**
	2017	**2018**	**2019**	**2020**
	(in RMB thousands)			
Current liabilities	—	—	—	122,847,844
Non-current liabilities	26,652,555	47,211,431	69,444,163	52,389,987
Total	**26,652,555**	**47,211,431**	**69,444,163**	**175,237,831**

The increases in convertible redeemable preferred shares as of December 31, 2017, 2018 and 2019 and September 30, 2020 were attributable to additional rounds of financing and increases in the valuation of our Company. As of December 31, 2017, 2018 and 2019 and September 30, 2020, our convertible redeemable preferred shares had fair values of RMB26.7 billion, RMB47.2 billion, RMB69.4 billion and RMB175.2 billion, respectively.

Net Liabilities

As of December 31, 2017, 2018 and 2019 and September 30, 2020, we had net liabilities of RMB22.2 billion, RMB35.7 billion, RMB55.7 billion and RMB148.3 billion, respectively, primarily due to accounting treatment for the increases in the fair values of our convertible redeemable preferred shares driven by the increases in the valuation of our Company. Our convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing, after which we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position.

INDEBTEDNESS

Bank Loans

Our total outstanding borrowings amounted to nil, nil, nil, RMB300.0 million and RMB300.0 million as of December 31, 2017, 2018 and 2019, September 30, 2020 and November 30, 2020, respectively.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. All borrowings are repayable within one month and the effective annual interest rates ranged from 2.25% to 2.55% as of November 30, 2020, being the indebtedness statement date.

As of November 30, 2020, being the indebtedness statement date, we had approximately RMB200.0 million in unutilized banking facilities.

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, banking facilities (utilized or unutilized), bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits (which are either guaranteed, unguaranteed, secured or unsecured), finance leases or hire purchase commitments, guarantees or other contingent liabilities or any material covenants and undertakings in connection therewith as of November 30, 2020, being the indebtedness statement date.

Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Our Directors also confirm that they are not aware of any breach of any of the covenants contained in our bank loan arrangements and other borrowing arrangements or any event of default during the Track Record Period and up to the Latest Practicable Date, nor are they aware of any restrictions that will limit our ability to drawdown on our unutilized facilities.

Lease Liabilities

We recognized total lease liabilities of RMB871.0 million, RMB1.4 billion, RMB4.6 billion, RMB5.8 billion and RMB5.8 billion as of December 31, 2017, 2018 and 2019, September 30, 2020 and November 30, 2020, respectively.

Convertible Redeemable Preferred Shares

For further information regarding our convertible redeemable preferred shares, see "— Analysis of Selected Balance Sheet Items" in this section and Note 24 and Note 32 to the Accountant's Report in Appendix I to this prospectus. From October 1, 2020 to the Latest Practicable Date, we did not issue or repurchase any preferred shares.

No Other Outstanding Indebtedness

Save as disclosed in this "— Indebtedness" above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenants and undertakings in connection therewith as of November 30, 2020, being the indebtedness statement date.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we historically met our working capital and other capital requirements primarily through capital contributions from shareholders, cash generated from issuance of convertible redeemable preferred shares and cash generated from our operating activities. We had cash and cash equivalents of RMB2.7 billion, RMB5.4 billion, RMB4.0 billion and RMB7.7 billion as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively.

We believe that our liquidity requirements will be satisfied by a combination of cash generated from operating activities, the net proceeds received from the Global Offering, and other funds raised from the capital markets from time to time. Our outstanding convertible redeemable preferred shares of RMB122.8 billion were classified as our current liabilities as of September 30, 2020. We currently do not have any plans for material additional external financing.

The following table sets forth a summary of our cash flows for the periods indicated, respectively:

	Year ended December 31,			Nine months ended September 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	(in RMB thousands)				
				(unaudited)	
Net cash generated from/(used in) operating activities[1]	2,055,418	1,819,254	8,020,090	6,111,970	(768,417)
Net cash used in investing activities	(2,896,802)	(5,623,084)	(10,148,560)	(8,358,373)	(15,570,288)
Net cash generated from/(used in) financing activities	2,358,236	6,033,532	698,051	(152,374)	20,067,064
Net increase/(decrease) in cash and cash equivalents	1,516,852	2,229,702	(1,430,419)	(2,398,777)	3,728,359
Cash and cash equivalents at the beginning of the year/period	1,301,005	2,688,512	5,370,332	5,370,332	3,996,236
Effects of exchange rate changes on cash and cash equivalents	(129,345)	452,118	56,323	126,676	(21,583)
Cash and cash equivalents at the end of the year/period	2,688,512	5,370,332	3,996,236	3,098,231	7,703,012

Note:

(1) Line items for net cash generated from/(used in) operating activities:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	(in RMB thousands)				
				(Unaudited)	
Cash flows from operating activities					
Operating profit/(loss) before changes in working capital	993,131	1,332,981	3,714,442	3,453,001	(4,941,985)
Changes in working capital	1,082,624	564,632	5,167,926	3,058,002	4,848,603
Cash generated from/(used in) operations	2,075,755	1,897,613	8,882,368	6,511,003	(93,382)
Income tax paid	(20,337)	(78,359)	(862,278)	(399,033)	(675,035)
Net cash generated from/(used in) operating activities	2,055,418	1,819,254	8,020,090	6,111,970	(768,417)

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, time deposits and wealth management products, the estimated net proceeds from the Global Offering, and the modification of the redemption commencement date of all convertible redeemable preferred shares to April 30, 2022, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

Net Cash Generated from/(Used in) Operating Activities

For the nine months ended September 30, 2020, our net cash used in operating activities was RMB768.4 million, which was primarily attributable to our loss before income tax of RMB98.1 billion, adjusted by adding back non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB89.2 billion, depreciation of property and equipment of RMB2.2 billion, depreciation of right-of-use assets of RMB1.2 billion and share-based compensation expenses of RMB977.1 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in accounts payables of RMB3.0 billion, an increase in advances from customers of RMB1.5 billion and an increase in other payables and accruals of RMB1.1 billion, partially offset by an increase in trade receivables of RMB723.3 million. We also paid income tax of RMB675.0 million. Our loss before income tax of RMB98.1 billion in the nine months ended September 30, 2020 was primarily attributable to our strategic decision to invest more in selling and marketing efforts to continue to grow our user base and user engagement, enhance our brand recognition and develop our overall ecosystem. We believe ongoing investments in our user base and engagement, brand recognition and the overall ecosystem will help us better capture the massive market opportunities in China's short video industry. Specifically, we expect to continue to invest in selling and marketing as well as research and development efforts to bring more content, products and services to our users and customers. It will in turn enlarge our user base with more engagement, interaction and time spent on our platform, resulting in enhanced monetization capabilities of our platform across multiple revenue streams and ultimately continuous revenue growth. As a result, we expect to improve operating leverage and achieve profitability, and accordingly, we expect our operating cash flow position to improve going forward. For more details, see "Business — Business Sustainability."

For 2019, our net cash generated from operating activities was RMB8.0 billion, which was primarily attributable to our loss before income tax of RMB19.3 billion, adjusted by adding back non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB19.9 billion, depreciation of property and equipment of RMB1.4 billion, share-based compensation expenses of RMB742.3 million and depreciation of right-of-use assets of RMB692.2 million. The amount was further adjusted by changes in working capital, which primarily comprised of an increase in accounts payables of RMB4.2 billion, an increase in other payables and accruals of RMB2.2 billion and an increase in advances from customers of RMB1.1 billion, partially offset by an increase in prepayments, other receivables and other current assets of RMB1.3 billion and an increase in trade receivables of RMB983.1 million. We also paid income tax of RMB862.3 million.

For 2018, our net cash generated from operating activities was RMB1.8 billion, which was primarily attributable to our loss before income tax of RMB12.4 billion, adjusted by adding back non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB11.9 billion, depreciation of property and equipment of RMB829.0 million, share-based compensation expenses of RMB701.6 million and depreciation of right-of-use assets of RMB325.8 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in accounts payables of RMB745.9 million, increase in advances from customers of RMB282.6 million, increase in other payables and accruals of RMB161.9 million, partially offset by an increase in prepayments, other receivables and other current assets of RMB612.5 million. We also paid income tax of RMB78.4 million.

For 2017, our net cash generated from operating activities was RMB2.1 billion, which was primarily attributable to our loss before income tax of RMB19.9 billion, adjusted by adding back non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB20.5 billion and share-based compensation expenses of RMB296.5 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in accounts payables of RMB1.0 billion and increase in advances from customers of RMB155.1 million, partially offset by an increase in trade receivables of RMB118.7 million. We also paid income tax of RMB20.3 million.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2020, our net cash used in investing activities was RMB15.6 billion, which was primarily attributable to purchase of investments in current financial assets at fair value through profit for loss of RMB44.3 billion, net purchase of time deposits with initial terms of over three months of RMB10.1 billion, purchase of property, equipment and intangible assets of RMB4.4 billion and purchase of investments in non-current financial assets at fair value through profit or loss of RMB1.7 billion, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB45.0 billion.

For 2019, our net cash used in investing activities was RMB10.1 billion, which was primarily attributable to purchase of investments in current financial assets at fair value through profit or loss of RMB55.4 billion, purchase of property, equipment and intangible assets of RMB2.5 billion and purchase of investments in non-current financial assets at fair value through profit or loss of RMB1.9 billion, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB51.1 billion.

For 2018, our net cash used in investing activities was RMB5.6 billion, which was primarily attributable to purchase of investments in current financial assets at fair value through profit or loss of RMB17.4 billion, purchase of property, equipment and intangible assets of RMB2.9 billion and purchase of investments in non-current financial assets at fair value through profit or loss of RMB628.9 million, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB15.8 billion.

For 2017, our net cash used in investing activities was RMB2.9 billion, which was primarily attributable to purchase of investments in current financial assets at fair value through profit or loss of RMB5.8 billion and purchase of property, equipment and intangible assets of RMB376.1 million, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB3.4 billion.

Net Cash Generated from/(Used in) Financing Activities

For the nine months ended September 30, 2020, our net cash generated from financing activities was RMB20.1 billion, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB21.0 billion and proceeds from borrowings of RMB300.0 million, partially offset by payments for principal elements of lease and related interest of RMB1.2 billion.

For 2019, our net cash generated from financing activities was RMB698.1 million, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB1.3 billion, partially offset by payments for principal elements of lease and related interest of RMB641.7 million and payment of RMB187.0 million for tax liabilities as a result of net exercise of share options.

For 2018, our net cash generated from financing activities was RMB6.0 billion, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB6.3 billion, partially offset by payments for principal elements of lease and related interest of RMB265.8 million.

For 2017, our net cash generated from financing activities was RMB2.4 billion, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB2.4 billion.

CAPITAL EXPENDITURES

Our capital expenditures consist of acquisitions of fixed assets and intangible assets. Our total capital expenditures in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020 amounted to RMB376.1 million, RMB2.9 billion, RMB2.5 billion, RMB860.7 million and RMB4.4 billion, respectively.

The following table sets forth our capital expenditures for the periods indicated, respectively:

	Year ended December 31,			**Nine months ended September 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	(in RMB thousands)				
				(unaudited)	
Purchase of property, equipment and intangible assets	376,105	2,866,421	2,548,294	860,710	4,376,282

Our capital expenditures increased from 2017 to 2018 primarily due to increases in the acquisition of servers, computers and equipment attributable to the expansion of our business. Our capital expenditures decreased from 2018 to 2019, primarily because purchases of large volume of servers and equipment in the second half of 2019 was settled in 2020. Our capital expenditures increased from the nine months ended September 30, 2019 to the nine months ended September 30, 2020, primarily due to purchases of large volume of servers and equipment as a result of the growth in our user traffic. Our historical capital expenditures were primarily funded by our cash and cash equivalents and cash flows from our operating activities and financing activities, including issuance of convertible redeemable preferred shares.

We plan to fund our planned capital expenditures with (i) our existing cash and cash equivalents; (ii) cash flow generated from our operating activities; (iii) proceeds from the Global Offering; and (iv) other sources of external financings. For more details, see "Business — Our Strategies" and "Future Plans and Use of Proceeds." We will continue to make capital expenditures to support the growth of our business. We may reallocate the funds to be utilized on capital expenditure based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our commitments primarily comprise capital commitments and operating lease commitments.

Capital Commitments

Our capital commitments during the Track Record Period were primarily relating to purchases of property and equipment, intangible assets, and investment. The following table sets forth our significant capital expenditure contracted for at the end of the reporting period but not yet incurred as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Intangible assets	—	—	15,057	7,747
Property and equipment	95,376	25,553	12,571	314,751
Investment	—	—	—	55,456
Total	**95,376**	**25,553**	**27,628**	**377,954**

Short-term Lease Commitments

We lease internet data centers and office buildings under non-cancellable short-term lease agreements. The lease terms are less than one year. We record all leases with contract terms of over one year under lease liabilities and right-of-use assets.

The following table sets forth our future aggregate minimum lease payments under non-cancellable short-term leases as of the dates indicated, respectively:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	(in RMB thousands)			
Less than one year	40,264	23,180	34,137	36,045

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of our key management and their close family members are also considered as related parties. For a discussion of related party transactions, see Note 36 to the Accountant's Report in Appendix I to this prospectus. Going forward, we will continue to engage in certain transactions with related parties.

Our Directors believe that the related party transactions were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

CONTINGENT LIABILITIES

As of December 31, 2017, 2018, 2019 and September 30, 2020, we did not have any material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments or arrangements.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated, respectively:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Revenue growth (%)	N/A	143.4	92.7	N/A	49.2
Gross margin(1)(%)	31.3	28.6	36.1	34.7	37.6
Adjusted EBITDA margin(2) (%)	12.2	6.7	9.2	13.2	(11.2)
Adjusted net margin(3)(%)	9.3	1.0	2.6	6.7	(17.8)

Notes:

(1) Gross margin is calculated by dividing gross profit by our revenues.

(2) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by our revenues and is a non-IFRS measure.

(3) Adjusted net margin is calculated by dividing adjusted net profit/(loss) by our revenues and is a non-IFRS measure.

Revenue Growth

Our revenue growth decreased from 143.4% in 2018 to 92.7% in 2019 and further to 49.2% in the nine months ended September 30, 2020. See "— Period to Period Comparison of Results of Operations" in this section for the analysis on our revenue growth.

Gross Margin

Our gross margin decreased from 31.3% in 2017 to 28.6% in 2018, then increased to 36.1% in 2019, and from 34.7% in the nine months ended September 30, 2019 to 37.6% for the same period in 2020. See "— Period to Period Comparison of Results of Operations" in this section for the analysis on our gross margin.

Adjusted EBITDA Margin

Our adjusted EBITDA margin, a non-IFRS measure, was 12.2%, 6.7% 9.2% and 13.2% in 2017, 2018, 2019 and the nine months ended September 30, 2019, respectively. Our adjusted EBITDA margin was negative 11.2% in the nine months ended September 30, 2020. See "— Non-IFRS Measures" in this section for the analysis on our adjusted EBITDA margin.

Adjusted Net Margin

Our adjusted net margin, a non-IFRS measure, was 9.3%, 1.0%, 2.6% and 6.7% in 2017, 2018, 2019 and the nine months ended September 30, 2019, respectively. Our adjusted net margin was negative 17.8% in the nine months ended September 30, 2020. See "— Non-IFRS Measures" in this section for the analysis on our adjusted net margin.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of financial risks, including foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk.

Foreign Exchange Risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of our subsidiaries. The functional currency of our Company and certain of our overseas subsidiaries is U.S. Dollars whereas the functional currency of our primary subsidiaries and structured entities incorporated in the PRC is Renminbi. We manage our foreign exchange risk by minimizing non-functional currency transactions when necessary.

We operate mainly in China with most of the transactions settled in Renminbi. Our management considers that our business is not exposed to any significant foreign exchange risk as we have no significant assets or liabilities denominated in currencies other than the respective functional currencies of our entities. Our conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

During the Track Record Period, we recorded currency translation gains of RMB881.9 million and RMB3.9 billion in 2017 and the nine months ended September 30, 2020, respectively; and recognized currency translation losses of RMB1.8 billion, RMB911.0 million and RMB1.3 billion in 2018, 2019 and the nine months ended September 30, 2019, respectively, which were recognized as other comprehensive income/(loss) in our consolidated statements of comprehensive loss. For results and financial position of all the entities within our Group that have a functional currency different from the presentation currency, assets and liabilities on each balance sheet presented are translated at the closing rate at the date of that balance sheet; income and expenses on each income statement are translated at average exchange rates and all resulting currency translation differences are recognized in other comprehensive income or loss as currency translation differences. During the Tracking Record Period, the currency translation differences are mainly related to the translation of the convertible redeemable preferred shares and their fair value changes.

Interest Rate Risk

Our interest rate risk primarily arises from borrowings, loan receivables, time deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

If the interest rates of cash and cash equivalents and short-term and long-term time deposits had been 50 basis points higher or lower, the loss before income tax for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020 would have been RMB13.4 million, RMB26.9 million, RMB26.9 million, RMB15.9 million and RMB94.7 million lower or higher, respectively. The interest rate change impact on borrowings and loan receivables is not material.

We regularly monitor our interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Price Risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. We are exposed to price risk in respect of the financial assets measured at fair value through profit or loss, including investments in listed and unlisted entities, and wealth management products. We are generally not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our investment portfolio. The sensitivity analysis is performed by management. See Note 3.3 to the Accountant's Report in Appendix I to this prospectus for details.

Credit Risk

We have no significant concentrations of credit risk. Credit risk mainly arises from cash and cash equivalents, time deposits placed with banks, restricted cash, trade receivables and other receivables. The carrying amount of these financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

Trade receivables and other receivables are managed on a group basis. Our finance team is responsible for managing and analyzing the credit risk for each of their new customers or debtors before credit payment terms are offered. We assess the credit quality of its customers and other debtors by taking into account various factors including their financial position, past performance and other factors.

Cash and cash equivalents, time deposits and restricted cash are mainly placed with reputable financial institutions in the PRC and international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is not material.

Before adoption of IFRS 9, impairment of financial assets were assessed on a group basis. The credit period granted to the customers was usually not more than 90 days and the credit quality of these customers were assessed, taking into account their financial position, past performance and other factors. Provisions were made for past due balances when our management considers the loss from the customers is likely. See Note 21 and Note 22 to the Accountant's Report in Appendix I to this prospectus for more details. Since January 1, 2018, we have applied the IFRS 9 simplified approach to measuring expected credit losses under which the lifetime expected credit losses for all trade receivables are estimated. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. While cash and cash equivalents, time deposits and restricted cash are also subject to the impairment requirements of IFRS 9, the identified credit loss was immaterial. For more details, see Note 3 to the Accountant's Report in Appendix I to this prospectus.

Liquidity Risk

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of our underlying businesses, we regularly monitor our liquidity risk and maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products to retain adequate financing arrangements to meet our liquidity requirements. For further information regarding our convertible redeemable preferred shares, see "— Analysis of Selected Balance Sheet Items" in this section and Note 24 and Note 32 to the Accountant's Report in Appendix I to this prospectus.

The following table analyses our non-derivative financial liabilities into relevant maturity groupings based on the remaining time period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
			(in RMB thousands)		
As of December 31, 2017					
Accounts payables	1,802,517	—	—	—	1,802,517
Other payables and accruals (excluding employee benefit payables, and other tax payable)	10,439	—	—	—	10,439
Lease liabilities	212,711	314,013	419,288	—	946,012
Convertible redeemable preferred shares	—	—	26,652,555	—	26,652,555
Total	**2,025,667**	**314,013**	**27,071,843**	**—**	**29,411,523**
As of December 31, 2018					
Accounts payables	2,025,563	—	—	—	2,025,563
Other payables and accruals (excluding employee benefit payables, and other tax payable)	47,527	—	—	—	47,527
Lease liabilities	553,756	589,619	307,858	—	1,451,233
Convertible redeemable preferred shares	—	—	47,211,431	—	47,211,431
Total	**2,626,846**	**589,619**	**47,519,289**	**—**	**50,735,754**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
			(in RMB thousands)		
As of December 31, 2019					
Accounts payables	9,055,133	—	—	—	9,055,133
Other payables and accruals (excluding employee benefit payables, and other tax payable)	1,401,217	—	—	—	1,401,217
Lease liabilities	1,525,740	1,348,793	2,021,534	16,721	4,912,788
Convertible redeemable preferred shares	—	59,330,942	10,113,221	—	69,444,163
Total	**11,982,090**	**60,679,735**	**12,134,755**	**16,721**	**84,813,301**
As of September 30, 2020					
Accounts payables	10,913,350	—	—	—	10,913,350
Other payables and accruals (excluding employee benefit payables, and other tax payable)	2,355,280	—	—	—	2,355,280
Lease liabilities	2,106,778	1,976,113	2,184,586	32,075	6,299,552
Borrowings	300,000	—	—	—	300,000
Convertible redeemable preferred shares	122,847,844	14,908,265	37,481,722	—	175,237,831
Total	**138,523,252**	**16,884,378**	**39,666,308**	**32,075**	**195,106,013**

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, we did not declare or distribute any dividend to our shareholders. We do not have any dividend policy and have no present plan to pay any dividends to our Shareholders in the foreseeable future. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. As advised by our legal advisor on Cayman Islands law, Maples and Calder (Hong Kong) LLP, a position of accumulated losses does not necessarily restrict us to declare and pay dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability. In addition, under applicable laws in the Cayman Islands, dividends may be paid only out of profits and share premium, and a dividend can be paid provided that there is a profit on the current financial year under review, without the requirement for making good losses from a prior financial year.

The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements; and
- other factors the Board may deem relevant.

DISTRIBUTABLE RESERVES

As of September 30, 2020, we did not have any distributable reserves.

LISTING EXPENSES

Our listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB582.6 million (HK$696.6 million), representing approximately 1.7% of our gross proceeds from the Global Offering (assuming that the Global Offering is conducted at the mid-point of the Offer Price range and the Over-allotment Option is not exercised). During the Track Record Period, we incurred listing expenses of RMB23.1 million, which was charged to our consolidated income statements. We estimate that approximately RMB50.6 million of the remaining listing expense will be charged to the consolidated income statements and RMB508.9 million will be charged to equity upon completion of the Global Offering.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on September 30, 2020 and based on the audited consolidated net tangible liabilities attributable to the equity holders of the Company as at September 30, 2020 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the group had the Global Offering been completed as of September 30, 2020 or at any future dates.

	Audited consolidated net tangible liabilities attributable to the equity holders of the Company as at September 30, 2020(1)	Estimated net proceeds from the Global Offering(2)	Estimated impact related to the change of terms of convertible redeemable preferred shares upon Listing(3)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)(5)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$105.00 per Share	(149,595,066)	31,534,718	175,237,831	57,177,483	13.92	16.64
Based on an Offer Price of HK$115.00 per Share	(149,595,066)	34,543,063	175,237,831	60,185,828	14.65	17.52

Notes:

(1) The audited consolidated net tangible liabilities attributable to the equity holders of the Company as of September 30, 2020 is extracted from the Accountant's Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net liabilities attributable to the equity holders of the Company as of September 30, 2020 of approximately RMB148,341,372,000 with an adjustment for the intangible assets as of September 30, 2020 of approximately RMB1,253,694,000.

(2) The estimated net proceeds to be received by the Company from the Global Offering are based on the indicative Offer Prices of HK$105.00 and HK$115.00 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company (excluding approximately RMB23,136,793 listing expenses which have been charged to our consolidated income statements for the nine months ended September 30, 2020), and does not take into account any Class B Shares that may be issued pursuant to the exercise of the Over-allotment Option, any Shares that may be issued pursuant to the Post-IPO Share Option Scheme and Post-IPO RSU Scheme or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(3) Upon the Listing and the completion of the Global Offering, all the Preferred Shares will be automatically converted into Class B Shares. These Preferred Shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company will be increased by RMB175,237,831,000, being the carrying amounts of the Preferred Shares as of September 30, 2020.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 4,108,194,737 Shares were in issue (including 363,146,799 Class B Shares to be issued pursuant to the exercised options under the Pre-IPO ESOP, 766,237,001 Class A Shares convertible from the ordinary shares held by Reach Best and Ke Yong, 164,435,258 Class B Shares convertible from the ordinary shares held by shareholders other than Reach Best and Ke Yong and 2,449,157,079 Class B Shares convertible from the Preferred Shares) assuming that the Global Offering has been completed on September 30, 2020 but does not take into account any Class B Shares that may be issued pursuant to the exercise of the Over-allotment Option, any Shares that may be issued pursuant to the Post-IPO Share Option Scheme and Post-IPO RSU Scheme or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.1957. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to September 30, 2020, including the acquisition of a company engaging in online payment services in the PRC (the "**Target**") as set out in Note 38 to the Accountant's Report in Appendix I to this prospectus. While we are still in the process of assessing the fair value of the identifiable assets and liabilities of the Target as of the completion date, it is expected that the unaudited pro forma adjusted consolidated net tangible assets per Share would decrease taking into account this subsequent acquisition as the Target holds significant intangible assets.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL INFORMATION OF COMPANY A

We propose to acquire the entire equity interest of Company A for a preliminary consideration of RMB850 million, which is expected to be settled in cash. For details, see "Waivers From Strict Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in Respect of Companies and Business to Be Acquired after the Track Record Period — Acquisition of Company A and Company B — Company A." According to the financial statements of Company A audited by Company A's statutory auditors in accordance with PRC GAAP: (a) the total assets of Company A amounted to RMB404.8 million as of December 31, 2019. Its total revenues, profit before tax and profit after tax amounted to RMB102.2 million, RMB10.3 million and RMB10.3 million, respectively, for the year ended December 31, 2019; and (b) the total assets of Company A amounted to RMB345.6 million as of December 31, 2018. Its total revenues was RMB439.6 million for the year ended December 31, 2018, and it recorded loss before tax of RMB12.7 million and loss after tax of RMB15.1 million for the same period.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, save for the subsequent events as described in Note 38 to the Accountant's Report set forth in Appendix I to this prospectus and the recent developments as described in "Summary — Recent Developments", there has been no material adverse change in our financial or trading position since September 30, 2020, being the end date of the periods reported in the Accountant's Report in Appendix I to this prospectus, and there has been no event since September 30, 2020 that would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus.