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Kuaishou Technology 快手科技

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

(Stock Code: 1024)

RESULTS ANNOUNCEMENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

The Board of Directors of Kuaishou Technology (快手科技) is pleased to announce the unaudited consolidated results of the Company for the three and nine months ended September 30, 2021. These interim results have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting”, and reviewed by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board. The interim results have also been reviewed by the Audit Committee.

KEY HIGHLIGHTS

Financial Summary

	Unaudited		Unaudited		Year-over-year change
	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020		
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
Revenues	20,492,977	100.0	15,356,535	100.0	33.4%
Gross profit	8,508,600	41.5	6,616,346	43.1	28.6%
Operating loss	(7,403,590)	(36.1)	(1,376,535)	(9.0)	437.8%
Loss before income tax	(7,417,165)	(36.2)	(29,308,881)	(190.9)	(74.7%)
Loss for the period	(7,086,896)	(34.6)	(29,280,255)	(190.7)	(75.8%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾	(4,822,274)	(23.5)	(961,792)	(6.3)	401.4%
Adjusted EBITDA ⁽²⁾	(3,380,169)	(16.5)	325,843	2.1	(1,137.4%)

Nine Months Ended September 30,
2021 **2020**

	Amount	As a percentage of revenues	Amount	As a percentage of revenues	Year-over- year change
	(Unaudited)	<i>(RMB thousands, except for percentages)</i>	(Audited)		
Revenues	56,651,253	100.0	40,677,441	100.0	39.3%
Gross profit	23,881,142	42.2	15,310,805	37.6	56.0%
Operating loss	(21,911,111)	(38.7)	(8,942,428)	(22.0)	145.0%
Loss before income tax	(73,230,601)	(129.3)	(98,119,055)	(241.2)	(25.4%)
Loss for the period	(71,874,358)	(126.9)	(97,371,462)	(239.4)	(26.2%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾ (unaudited)	(14,510,783)	(25.6)	(7,244,319)	(17.8)	100.3%
Adjusted EBITDA ⁽²⁾ (unaudited)	(10,890,967)	(19.2)	(4,543,362)	(11.2)	139.7%

Notes:

- ⁽¹⁾ We define “adjusted net loss” as loss for the period adjusted by adding back share-based compensation expenses and fair value changes of convertible redeemable preferred shares.
- ⁽²⁾ We define “adjusted EBITDA” as adjusted net loss for the period adjusted by adding back income tax (benefits)/expenses, depreciation of property and equipment, depreciation of right-of-use assets, amortization of intangible assets, and finance (income)/expense, net.

Operating Metrics

Unless otherwise specified, the following table sets forth certain of our key operating data on Kuaishou App for the periods indicated:

	Three Months Ended September 30,	
	2021	2020
Average DAUs (<i>in millions</i>)	320.4	271.7
Average MAUs (<i>in millions</i>)	572.9	479.4
Average daily time spent per DAU (<i>in minutes</i>)	119.1	88.2
Average online marketing services revenue per DAU (<i>in RMB</i>)	34.0	22.7
Total e-commerce GMV ⁽¹⁾ (<i>in RMB millions</i>)	175,787.4	94,458.6

	Nine Months Ended	
	September 30,	
	2021	2020
Average DAUs (<i>in millions</i>)	303.1	262.4
Average MAUs (<i>in millions</i>)	533.0	482.9
Average daily time spent per DAU (<i>in minutes</i>)	108.8	86.3
Average online marketing services revenue per DAU (<i>in RMB</i>)	97.1	50.9
Total e-commerce GMV ⁽¹⁾ (<i>in RMB millions</i>)	439,744.6	204,060.3

Note:

⁽¹⁾ Placed on or directed to our partners through our platform.

BUSINESS REVIEW AND OUTLOOK

We achieved strong user growth in the third quarter of 2021 with average DAUs, average MAUs and average daily time spent per DAU on Kuaishou App all hitting record highs, as the changes in June to realign our user and product teams and facilitate full-cycle user management started to take effect and our enriched content, products and services continued to optimize user experience. These changes, coupled with our continuous efforts to unlock our monetization potential and to empower content creators, advertisers as well as merchants, drove our total revenues to reach RMB20.5 billion in the third quarter of 2021, representing a year-over-year increase of 33.4%.

Encouraged by the promising results of our June realignment, we initiated a major organizational restructuring, which was completed by the end of September. This broader restructuring effectively transformed our business from a function-based system to a business unit-based one aimed at strengthening the closed-loop system of different business streams and improving efficiency. The organizational upgrade allows us to distribute and mobilize resources more effectively, and ultimately improves our overall organizational capabilities and efficiency.

Ecosystem

In the third quarter of 2021, average DAUs and average MAUs on the Kuaishou App reached 320.4 million and 572.9 million, respectively, each increasing by 17.9% and 19.5% year-over-year, accelerated from 11.9% and 6.7%, respectively, for the second quarter of 2021. These increases were driven by the improved user acquisition efficiency and retention rate. The growing user engagement and activeness also benefited from our constant efforts to deepen and broaden our content, product and service offerings, as well as to refine our

industry-leading technology for more efficient and personalized content recommendation. Moreover, the continuous diversification of use case scenarios has further deepened user participation in our ecosystem. Driven by these efforts, the average daily time spent per DAU on the Kuaishou App increased by 35.0% year-over-year, to nearly 120 minutes in the third quarter of 2021.

With respect to content, through continuous improvement in supply and building unique flagship content verticals, we strived to satisfy more diverse and evolving needs of our users. Our industry-leading ***Kuaishou Playlet (快手短劇)*** has attracted a growing number of creators to produce more premium short plays, which encouraged continuous content consumption and strengthened user stickiness. In the third quarter of 2021, more than 850 short plays had been viewed more than 100 million times, each on a cumulative basis, and DAUs of short plays reached 230 million on Kuaishou App, accounting for an expanding proportion of total video views and time spent on our platform.

Sports is another content vertical in which we excel. We combined news, sports events broadcasting and interactive user activities together as a new trial for sports content operation, which has enabled interaction and time spent on sports vertical to extend beyond the event itself. Also, with more than 40 covered sports categories and diverse consumption scenarios, total user time spent on sports content in the third quarter of 2021 was more than 1.5 times higher than the same period of last year. In particular, as the short video and broadcasting partner in China for the Tokyo 2020 Summer Olympics, we implemented successful content operations and drove the Olympics-related video views to an aggregate of 73 billion times, with a total of 6 billion interactions on Kuaishou App by August 2021.

Another hallmark of our platform is social trust. We continued to build and reinforce our trust-based social network, which is one of our core value propositions and key differentiators. The number of pairs of mutual followers on the Kuaishou App reached over 14 billion on a cumulative basis by the end of the third quarter of 2021, increasing by 59% year-over-year. We have been placing emphasis on building mutual following relationship and conversion in single column feeds, helping users, particularly the new ones, to establish social mentalities and social stickiness.

Online marketing services

We achieved strong online marketing services growth in the third quarter of 2021, with revenue reaching RMB10.9 billion in the third quarter of 2021, up 76.5% year-over-year, primarily due to the powerful traffic growth, and the growing number of advertisers, as we continued to accumulate more insights and iterate our ad platform to improve targeting accuracy and advertiser experience.

During the third quarter of 2021, our average daily traffic, represented by average DAUs multiplied by average daily time spent per DAU, increased by nearly 60% year-over-year on Kuaishou App. To optimize user experience, we have created more native advertising content and materials. Driven by increased market recognition by more advertisers and our expanded sales coverage as well as enhanced service capabilities, the number of active advertisers on our platform in the third quarter of 2021 continued to grow steadily year-over-year and quarter-over-quarter.

Brand advertisement remains one of our strategic priorities. Attracted by the massive user reach and premium content on our platform such as the Tokyo 2020 Summer Olympics, industry leaders in fast-moving consumer goods, automobiles, e-commerce, beauty and cosmetics, household appliances and sportswear carried out special marketing campaigns on our platform in the third quarter of 2021, gaining all-around winning results in their brand recognition, popularity and sales conversion. We have also been making progress in improving the professionalism of our direct sales team, especially our key account team, to empower advertisers with more professional and timelier services. Boosted by these efforts, brand advertisers on our platform recorded a high double-digit growth year-over-year in the third quarter of 2021.

Live Streaming

As one of the pillars of our platform and the highly engaged user community, our live streaming ecosystem continues to prosper with revenue reaching RMB7.7 billion in the third quarter of 2021, improving with a 7.4% quarter-over-quarter growth. In particular, during the third quarter of 2021, our average MPUs for live streaming increased by 3.6% quarter-over-quarter to 46.1 million, while monthly ARPPU also increased by 8.8% year-over-year and 3.7% quarter-over-quarter to RMB55.9.

On supply side, our content creation activeness maintained at a high level, as we collaborated with talent agencies to attract professional live streamers and invested in high-quality content. In addition, we increased our live streaming content exposure in the public domain. All these efforts resulted in a gradually rising average DAU penetration rate of live streaming, which increased to 78% in the third quarter of 2021 from 66% in the first quarter of 2021.

Other services including e-commerce

Our other services delivered revenue of RMB1.9 billion in the third quarter of 2021, increasing by 53.0% year-over-year, primarily driven by e-commerce. Our e-commerce GMV reached RMB175.8 billion in the third quarter of 2021, representing an 86.1% year-over-year increase. The repeat purchase rate of our e-commerce business further improved to over 70% in September 2021. These were bolstered by our improving platform infrastructure and service capabilities, which include, merchandise supply enrichment,

service provider network expansion, enhanced platform governance and increasing traffic exposure, which have strengthened our trust-based e-commerce business model and enabled us to continue to optimize user experience and explore new growth potential.

With respect to ***Kwai Shop*** (快手小店), the closed-loop mode of our e-commerce business, its contribution to the total e-commerce GMV for the third quarter of 2021 increased to 90.0% from 71.4% in the same period of 2020. ***Kuaishou Selection*** (好物聯盟), our official platform of e-commerce product selection, was further reinforced by optimized matching efficiency between influencers and merchants, as well as diversified merchandise supply. As a result, Kuaishou Selection accounted for an increasing proportion of our total e-commerce GMV in the third quarter of 2021, which again, demonstrated the power of our closed-loop ecosystem.

On branded merchandising, we achieved initial traction in promoting brand merchants particularly in key industries, such as apparel, fast-moving consumer goods, electronics, home appliances, and jewelries. The early success strengthened merchants' confidence in our capabilities and potential, leading to further enrichment of brand merchants on our platform. Boosted by increasing offerings of brand selections and categories, growth of branded GMV surpassed the overall GMV growth, contributing to a higher e-commerce penetration year-over-year in the third quarter of 2021.

Overseas

In the third quarter of 2021, we implemented an organizational upgrade in the overseas markets, integrating operations team, product team and middle offices in different regions to optimize business collaboration and resource utilization efficiency.

Strategically, we have been prioritizing key markets and focusing on products, content, technology optimizations since mid-2021. Coupled with our relentless efforts on resource consolidation and efficiency improvement in the overseas markets, our average MAUs in the overseas market continued to grow quarter-over-quarter in the third quarter of 2021, and we also delivered improvements in our average DAUs to average MAUs ratio, user retention rate and user time spent, despite the fact that our overseas marketing spending was tightened sequentially.

On monetization, we have started to test the waters with trial runs in live streaming virtual gifting and advertising in the overseas markets.

Through accumulating regional experience, and continuously maximizing synergy, we remain confident to achieve further development in the overseas markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2021 Compared to Third Quarter of 2020

The following table sets forth the comparative figures for the third quarter of 2021 and 2020, respectively:

	Unaudited			
	Three Months Ended September 30,			
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenues	20,492,977	100.0	15,356,535	100.0
Cost of revenues ⁽¹⁾	<u>(11,984,377)</u>	<u>(58.5)</u>	<u>(8,740,189)</u>	<u>(56.9)</u>
Gross profit	8,508,600	41.5	6,616,346	43.1
Selling and marketing expenses ⁽¹⁾	<u>(11,016,923)</u>	<u>(53.8)</u>	<u>(6,124,203)</u>	<u>(39.9)</u>
Administrative expenses ⁽¹⁾	<u>(913,050)</u>	<u>(4.5)</u>	<u>(426,711)</u>	<u>(2.8)</u>
Research and development expenses ⁽¹⁾	<u>(4,217,699)</u>	<u>(20.6)</u>	<u>(1,866,182)</u>	<u>(12.1)</u>
Other income	<u>425,534</u>	<u>2.2</u>	<u>204,383</u>	<u>1.3</u>
Other (losses)/gains, net	<u>(190,052)</u>	<u>(0.9)</u>	<u>219,832</u>	<u>1.4</u>
Operating loss	(7,403,590)	(36.1)	(1,376,535)	(9.0)
Finance income/(expense), net	<u>23,420</u>	<u>0.1</u>	<u>(25,803)</u>	<u>(0.2)</u>
Fair value changes of convertible redeemable preferred shares	<u>—</u>	<u>—</u>	<u>(27,906,543)</u>	<u>(181.7)</u>
Share of losses of investments accounted for using the equity method	<u>(36,995)</u>	<u>(0.2)</u>	<u>—</u>	<u>—</u>
Loss before income tax	(7,417,165)	(36.2)	(29,308,881)	(190.9)
Income tax benefits	<u>330,269</u>	<u>1.6</u>	<u>28,626</u>	<u>0.2</u>
Loss for the period	<u>(7,086,896)</u>	<u>(34.6)</u>	<u>(29,280,255)</u>	<u>(190.7)</u>
Non-IFRS Measures:				
Adjusted net loss	<u>(4,822,274)</u>	<u>(23.5)</u>	<u>(961,792)</u>	<u>(6.3)</u>
Adjusted EBITDA	<u>(3,380,169)</u>	<u>(16.5)</u>	<u>325,843</u>	<u>2.1</u>

Note:

(1) Included share-based compensation expenses as follows:

	Unaudited			
	Three Months Ended September 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Cost of revenues	(274,510)	(1.3)	(40,277)	(0.3)
Selling and marketing expenses	(184,822)	(0.9)	(23,921)	(0.2)
Administrative expenses	(307,685)	(1.5)	(39,796)	(0.3)
Research and development expenses	(1,497,605)	(7.3)	(307,926)	(2.0)
Total	(2,264,622)	(11.0)	(411,920)	(2.8)

If the impact from share-based compensation expenses had been excluded, cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenues would have been 57.2%, 52.9%, 3.0% and 13.3%, respectively, for the third quarter of 2021, and 56.6%, 39.7%, 2.5% and 10.1%, respectively, for the third quarter of 2020.

Revenues

Our revenues increased by 33.4% to RMB20.5 billion for the third quarter of 2021 from RMB15.4 billion for the same period of 2020. The increase was primarily attributable to our online marketing services and other services including e-commerce business.

The following table sets forth our revenues by business lines in absolute amounts and as percentages of our total revenues for the third quarter of 2021 and 2020, respectively:

	Unaudited			
	Three Months Ended September 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Online marketing services	10,909,035	53.2	6,180,976	40.2
Live streaming	7,724,141	37.7	7,960,205	51.8
Other services	1,859,801	9.1	1,215,354	8.0
Total	20,492,977	100.0	15,356,535	100.0

Online marketing services

Revenue from our online marketing services increased by 76.5% to RMB10.9 billion for the third quarter of 2021 from RMB6.2 billion for the same period of 2020, primarily attributable to traffic growth and the growing number of advertisers, driven by improvements in targeting accuracy and advertiser experience.

Live streaming

Revenue from our live streaming business was RMB7.7 billion for the third quarter of 2021 compared to RMB8.0 billion for the same period of 2020.

Other services

Revenue from our other services increased by 53.0% to RMB1.9 billion for the third quarter of 2021 from RMB1.2 billion for the same period of 2020, primarily driven by the growth of our e-commerce business.

Cost of Revenues

The following table sets forth our cost of revenues in absolute amounts and as percentages of our total revenues for the third quarter of 2021 and 2020, respectively:

	Unaudited			
	Three Months Ended September 30,		2020	
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenue sharing costs and related taxes ⁽¹⁾	6,105,445	29.8	5,048,910	32.9
Bandwidth expenses and server custody costs ⁽²⁾	1,945,954	9.5	1,401,410	9.1
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽²⁾	1,620,731	7.9	1,212,180	7.9
Employee benefit expenses	926,541	4.5	475,649	3.1
Payment processing costs	398,484	1.9	252,528	1.6
Other cost of revenues	987,222	4.9	349,512	2.3
Total	11,984,377	58.5	8,740,189	56.9

Notes:

- (1) Revenue sharing costs and related taxes included related costs from online marketing services, live streaming and other services.
- (2) 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.

Our cost of revenues increased by 37.1% to RMB12.0 billion for the third quarter of 2021, from RMB8.7 billion for the same period of 2020, primarily attributable to (i) the increase in revenue sharing costs and related taxes in line with our revenue growth; (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 the increase in user traffic attributable to the enlarged user base and the growth of our business including overseas; (iii) the increase in employee benefit expenses as a result of the increase in the headcount of employees to support our business growth and the related share-based compensation expenses; and (iv) the increase in content costs as part of other cost of revenues, as a result of our continuous efforts to diversify content verticals and enrich content ecosystem.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit both in absolute amounts and as percentages of our total revenues, or gross profit margin, for the third quarter of 2021 and 2020, respectively:

	Unaudited			
	Three Months Ended September 30,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Gross profit	8,508,600	41.5	6,616,346	43.1

As a result of the foregoing, our gross profit increased by 28.6% to RMB8.5 billion for the third quarter of 2021, from RMB6.6 billion for the same period of 2020. Our gross profit margin decreased to 41.5% for the third quarter of 2021, from 43.1% in the same period of 2020, mainly due to the increased cost of revenues as a percentage of our total revenues primarily driven by the increases in content costs as part of other cost of revenues, and employee benefit expenses, both as a percentage of our total revenues, partially offset by a decrease in revenue sharing costs and related taxes as a percentage of our total revenues as a result of change in revenue mix.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 79.9% to RMB11.0 billion for the third quarter of 2021, from RMB6.1 billion for the same period of 2020, and increased to 53.8% from 39.9% as a percentage of our total revenues. It was primarily due to an increase in promotion and advertising expenses as a result of the increased spending for promotion of our products, for our brand marketing campaign and for overseas market business development.

Administrative Expenses

Our administrative expenses increased by 114.0% to RMB913.1 million for the third quarter of 2021, from RMB426.7 million for the same period of 2020, and increased to 4.5% from 2.8% as a percentage of our total revenues primarily due to the increase in employee benefits expenses as a result of the administrative personnel expansion to support our business growth and the related share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, administrative expenses as a percentage of revenues would have been 3.0% and 2.5% for the third quarter of 2021 and 2020, respectively.

Research and Development Expenses

Our research and development expenses increased by 126.0% to RMB4.2 billion for the third quarter of 2021, from RMB1.9 billion for the same period of 2020, and increased to 20.6% from 12.1% as a percentage of our total revenues primarily due to the increase in employee benefit expenses attributable to the research and development personnel expansion as we continue to invest in big data and other advanced technologies, and the related share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, research and development expenses as a percentage of revenues would have been 13.3% and 10.1% for the third quarter of 2021 and 2020, respectively.

Other Income

Our other income increased by 108.2% to RMB425.5 million for the third quarter of 2021, from RMB204.4 million for the same period of 2020, mainly attributable to more government grants and value-added tax subsidies for the third quarter of 2021 as compared to the same period of 2020.

Other (Losses)/Gains, Net

We had other losses, net, of RMB190.1 million in the third quarter of 2021, compared to other gains, net, of RMB219.8 million in the same period of 2020. 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 investments in listed and unlisted entities for the third quarter of 2021, compared to net fair value gains for the third quarter of 2020.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB7.4 billion and a negative operating margin of 36.1% for the third quarter of 2021, compared to an operating loss of RMB1.4 billion and a negative operating margin of 9.0% for the same period of 2020.

Finance Income/(Expense), Net

We had finance income, net of RMB23.4 million in the third quarter of 2021, compared to finance expense, net of RMB25.8 million in the third quarter of 2020. The change from expense to income was primarily due to the increase in interest income from bank deposits.

Fair Value Changes of Convertible Redeemable Preferred Shares

Fair value changes of convertible redeemable preferred shares were nil for the third quarter of 2021, as a result of the completion of our initial public offering in February 2021, compared to a loss of RMB27.9 billion for the same period of 2020.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method was RMB37.0 million for the third quarter of 2021, compared to nil for the same period of 2020, primarily due to the conversion of the Group's investment in certain investee from financial assets at fair value through profit or loss to investment accounted for using the equity method at the end of March 2021.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB7.4 billion and RMB29.3 billion for the third quarter of 2021 and 2020, respectively.

Income Tax Benefits

Our income tax benefits were RMB330.3 million and RMB28.6 million for the third quarter of 2021 and 2020, respectively, primarily due to the recognition of deferred tax assets attributable to the net losses incurred by certain subsidiaries.

Loss for the Period

As a result of the foregoing, our loss was RMB7.1 billion and RMB29.3 billion for the third quarter of 2021 and 2020, respectively.

Third Quarter of 2021 Compared to Second Quarter of 2021

The following table sets forth the comparative figures for the third quarter of 2021 and the second quarter of 2021, respectively:

	Unaudited Three Months Ended			
	September 30, 2021		June 30, 2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenues	20,492,977	100.0	19,138,826	100.0
Cost of revenues ⁽¹⁾	<u>(11,984,377)</u>	<u>(58.5)</u>	<u>(10,754,079)</u>	<u>(56.2)</u>
Gross profit	8,508,600	41.5	8,384,747	43.8
Selling and marketing expenses ⁽¹⁾	<u>(11,016,923)</u>	<u>(53.8)</u>	<u>(11,269,803)</u>	<u>(58.9)</u>
Administrative expenses ⁽¹⁾	<u>(913,050)</u>	<u>(4.5)</u>	<u>(864,159)</u>	<u>(4.5)</u>
Research and development expenses ⁽¹⁾	<u>(4,217,699)</u>	<u>(20.6)</u>	<u>(3,911,339)</u>	<u>(20.4)</u>
Other income	<u>425,534</u>	<u>2.2</u>	<u>175,348</u>	<u>0.9</u>
Other (losses)/gains, net	<u>(190,052)</u>	<u>(0.9)</u>	<u>269,827</u>	<u>1.4</u>
Operating loss	(7,403,590)	(36.1)	(7,215,379)	(37.7)
Finance income, net	<u>23,420</u>	<u>0.1</u>	<u>11,989</u>	<u>0.1</u>
Share of losses of investments accounted for using the equity method	<u>(36,995)</u>	<u>(0.2)</u>	<u>(24,892)</u>	<u>(0.1)</u>
Loss before income tax	(7,417,165)	(36.2)	(7,228,282)	(37.7)
Income tax benefits	<u>330,269</u>	<u>1.6</u>	<u>191,871</u>	<u>1.0</u>
Loss for the period	<u>(7,086,896)</u>	<u>(34.6)</u>	<u>(7,036,411)</u>	<u>(36.7)</u>
Non-IFRS Measures:				
Adjusted net loss	<u>(4,822,274)</u>	<u>(23.5)</u>	<u>(4,770,467)</u>	<u>(24.9)</u>
Adjusted EBITDA	<u>(3,380,169)</u>	<u>(16.5)</u>	<u>(3,314,173)</u>	<u>(17.3)</u>

Note:

(1) Included share-based compensation expenses as follows:

	Unaudited			
	Three Months Ended			
	September 30, 2021		June 30, 2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Cost of revenues	(274,510)	(1.3)	(286,245)	(1.5)
Selling and marketing expenses	(184,822)	(0.9)	(184,734)	(1.0)
Administrative expenses	(307,685)	(1.5)	(291,771)	(1.5)
Research and development expenses	(1,497,605)	(7.3)	(1,503,194)	(7.9)
Total	<u>(2,264,622)</u>	<u>(11.0)</u>	<u>(2,265,944)</u>	<u>(11.9)</u>

If the impact from share-based compensation expenses had been excluded, cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenues would have been 57.2%, 52.9%, 3.0% and 13.3%, respectively, for the third quarter of 2021, and 54.7%, 57.9%, 3.0% and 12.5%, respectively, for the second quarter of 2021.

Revenues

Our revenues were RMB20.5 billion for the third quarter of 2021, compared to RMB19.1 billion for the second quarter of 2021.

The following table sets forth our revenues by business lines in absolute amounts and as percentages of our total revenues for the third quarter of 2021 and the second quarter of 2021, respectively:

	Unaudited			
	Three Months Ended			
	September 30, 2021		June 30, 2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Online marketing services	10,909,035	53.2	9,962,297	52.1
Live streaming	7,724,141	37.7	7,193,430	37.6
Other services	1,859,801	9.1	1,983,099	10.3
Total	<u>20,492,977</u>	<u>100.0</u>	<u>19,138,826</u>	<u>100.0</u>

Online marketing services

Revenue from our online marketing services increased by 9.5% to RMB10.9 billion for the third quarter of 2021, from RMB10.0 billion for the second quarter of 2021, primarily attributable to traffic growth and the growing number of advertisers, driven by improvements in targeting accuracy and advertiser experience.

Live streaming

Revenue from our live streaming business increased 7.4% to RMB7.7 billion for the third quarter of 2021, from RMB7.2 billion for the second quarter of 2021, as more audience were drawn to the live streaming contents in the public domain by the high-quality content.

Other services

Revenue from our other services was RMB1.9 billion for the third quarter of 2021, compared to RMB2.0 billion for the second quarter of 2021.

Cost of Revenues

The following table sets forth our cost of revenues in absolute amounts and as percentages of our total revenues for the third quarter of 2021 and the second quarter of 2021, respectively:

	Unaudited Three Months Ended			
	September 30, 2021		June 30, 2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenue sharing costs and related taxes ⁽¹⁾	6,105,445	29.8	5,371,242	28.1
Bandwidth expenses and server custody costs ⁽²⁾	1,945,954	9.5	1,950,529	10.2
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽²⁾	1,620,731	7.9	1,524,142	8.0
Employee benefit expenses	926,541	4.5	898,574	4.7
Payment processing costs	398,484	1.9	372,272	1.9
Other cost of revenues	987,222	4.9	637,320	3.3
Total	11,984,377	58.5	10,754,079	56.2

Notes:

- (1) Revenue sharing costs and related taxes included related costs from online marketing services, live streaming and other services.
- (2) 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.

Our cost of revenues increased by 11.4% to RMB12.0 billion for the third quarter of 2021, from RMB10.8 billion for the second quarter of 2021, primarily attributable to (i) the increase in revenue sharing costs and related taxes in line with our revenue growth; and (ii) the increase in content costs as part of other cost of revenues, as a result of our continuous efforts to diversify content verticals and enrich content ecosystem.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit both in absolute amounts and as percentages of our total revenues, or gross profit margin, for the third quarter of 2021 and the second quarter of 2021, respectively:

	Unaudited Three Months Ended			
	September 30, 2021		June 30, 2021	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Gross profit	8,508,600	41.5	8,384,747	43.8

As a result of the foregoing, our gross profit increased by 1.5% to RMB8.5 billion for the third quarter of 2021, from RMB8.4 billion for the second quarter of 2021. Our gross profit margin was 41.5% for the third quarter of 2021, compared to 43.8% for the second quarter of 2021, mainly due to the increased cost of revenues as a percentage of our total revenues primarily driven by increases in revenue sharing costs and related taxes, and content costs as part of other cost of revenues, both as a percentage of our total revenues, partially offset by a decrease in bandwidth expenses and server custody costs as a percentage of our total revenues.

Selling and Marketing Expenses

Our selling and marketing expenses slightly decreased by 2.2% to RMB11.0 billion for the third quarter of 2021, from RMB11.3 billion for the second quarter of 2021, and decreased to 53.8% for the third quarter of 2021 from 58.9% for the second quarter of 2021 as a percentage of our total revenues. The fluctuation was mainly attributable to disciplined spending for overseas business development in the third quarter of 2021.

Administrative Expenses

Our administrative expenses slightly increased by 5.7% to RMB913.1 million for the third quarter of 2021, from RMB864.2 million for the second quarter of 2021, primarily due to an increase in employee benefits expenses as a result of the administrative personnel expansion to support our business growth and the related share-based compensation expenses.

Research and Development Expenses

Our research and development expenses increased by 7.8% to RMB4.2 billion for the third quarter of 2021, from RMB3.9 billion for the second quarter of 2021, primarily due to the increase in employee benefit expenses attributable to the research and development personnel expansion as we continue to invest in big data and other advanced technologies, and the related share-based compensation expenses.

Other Income

Our other income was RMB425.5 million for the third quarter of 2021, compared to RMB175.3 million for the second quarter of 2021, mainly attributable to more government grants and value-added tax subsidies in the third quarter of 2021 as compared to the second quarter of 2021.

Other (Losses)/Gains, Net

We recorded other losses, net, of RMB190.1 million for the third quarter of 2021, compared to other gains, net, of RMB269.8 million for the second quarter of 2021. 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 investments in listed and unlisted entities for the third quarter of 2021, compared to net fair value gains for the second quarter of 2021.

Operating Loss

As a result of the foregoing, we had operating loss of RMB7.4 billion for the third quarter of 2021 and operating loss of RMB7.2 billion for the second quarter of 2021, and our operating margin was negative 36.1% for the third quarter of 2021, compared to negative 37.7% for the second quarter of 2021.

Finance Income, Net

We had finance income, net of RMB23.4 million in the third quarter of 2021, compared to RMB12.0 million in the second quarter of 2021. The change was primarily due to the increase in interest income from bank deposits.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method were RMB37.0 million for the third quarter of 2021, compared to RMB24.9 million for the second quarter of 2021, primarily due to the increase in loss of the investee for the respective periods.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB7.4 billion for the third quarter of 2021, compared to a loss before income tax of RMB7.2 billion for the second quarter of 2021.

Income Tax Benefits

We had income tax benefits of RMB330.3 million for the third quarter of 2021, compared to income tax benefits of RMB191.9 million for the second quarter of 2021. The change was primarily due to the recognition of more deferred tax assets attributable to the net losses incurred by certain subsidiaries.

Loss for the Period

As a result of the foregoing, our loss was RMB7.1 billion for the third quarter of 2021, compared to RMB7.0 billion for the second quarter of 2021.

Reconciliation of Non-IFRS Measures to the Nearest IFRS Measures

We believe that the presentation of 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 the reconciliations of our non-IFRS financial measures for the third quarter of 2021, the second quarter of 2021, the third quarter of 2020, and the first nine months of 2021 and 2020, respectively, to the nearest measures prepared in accordance with IFRS:

	Unaudited		
	Three Months Ended		
	September 30,	June 30,	September 30,
	2021	2021	2020
	<i>(in RMB thousands)</i>		
Loss for the period	(7,086,896)	(7,036,411)	(29,280,255)
Add:			
Share-based compensation expenses	2,264,622	2,265,944	411,920
Fair value changes of convertible redeemable preferred shares	<u>—</u>	<u>—</u>	<u>27,906,543</u>
Adjusted net loss	<u>(4,822,274)</u>	<u>(4,770,467)</u>	<u>(961,792)</u>
Adjusted net loss	(4,822,274)	(4,770,467)	(961,792)
Add:			
Income tax benefits	(330,269)	(191,871)	(28,626)
Depreciation of property and equipment	1,030,724	961,892	798,610
Depreciation of right-of-use assets	721,717	656,199	452,318
Amortization of intangible assets	43,353	42,063	39,530
Finance (income)/expense, net	<u>(23,420)</u>	<u>(11,989)</u>	<u>25,803</u>
Adjusted EBITDA	<u>(3,380,169)</u>	<u>(3,314,173)</u>	<u>325,843</u>

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

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	<i>(in RMB thousands)</i>	
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(1,577,226)	(5,750,119)
Net cash used in investing activities	(10,182,646)	(17,516,088)
Net cash (used in)/generated from financing activities	(670,673)	37,369,559
Net (decrease)/increase in cash and cash equivalents	(12,430,545)	14,103,352
Cash and cash equivalents at the beginning of the period	46,773,431	20,391,545
Effects of exchange rate changes on cash and cash equivalents	88,362	(63,649)
Cash and cash equivalents at the end of the period	<u>34,431,248</u>	<u>34,431,248</u>

Net Cash Used in Operating Activities

Net cash used in operating activities represents the cash used in our operations minus the income tax paid. Cash used in our operations primarily consists of our loss before income tax, adjusted by non-cash items and changes in working capital.

For the third quarter of 2021, our net cash used in operating activities was RMB1.6 billion, which was primarily attributable to our loss before income tax of RMB7.4 billion, adjusted by non-cash items, primarily comprising share-based compensation expenses of RMB2.3 billion, depreciation of property and equipment of RMB1.0 billion, depreciation of right-of-use assets of RMB721.7 million and fair value losses on financial assets at fair value through profit or loss of RMB129.4 million. The amount was further adjusted by changes in working capital, which primarily comprised increases in other payables and accruals of RMB1.6 billion and advance from customers of RMB483.5 million, partially offset by a decrease in accounts payables of RMB647.4 million. We also paid income tax of RMB276.5 million.

Net Cash Used in Investing Activities

For the third quarter of 2021, our net cash used in investing activities was RMB10.2 billion, which was primarily attributable to purchase of investments in financial assets at fair value through profit or loss of RMB27.2 billion, purchase of time deposits with initial terms over three months of RMB5.8 billion, purchase of property, equipment and intangible assets of RMB2.5 billion, partially offset by proceeds from disposal of investments in financial assets at fair value through profit or loss of RMB24.8 billion and proceeds from maturity of time deposits with initial terms over three months of RMB499.4 million.

Net Cash Used in Financing Activities

For the third quarter of 2021, our net cash used in financing activities was RMB670.7 million, which was primarily attributable to payments for principal elements of lease and the related interest of RMB675.4 million.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Three months ended		Nine months ended	
		September 30,		September 30,	
		2021	2020	2021	2020
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Revenues	2	20,492,977	15,356,535	56,651,253	40,677,441
Cost of revenues	3	(11,984,377)	(8,740,189)	(32,770,111)	(25,366,636)
Gross profit		8,508,600	6,616,346	23,881,142	15,310,805
Selling and marketing expenses	3	(11,016,923)	(6,124,203)	(33,946,318)	(19,833,271)
Administrative expenses	3	(913,050)	(426,711)	(2,480,560)	(1,081,347)
Research and development expenses	3	(4,217,699)	(1,866,182)	(10,940,184)	(4,117,907)
Other income		425,534	204,383	804,226	396,151
Other (losses)/gains, net		(190,052)	219,832	770,583	383,141
Operating loss		(7,403,590)	(1,376,535)	(21,911,111)	(8,942,428)
Finance income/(expense), net		23,420	(25,803)	18,194	(26,571)
Fair value changes of convertible redeemable preferred shares	7	—	(27,906,543)	(51,275,797)	(89,150,056)
Share of losses of investments accounted for using the equity method		(36,995)	—	(61,887)	—
Loss before income tax		(7,417,165)	(29,308,881)	(73,230,601)	(98,119,055)
Income tax benefits	4	330,269	28,626	1,356,243	747,593
Loss for the period		(7,086,896)	(29,280,255)	(71,874,358)	(97,371,462)
Attributable to:					
— Equity holders of the Company		(7,086,041)	(29,280,255)	(71,871,601)	(97,371,462)
— Non-controlling interests		(855)	—	(2,757)	—
		(7,086,896)	(29,280,255)	(71,874,358)	(97,371,462)
Loss per share for the loss attributable to the equity holders of the Company (expressed in RMB per share)	5				
Basic loss per share		(1.71)	(31.46)	(19.39)	(104.54)
Diluted loss per share		(1.71)	(31.46)	(19.39)	(104.54)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Note	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Loss for the period	<u>(7,086,896)</u>	<u>(29,280,255)</u>	<u>(71,874,358)</u>	<u>(97,371,462)</u>
Other comprehensive (loss)/income				
<i>Items that will not be reclassified to profit or loss</i>				
Fair value change on convertible redeemable preferred shares due to own credit risk	7	(120)	—	(903)
Currency translation differences	276,175	4,855,403	1,483,254	3,642,134
<i>Items that may be reclassified subsequently to profit or loss</i>				
Currency translation differences	<u>(139,341)</u>	<u>409,891</u>	<u>59,096</u>	<u>306,524</u>
Other comprehensive income for the period, net of taxes	<u>136,834</u>	<u>5,265,174</u>	<u>1,542,350</u>	<u>3,947,755</u>
Total comprehensive loss for the period	<u>(6,950,062)</u>	<u>(24,015,081)</u>	<u>(70,332,008)</u>	<u>(93,423,707)</u>
Attributable to:				
— Equity holders of the Company	<u>(6,949,220)</u>	<u>(24,015,081)</u>	<u>(70,329,264)</u>	<u>(93,423,707)</u>
— Non-controlling interests	<u>(842)</u>	<u>—</u>	<u>(2,744)</u>	<u>—</u>
	<u>(6,950,062)</u>	<u>(24,015,081)</u>	<u>(70,332,008)</u>	<u>(93,423,707)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As of September 30, 2021	As of December 31, 2020
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment		8,505,267	7,206,100
Right-of-use assets		10,979,771	5,199,712
Intangible assets		1,204,607	1,247,788
Investments accounted for using the equity method		2,399,392	—
Financial assets at fair value through profit or loss	6	2,976,566	3,843,315
Deferred tax assets		5,029,155	2,313,301
Long-term time deposits		4,000,000	500,000
Other non-current assets		2,023,229	308,982
		<u>37,117,987</u>	<u>20,619,198</u>
Current assets			
Trade receivables		2,999,254	2,428,039
Prepayments, other receivables and other current assets		2,678,193	2,285,420
Financial assets at fair value through profit or loss	6	8,036,088	3,690,448
Short-term time deposits		5,946,860	2,729,095
Restricted cash		2,452	3,698
Cash and cash equivalents		34,431,248	20,391,545
		<u>54,094,095</u>	<u>31,528,245</u>
Total assets		<u>91,212,082</u>	<u>52,147,443</u>

	<i>Note</i>	As of September 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		141	30
Share premium		274,377,321	—
Other reserves		19,595,502	12,011,644
Accumulated losses		<u>(243,932,728)</u>	<u>(172,061,513)</u>
		<u>50,040,236</u>	<u>(160,049,839)</u>
Non-controlling interests		<u>4,306</u>	—
Total equity		<u><u>50,044,542</u></u>	<u><u>(160,049,839)</u></u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		8,623,835	3,608,041
Deferred tax liabilities		29,760	31,601
Convertible redeemable preferred shares	7	—	185,372,816
Other non-current liabilities		<u>65,993</u>	—
		<u>8,719,588</u>	<u>189,012,458</u>
Current liabilities			
Accounts payables		17,222,354	11,544,297
Other payables and accruals		7,336,918	5,763,226
Advances from customers		3,807,990	3,290,098
Income tax liabilities		733,729	487,843
Lease liabilities		<u>3,346,961</u>	<u>2,099,360</u>
		<u>32,447,952</u>	<u>23,184,824</u>
Total liabilities		<u><u>41,167,540</u></u>	<u><u>212,197,282</u></u>
Total equity and liabilities		<u><u>91,212,082</u></u>	<u><u>52,147,443</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Net cash used in operating activities	(5,750,119)	(768,417)
Net cash used in investing activities	(17,516,088)	(15,570,288)
Net cash generated from financing activities	37,369,559	20,067,064
	<hr/>	<hr/>
Net increase in cash and cash equivalents	14,103,352	3,728,359
Cash and cash equivalents at the beginning of the period	20,391,545	3,996,236
Effects of exchange rate changes on cash and cash equivalents	(63,649)	(21,583)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>34,431,248</u>	<u>7,703,012</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 Basis of preparation

This condensed consolidated interim financial information for the three and nine months ended September 30, 2021 (“**Interim Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”, issued by the International Accounting Standards Board (“**IASB**”). The Interim Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2020 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2020 annual report of the Company dated March 23, 2021 (the “**2020 Financial Statements**”).

The accounting policies used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020, as described in the 2020 Financial Statements, except for the adoption of certain new and amended standards which has had no significant impact on the results and the financial position of the Group.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Revenues

The breakdown of revenues during the three and nine months ended September 30, 2021 and 2020 is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Online marketing services	10,909,035	6,180,976	29,429,008	13,343,194
Live streaming	7,724,141	7,960,205	22,167,970	25,309,312
Other services	1,859,801	1,215,354	5,054,275	2,024,935
	<u>20,492,977</u>	<u>15,356,535</u>	<u>56,651,253</u>	<u>40,677,441</u>

The breakdown of revenues for timing of revenue recognition is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Revenue recognized at a point in time	19,377,794	14,042,576	50,536,283	37,388,968
Revenue recognized over time	1,115,183	1,313,959	6,114,970	3,288,473
	<u>20,492,977</u>	<u>15,356,535</u>	<u>56,651,253</u>	<u>40,677,441</u>

There is no concentration risk as no revenue from a single customer was more than 10% of the Group's total revenues for the three and nine months ended September 30, 2021 and 2020.

3 Expenses by nature

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Revenue sharing costs and related taxes	6,105,445	5,048,910	16,601,858	15,382,434
Employee benefit expenses	6,091,797	2,677,822	16,008,912	6,178,926
Promotion and advertising expenses	10,202,938	5,818,397	31,914,734	19,103,231
Bandwidth expenses and server custody costs	1,945,954	1,401,410	5,829,657	3,920,498
Depreciation of property and equipment	1,030,724	798,610	2,908,690	2,174,192
Depreciation of right-of-use assets	721,717	452,318	1,958,452	1,157,218
Amortization of intangible assets	43,353	39,530	127,111	90,569
Outsourcing and other labor costs	419,829	134,672	1,033,521	340,272
Payment processing cost	398,484	252,528	1,075,338	687,335
Professional fees	85,395	58,658	216,306	101,484
Tax surcharges	99,239	63,254	255,354	287,866
Credit loss allowances on financial assets	(11,071)	9,895	686	17,817
Others	998,245	401,281	2,206,554	957,319
	<u>28,132,049</u>	<u>17,157,285</u>	<u>80,137,173</u>	<u>50,399,161</u>

4 Income tax benefits

(a) *Cayman Islands*

The Company is incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands and is 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 the Company.

(b) *British Virgin Islands (“BVI”)*

The Group’s entities established under the International Business Companies Acts of the BVI are exempted from BVI income tax.

(c) *Hong Kong Income Tax*

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, the 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 three and nine months ended September 30, 2021 and 2020.

(d) *PRC Enterprise Income Tax*

The income tax provision of the Group in respect of its operations in the PRC was subject to statutory tax rate of 25% on the assessable profits for the years ended December 31, 2021 and 2020 based on the existing legislation, interpretation and practices in respect thereof.

Beijing Dajia Internet Information Technology Co., Ltd. (“**Beijing Dajia**”) was accredited as High and New Technology Enterprise enabling it to enjoy a preferential tax rate of 15% from 2020 to 2022. 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 from 2017 to 2021. 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% for the year of 2019.

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

(e) *Withholding tax in mainland China (“WHT”)*

According to the new corporate income tax law, 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, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings was accrued as of the end of each reporting period.

The income tax benefits of the Group during the three and nine months ended September 30, 2021 and 2020 are analyzed as follows:

	Three months ended		Nine months ended	
	September 30, 2021	2020	September 30, 2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Current income tax	(550,813)	(169,518)	(1,363,727)	(547,954)
Deferred income tax	881,082	198,144	2,719,970	1,295,547
Income tax benefits	<u>330,269</u>	<u>28,626</u>	<u>1,356,243</u>	<u>747,593</u>

5 Loss per share

(a) *Basic loss per share*

Basic loss per share for the period is calculated by dividing the loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the period.

	Three months ended		Nine months ended	
	September 30, 2021	2020	September 30, 2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Net loss attributable to equity holders of the Company	(7,086,041)	(29,280,255)	(71,871,601)	(97,371,462)
Weighted average number of ordinary shares in issue (thousand shares)	4,138,566	930,672	3,706,113	931,436
Basic loss per share (expressed in RMB per share)	(1.71)	(31.46)	(19.39)	(104.54)

(b) *Diluted loss per share*

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the three and nine months ended September 30, 2021 and 2020, the Company had two categories of potential ordinary shares: (i) convertible redeemable preferred shares and (ii) share options and restricted share units granted under share incentive plan. As the Company incurred losses for the three and nine months ended September 30, 2021 and 2020, these potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, the amounts of diluted loss per share for the three and nine months ended September 30, 2021 and 2020 were the same as basic loss per share of the respective periods.

6 Financial assets at fair value through profit or loss

	As of September 30, 2021 <i>RMB'000</i> (Unaudited)	As of December 31, 2020 <i>RMB'000</i> (Audited)
Non-current assets		
Investments in unlisted entities	2,725,511	3,843,315
Investments in listed entity	251,055	—
	<u>2,976,566</u>	<u>3,843,315</u>
Current assets		
Investments in listed entity	38,097	82,646
Wealth management products	7,997,991	3,607,802
	<u>8,036,088</u>	<u>3,690,448</u>
Total	<u><u>11,012,654</u></u>	<u><u>7,533,763</u></u>

Movements in financial assets at fair value through profit or loss are as below:

	Nine months ended September 30, 2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Audited)
At the beginning of the period	7,533,763	11,160,542
Additions	38,194,498	46,068,073
Disposal	(33,124,722)	(44,961,282)
Transfer to investments accounted for using the equity method	(2,470,647)	—
Change in fair value through profit or loss	910,652	465,712
Deemed disposal due to business combination	(6,959)	—
Currency translation differences	(23,931)	(188,240)
At the end of the period	<u><u>11,012,654</u></u>	<u><u>12,544,805</u></u>

7 Convertible redeemable preferred shares

The movements of the convertible redeemable preferred shares are set out as below:

	<i>RMB'000</i>
(Unaudited)	
At January 1, 2021	185,372,816
Changes in fair value	51,275,797
— Includes: change in fair value due to own credit risk	—
Currency translation differences	(1,564,067)
Conversion into ordinary shares	<u>(235,084,546)</u>
At September 30, 2021	<u><u>—</u></u>
(Audited)	
At January 1, 2020	69,444,163
Issuance of Series F-1 & F-2 Preferred Shares	20,956,542
Re-designation of Series F-1 & F-2 Preferred Shares from ordinary shares	163,809
Changes in fair value	89,150,959
— Includes: change in fair value due to own credit risk	903
Currency translation differences	<u>(4,477,642)</u>
At September 30, 2020	<u><u>175,237,831</u></u>

In February 2021, the Company completed its initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited. Upon listing, all the convertible redeemable preferred shares were automatically converted into ordinary shares and were reclassified from liabilities to equity accordingly.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries or Consolidated Affiliated Entities has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to September 30, 2021.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting high standard of corporate governance which is crucial to the Group's development and safeguard the interests of the Shareholders. The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices since the Listing Date.

Save for the deviation from code provision A.2.1, which is explained in the following paragraph, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code since the Listing Date.

The code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Su Hua has assumed the roles of both the chairman of the Board and the chief executive officer of the Company from the Listing Date and up to October 28, 2021, to ensure effective and efficient overall strategic planning of the Group.

With effect from October 29, 2021, Mr. Su Hua has ceased to serve as the chief executive officer of the Company, and Mr. Cheng Yixiao, the co-founder, an executive director and chief product officer of the Company, has been appointed as the chief executive officer of the Company. The chairman of the Board and the chief executive officer of the Company are currently two separate positions with clear distinction in responsibilities. Mr. Su Hua is responsible for formulating the Group's long-term strategies and exploring new initiatives, while Mr. Cheng Yixiao is leading the day-to-day operations and business development of the Group. Following such change of the chief executive officer, the Company has duly complied with code provision A.2.1 of the Corporate Governance Code.

Audit Committee

The Audit Committee, after the discussion with the Auditor, has reviewed the Company's unaudited interim financial statements for the three and nine months ended September 30, 2021. The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed matters in respect of risk management and internal control of the Company. There is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company.

The Company's unaudited interim financial statements for the three and nine months ended September 30, 2021 have been prepared in accordance with IFRS.

Significant Events after September 30, 2021

Save as disclosed in this announcement, there have been no other significant events that might affect the Group after September 30, 2021 and up to the date of this announcement.

APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude to our conscientious and professional staff and management team for their hard work. I would also like to extend our thanks and appreciation to our Shareholders and stakeholders who continue to provide us with great support and confidence.

By order of the Board
Kuaishou Technology
Mr. Su Hua
Chairman

Hong Kong, November 23, 2021

As at the date of this announcement, the Board of Directors comprises Mr. Su Hua and Mr. Cheng Yixiao as executive Directors; Mr. Li Zhaohui, Mr. Zhang Fei, Dr. Shen Dou and Mr. Lin Frank as non-executive Directors; Mr. Wang Huiwen, Mr. Huang Sidney Xuande and Mr. Ma Yin as independent non-executive Directors.

Certain statements included in this announcement, other than statements of historical fact, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "might", "can", "could", "will", "would", "anticipate", "believe", "continue", "estimate", "expect", "forecast", "intend", "plan", "seek", or "timetable". These forward-looking statements, which are subject to risks, uncertainties, and assumptions, may include our business outlook, estimates of financial performance, forecast business plans, growth strategies and projections of anticipated trends in our industry. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, many of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements. Except as required by law, we are not obligated, and we undertake no obligation, to release publicly any revisions to these forward-looking statements that might reflect events or circumstance occurring after the date of this announcement or those that might reflect the occurrence of unanticipated events.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“AI”	artificial intelligence
“ARPPU”	average revenue per paying user, calculated as revenue in a given period divided by the number of paying users during that period
“Articles” or “Articles of Association”	the articles of association of the Company adopted on January 18, 2021 with effect from the Listing Date, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Auditor”	PricewaterhouseCoopers, the external auditor of the Company
“Board” or “Board of Directors”	the board of directors of the Company
“Class A Shares”	class A ordinary shares of the share capital of the Company with a par value of US\$0.0000053 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to 10 votes per share on any resolution tabled at the Company’s general meeting, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
“Class B Shares”	class B ordinary shares of the share capital of the Company with a par value of US\$0.0000053 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meeting
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company”, “our Company”, “the Company”, “Kuaishou”, “we” or “us”	Kuaishou Technology (快手科技), an exempted company incorporated in the Cayman Islands with limited liability on February 11, 2014

“Consolidated Affiliated Entities”	the entities that the Company controls through a set of contractual arrangements
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“DAUs”	refers to daily active users, which are calculated as the number of unique user accounts, excluding spam accounts, that access an app at least once during the day
“Director(s)”	the director(s) of the Company
“GMV”	gross merchandise value, the total value of all orders for products and services placed on, or directed to the Group’s partners through, the Group’s platform, regardless of whether the order is settled or returned, excluding single transactions of RMB100,000 or greater and any series of transactions from a single buyer totaling RMB1,000,000 or greater in a single day, unless they are settled
“Group”, “our Group” or “the Group”	the Company, its subsidiaries and its Consolidated Affiliated Entities, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the subsidiaries as if they were the subsidiaries of the Company at the time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“Kuaishou App”	collectively, Kuaishou Flagship, Kuaishou Express and Kuaishou Concept mobile apps
“Kuaishou Concept”	an app that we launched in November 2018 to explore different user needs and preferences
“Kuaishou Express”	a variant of Kuaishou Flagship that was officially launched in August 2019

“Kuaishou Flagship”	a mobile app that was derived from our original mobile app, GIF Kuaishou (launched in 2011)
“Listing Date”	February 5, 2021, on which the Class B Shares were listed and dealings in the Class B Shares were first permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“MAUs”	refers to monthly active users, which are calculated as the number of unique user accounts, excluding spam accounts, that access an app at least once during the calendar month
“Memorandum”	the memorandum of association of the Company (as amended from time to time), adopted on January 18, 2021, which has become effective since the Listing Date
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MPUs”	monthly paying users, which refers to the number of user accounts that purchase a particular service at least once in a given month
“paying user”	a user account that purchases a particular service at least once during a given period
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated January 26, 2021
“repeat purchase rate”	the percentage of purchasing users in a given month that also make a purchase in the following month

“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company’s Auditors, and (iv) the voluntary liquidation or winding-up of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	the Class A Shares and Class B Shares in the capital of the Company, as the context so requires
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance
“US\$” or “US Dollars”	the lawful currency of the United States of America
“%”	per cent