



KUAISHOU

Kuaishou Technology

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

Stock code : 1024

ANNUAL REPORT 2021



Contents

Corporate Information	2
Financial Summary and Operation Highlights	4
Chairman’s Statement	7
Management Discussion and Analysis	12
Report of the Board of Directors	32
Corporate Governance Report	83
Independent Auditor’s Report	103
Consolidated Income Statement	111
Consolidated Statement of Comprehensive Loss	112
Consolidated Balance Sheet	113
Consolidated Statement of Changes in Equity	115
Consolidated Statement of Cash Flows	117
Notes to the Consolidated Financial Statements	118
Definitions	208

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. SU Hua (宿華) (*Chairman of the Board*)
Mr. CHENG Yixiao (程一笑)

Non-executive Directors

Mr. LI Zhaohui (李朝暉)
Mr. ZHANG Fei (張斐)
Dr. SHEN Dou (沈抖)
Mr. LIN Frank (林欣禾) (*alias LIN Frank Hurst*)

Independent Non-executive Directors

Mr. WANG Huiwen (王慧文)
Mr. HUANG Sidney Xuande (黃宣德)
Mr. MA Yin (馬寅)

AUDIT COMMITTEE

Mr. HUANG Sidney Xuande (黃宣德) (*Chairman*)
Mr. WANG Huiwen (王慧文)
Mr. MA Yin (馬寅)

REMUNERATION COMMITTEE

Mr. HUANG Sidney Xuande (黃宣德) (*Chairman*)
Mr. SU Hua (宿華)
Mr. LI Zhaohui (李朝暉)
Mr. WANG Huiwen (王慧文)
Mr. MA Yin (馬寅)

NOMINATION COMMITTEE

Mr. WANG Huiwen (王慧文) (*Chairman*)
Mr. CHENG Yixiao (程一笑)
Mr. ZHANG Fei (張斐)
Mr. HUANG Sidney Xuande (黃宣德)
Mr. MA Yin (馬寅)

CORPORATE GOVERNANCE COMMITTEE

Mr. WANG Huiwen (王慧文) (*Chairman*)
Mr. HUANG Sidney Xuande (黃宣德)
Mr. MA Yin (馬寅)

JOINT COMPANY SECRETARIES

Mr. JIA Hongyi (賈弘毅)
Ms. SO Ka Man (蘇嘉敏)

AUTHORIZED REPRESENTATIVES

Mr. SU Hua (宿華)
Ms. SO Ka Man (蘇嘉敏)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
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As to Cayman Islands law:

Maples and Calder (Hong Kong) LLP

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Hong Kong

COMPLIANCE ADVISOR

China Renaissance Securities (Hong Kong) Limited

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HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

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Maples Fund Services (Cayman) Limited

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Boundary Hall, Cricket Square
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PRINCIPAL BANK

China Merchants Bank, Beijing Branch

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Beijing
the PRC

STOCK CODE

1024

COMPANY'S WEBSITE

www.kuaishou.com



Financial Summary and Operation Highlights

FINANCIAL SUMMARY

	2021		2020		Year-over-year change
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
Year Ended December 31,					
(RMB thousands, except for percentages)					
Revenues	81,081,513	100.0	58,776,097	100.0	37.9%
Gross profit	34,029,705	42.0	23,814,637	40.5	42.9%
Operating loss	(27,701,265)	(34.2)	(10,319,953)	(17.6)	168.4%
Loss before income tax	(79,102,256)	(97.6)	(117,200,790)	(199.4)	(32.5%)
Loss for the year	(78,077,101)	(96.3)	(116,635,242)	(198.4)	(33.1%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾ (unaudited)	(18,851,769)	(23.3)	(7,863,818)	(13.4)	139.7%
Adjusted EBITDA ⁽²⁾ (unaudited)	(12,953,371)	(16.0)	(3,531,086)	(6.0)	266.8%

	2021		2020		Year-over-year change
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
Unaudited Three Months Ended December 31,					
(RMB thousands, except for percentages)					
Revenues	24,430,260	100.0	18,098,656	100.0	35.0%
Gross profit	10,148,563	41.5	8,503,832	47.0	19.3%
Operating loss	(5,790,154)	(23.7)	(1,377,525)	(7.6)	320.3%
Loss before income tax	(5,871,655)	(24.0)	(19,081,735)	(105.4)	(69.2%)
Loss for the period	(6,202,743)	(25.4)	(19,263,780)	(106.4)	(67.8%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾	(3,568,768)	(14.6)	(459,271)	(2.5)	677.1%
Adjusted EBITDA ⁽²⁾	(1,290,186)	(5.3)	1,172,504	6.5	(210.0%)

Notes:

- (1) We define "adjusted net loss" as loss for the year or period adjusted by adding back share-based compensation expenses, fair value changes of convertible redeemable preferred shares, and net fair value changes on investments.
- (2) We define "adjusted EBITDA" as adjusted net loss for the year or 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.

Financial Summary and Operation Highlights

OPERATING METRICS

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

	Year Ended December 31,		Three Months Ended December 31,	
	2021	2020	2021	2020
Average DAUs <i>(in millions)</i>	308.2	264.6	323.3	271.3
Average MAUs <i>(in millions)</i>	544.2	481.1	578.0	475.7
Average daily time spent per DAU <i>(in minutes)</i>	111.5	87.3	118.9	89.9
Average online marketing services revenue per DAU <i>(in RMB)</i>	138.4	82.6	40.9	31.4
Total e-commerce GMV ⁽¹⁾ <i>(in RMB millions)</i>	680,036.1	381,168.5	240,291.5	177,108.2

Note:

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



Financial Summary and Operation Highlights

FIVE-YEAR FINANCIAL SUMMARY

Condensed Consolidated Income Statements and Statements of Comprehensive Loss

	2017	Year ended December 31,			2021
		2018	2019	2020	
		<i>(RMB in thousands)</i>			
Revenues	8,339,578	20,300,645	39,120,348	58,776,097	81,081,513
Gross profit	2,610,830	5,802,222	14,103,574	23,814,637	34,029,705
Loss before income tax	(19,940,501)	(12,401,064)	(19,265,467)	(117,200,790)	(79,102,256)
Loss for the year	(20,044,950)	(12,429,285)	(19,651,534)	(116,635,242)	(78,077,101)
Loss for the year attributable to equity holders of the Company	(20,044,950)	(12,429,285)	(19,651,534)	(116,635,242)	(78,073,643)
Total comprehensive loss for the year	(19,221,394)	(14,220,598)	(20,579,869)	(105,995,974)	(77,054,302)
Total comprehensive loss for the year attributable to equity holders of the Company	(19,221,394)	(14,220,598)	(20,579,869)	(105,995,974)	(77,050,839)

Condensed Consolidated Balance Sheets

	2017	As of December 31,			2021
		2018	2019	2020	
		<i>(RMB in thousands)</i>			
ASSETS					
Non-current assets	2,052,253	5,696,381	15,103,302	20,619,198	39,504,508
Current assets	5,641,640	10,783,118	17,311,080	31,528,245	53,010,867
Total assets	<u>7,693,893</u>	<u>16,479,499</u>	<u>32,414,382</u>	<u>52,147,443</u>	<u>92,515,375</u>
EQUITY					
Total Equity	<u>(22,185,485)</u>	<u>(35,704,482)</u>	<u>(55,729,036)</u>	<u>(160,049,839)</u>	<u>45,095,971</u>
LIABILITIES					
Non-current liabilities	27,348,339	48,141,573	72,769,647	189,012,458	10,163,884
Current liabilities	2,531,039	4,042,408	15,373,771	23,184,824	37,255,520
Total liabilities	<u>29,879,378</u>	<u>52,183,981</u>	<u>88,143,418</u>	<u>212,197,282</u>	<u>47,419,404</u>
Total equity and liabilities	<u>7,693,893</u>	<u>16,479,499</u>	<u>32,414,382</u>	<u>52,147,443</u>	<u>92,515,375</u>

Chairman's Statement

Dear Shareholders,

2021 was a year of change, progress and rapid growth for Kuaishou. In the past year, we have made a series of adjustments to our internal organizational structure to strengthen our advantages, improve organizational efficiency, and refine our strategic direction. Despite facing numerous challenges and uncertainties, we ultimately achieved satisfactory results.

Short videos and live streaming have become widely used for empowering public welfare, knowledge sharing, e-commerce, local community services and many other areas. This leads to an increasing number of users, content creators and partners coming to our platform to build a richer and more prosperous ecosystem. In addition to focusing on our own development, we are deeply aware of the important responsibility that we must shoulder as a leading short video platform in China. Since Kuaishou's inception over a decade ago, we have adhered to the values of equality and inclusiveness and advanced the mission of enhancing the unique brand of happiness for every user. Also, we have always been committed to providing users with a diverse, interesting, beneficial and warm content community and social platform. At the same time, leveraging Kuaishou's strengths, resources and capabilities, we have been fulfilling our corporate social responsibility, facilitating the industrial upgrade and promoting the development of social productivity and digital economy.

Looking forward, we will continue to uphold our values and focus on our mission to create value for more users and industries, and provide a high-quality, efficient and convenient digital platform.

On behalf of the Board, I am pleased to present the Group's annual results for the year ended December 31, 2021.

BUSINESS REVIEW AND OUTLOOK

Business Overview

We ended the year of 2021 with a robust fourth quarter performance as well as exceptional user and traffic growth, setting new records in both metrics. In the fourth quarter of 2021, our total traffic grew at a vigorous pace, representing a year-over-year increase of 57.6% on Kuaishou App, while total revenues reached RMB24.4 billion, increasing by 35.0% year-over-year. For the full year of 2021, our total revenues grew by 37.9% year-over-year to RMB81.1 billion.

Enriched content and a close-knit and vibrant social community fortified our healthy ecosystem and closed-loop, virtuous business cycle, which along with our improved monetization capabilities, drove our consistent revenue growth throughout the year. Setting out to align with our strategic development, we completed a major organizational restructuring in September 2021, which has effectively transformed our organizational structure from a function-based system to a business unit-based system and significantly strengthened our core capabilities in operations, monetization and efficiency. In particular, we have continuously gained market share in online marketing services and e-commerce, which was demonstrated by the 95.2% and 78.4% year-over-year growth in revenue from online marketing services and e-commerce GMV in the year of 2021, respectively. In the fourth quarter of 2021, we continued to optimize our revenue and cost structure and enhance operating leverage, driving our adjusted net margin to improve by 7.9 percentage points, on a quarter-over-quarter basis.



Chairman's Statement

Ecosystem

In the fourth quarter of 2021, average DAUs and average MAUs on Kuaishou App reached new record highs of 323.3 million and 578.0 million, respectively, increasing by 19.2% and 21.5% year-over-year, respectively. These fourth quarter metrics marked our highest year-over-year growth rate in 2021 for both average DAUs and average MAUs on Kuaishou App, as well as demonstrated a quarter-over-quarter growth which outperformed our typical seasonal patterns. In the fourth quarter of 2021, average daily time spent per DAU on Kuaishou App increased by 32.3% year-over-year to 118.9 minutes. Our user and traffic growth was driven by the enhancement of our platform's differentiated social attributes, the expansion of our unique and immersive content, and our effective organizational restructuring.

Our efforts in strengthening social attributes have significantly enhanced our highly interactive and engaged one-stop digital community, which differentiates Kuaishou from other short video platforms as a social platform. Pairs of mutual followers on Kuaishou App reached over 16.3 billion by the end of 2021, on a cumulative basis, representing a 68.2% year-over-year increase.

Our targeted content operations and recommendations across different user demographics have enabled us to better serve evolving user needs and acquire targeted new users, which resulted in growth in both user base and user time spent, as well as reinforced Kuaishou's featured content in users' share of mind and heart. For example, our distinctive **Kuaishou Playlet (快手短剧)** has been successful in attracting female users in higher-tier cities, further diversifying our massive user base. With more than 10,000 short plays on our platform at the end of 2021, we had become home to many blockbuster short plays.

Following our organizational restructuring, we focused on the implementation of a more efficient and higher-quality user growth strategy. Through our more dynamic and holistic operation of different users and our enhanced user management infrastructure, we successfully improved user growth efficiency and user retention rate with more disciplined spending on user acquisition and user maintenance.

Online marketing services

Online marketing services led our revenue growth in the fourth quarter of 2021, reaching revenue of RMB13.2 billion, representing an increase of 55.5% year-over-year and 21.3% quarter-over-quarter, which was a strong demonstration of our increasing market share in the online marketing sector. For 2021, revenue of our online marketing services was RMB42.7 billion, increasing by 95.2% year-over-year.

The performance of our online marketing business was boosted by our consistent traffic growth, which has laid a solid foundation for our market share expansion. In addition, advertisements in short video and live streaming format are being increasingly adopted by more advertisers, providing tailwinds for our growth. Motivated by our characteristic combination of public and private traffic, an increasing number of advertisers came to our platform to capture the attention of our valuable and growing user community. Furthermore, with continued improvements in our product and operating capabilities, advertiser experience and ad performance on our platform were further optimized. As a result, in 2021, the number of advertisers increased by over 60% year-over-year and their monthly average spending on our platform increased by double digits year-over-year, leading to our further market share gain in the online marketing sector.

Chairman's Statement

Our e-commerce business, as a natural extension to our platform, also contributed to the resilience of our online marketing business, which jointly empowered the closed-loop transactions within our ecosystem where merchants on our platform can implement integrated brand promotion and product sales strategies. Our one-stop service capability has further reinforced the merchants' bond with our platform.

Brand advertisement has been an additional growth driver to our online marketing services. Our massive and diverse user base, along with our enhanced service capabilities and creative marketing campaign format attracted an increasing number of brand advertisers to our platform. Revenue from our brand advertisement experienced a more than 150% year-over-year increase in 2021.

Live streaming

Revenue from our live streaming was RMB8.8 billion in the fourth quarter of 2021, increasing by 14.3% quarter-over-quarter, and 11.7% year-over-year. By further expanding our collaboration with talent agencies, we attracted more creative talents and motivated them to create more high-quality content. As of December 31, 2021, the number of professional streamers engaged by talent agencies doubled year-over-year on our platform.

Our enhanced and enriched live streaming content encouraged more users to interact with streamers. For the fourth quarter of 2021, penetration of live streaming viewers and penetration of live streaming paying users both increased quarter-over-quarter, and average MPUs for live streaming increased by 5.2% quarter-over-quarter to 48.5 million. Talent agencies bring other benefits to our platform as well, including more efficient live streaming operations and higher monetization efficiency. Monthly ARPPU for live streaming grew to RMB60.7 in the fourth quarter of 2021, up 8.6% quarter-over-quarter and 17.2% year-over-year.

Supported by enhanced content quality and operating efficiency, we continue to sustain vigorous user activities and a highly engaged user community that is built on trust, while expanding use case scenarios for live streaming during the quarter. With content categories spanning entertainment, online games, sports and more, we are looking to introduce more genres of interest to our growing community.

Other services including e-commerce

Our other services are also thriving with revenue of RMB2.4 billion in the fourth quarter of 2021, representing an increase of 40.2% year-over-year and 27.3% quarter-over-quarter, primarily driven by growth in e-commerce. In 2021, revenue of our other services reached RMB7.4 billion, increasing by 99.9% year-over-year.

Our unique trust-based e-commerce model has contributed to the significant growth of our live streaming e-commerce and boosted our market share in this segment. In the fourth quarter of 2021, we further optimized supply, content, services, technology and user experience to expand our growth potential. Our total e-commerce GMV reached RMB680.0 billion in 2021, representing an increase of 78.4% year-over-year. In December 2021, **Kwai Shop (快手小店)**, our closed-loop e-commerce marketplace, contributed to 98.8% of our total e-commerce GMV. In the fourth quarter of 2021, driven by our reinforced trust-based e-commerce model, the repeat purchase rate of our e-commerce business increased by over five percentage points year-over-year.



Chairman's Statement

During the fourth quarter of 2021, we upgraded **Kuaishou Selection (好物聯盟)**, our official platform for e-commerce product selection, to **Kuaishou Distribution (快分銷)**, which lowers the threshold for brands and merchants to join our platform. **Kuaishou Distribution** features a more refined scoring system to direct traffic to better quality products and achieve more accurate matching between products and streamers. In recognition of our superior platform infrastructure and service capabilities, more brands and merchants have further enriched merchandise supply and improved product quality on our platform, boosting the growth of active buyers, purchasing frequency and average order value. In the fourth quarter of 2021, over 30% of our total e-commerce GMV was contributed by **Kuaishou Distribution**.

Our unique positioning in the e-commerce sector has demonstrated our differentiated advantage to brand clients. Our Key Account team was established in the second half of 2021, which has become a strong addition to serve and empower brands. In the fourth quarter of 2021, the e-commerce GMV from self-operated live streaming of well-known brands was more than nine times of that in the first quarter of 2021 on our platform. At the same time, we provided support to the upgrade of many niche brands and regional brands, which together have driven the growth of branded GMV.

Empowered by our platform and our service providers, the number of active e-commerce streamers on our platform grew continuously throughout the year, leading to enriched e-commerce-related live streaming content. Total user time spent on e-commerce content increased by over 50% year-over-year on Kuaishou App in 2021.

As our traffic grows, we continuously iterate and optimize our technologies and services to enhance targeting accuracy and sales conversion rates for our merchants. As of December 31, 2021, more than 500 service partners had been attracted to our platform. Our collaborating service partners have enabled merchants on our platform to improve their professional and systematic operations and service capabilities.

Overseas

We achieved successful user acquisition in the overseas market in 2021. Since mid-2021, we started to focus on optimizing local infrastructure and investing in content and products to improve user quality effectively. In particular, we increased investments in high-quality copyrights and content creator incentive plans to build our overseas content community, which are considered to be very important to short video platforms. In addition, we continuously refined our products and algorithms to emphasize our positioning as a social platform and improve user stickiness in the overseas market.

Through the enrichment of content creation and enhanced content consumption on the platform, we gradually formed a virtuous business cycle in some of our key overseas markets. Internally, we further enhanced our operating efficiency as our organizational restructuring in our international business unit started to show positive effects in the fourth quarter of 2021. We managed to continue to increase our DAUs, user time spent, and retention rates in our overseas market in the second half of 2021, while implementing a more disciplined budget plan.

Chairman's Statement

Business Outlook

Looking ahead, leveraging our unique business proposition and capabilities, we are committed to creating social value through promoting the development of digital economy and industrial upgrade. We expect short videos and live streams, as our fundamental infrastructure, to provide more users and industry participants with high-quality, efficient and convenient services and solutions.

We will continue to focus on and invest in four main areas. Firstly, we will continue to accentuate our inclusive and balanced traffic distribution and private domain strength that differentiate us from others. Secondly, we will further develop differentiated content and enhance our content operation capabilities to strengthen and emphasize our unique share of mind. Our third area of focus is algorithm improvement, which in turn will result in increased user consumption on our platform, leading to reinforcement of our recommendation mechanism. Lastly, we will continue to expand use case scenarios to better serve our user needs and further enrich offerings in our community.

The sustainable and healthy development of our core business paves the way for our future growth. At the same time, we remain committed to managing costs and improving efficiency. We will strive to effectively execute our initiatives to improve efficiency in key areas including organizational synergy, user growth, operation and monetization, driving sustainable growth of our ecosystem.

Mr. SU Hua
Chairman



Management Discussion and Analysis

YEAR ENDED DECEMBER 31, 2021 COMPARED TO YEAR ENDED DECEMBER 31, 2020

The following table sets forth the comparative figures for the years ended December 31, 2021 and 2020, respectively:

	Year Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Revenues	81,081,513	100.0	58,776,097	100.0
Cost of revenues	(47,051,808)	(58.0)	(34,961,460)	(59.5)
Gross profit	34,029,705	42.0	23,814,637	40.5
Selling and marketing expenses	(44,175,898)	(54.5)	(26,614,746)	(45.3)
Administrative expenses	(3,400,316)	(4.2)	(1,676,745)	(2.9)
Research and development expenses	(14,956,247)	(18.4)	(6,547,578)	(11.1)
Other income	1,026,742	1.3	527,996	0.9
Other (losses)/gains, net	(225,251)	(0.4)	176,483	0.3
Operating loss	(27,701,265)	(34.2)	(10,319,953)	(17.6)
Finance expense, net	(38,536)	(0.0)	(35,288)	(0.0)
Fair value changes of convertible redeemable preferred shares	(51,275,797)	(63.3)	(106,845,549)	(181.8)
Share of losses of investments accounted for using the equity method	(86,658)	(0.1)	—	—
Loss before income tax	(79,102,256)	(97.6)	(117,200,790)	(199.4)
Income tax benefits	1,025,155	1.3	565,548	1.0
Loss for the year	(78,077,101)	(96.3)	(116,635,242)	(198.4)
Non-IFRS Measures:				
Adjusted net loss (unaudited)	(18,851,769)	(23.3)	(7,863,818)	(13.4)
Adjusted EBITDA (unaudited)	(12,953,371)	(16.0)	(3,531,086)	(6.0)

Management Discussion and Analysis

Revenues

Our revenues increased by 37.9% to RMB81.1 billion in 2021, from RMB58.8 billion in 2020. The increase was primarily attributable to the growth of 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 in 2021 and 2020, respectively:

	Year Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Online marketing services	42,665,483	52.6	21,854,539	37.2
Live streaming	30,995,152	38.2	33,209,115	56.5
Other services	7,420,878	9.2	3,712,443	6.3
Total	81,081,513	100.0	58,776,097	100.0

Online marketing services

Revenue from our online marketing services increased by 95.2% to RMB42.7 billion in 2021 from RMB21.9 billion in 2020, primarily attributable to user traffic growth and the growing number of advertisers, driven by improvements in advertiser experience and ad performance.

Live streaming

Revenue from our live streaming business decreased by 6.7% to RMB31.0 billion in 2021 from RMB33.2 billion in 2020, primarily attributable to the improvement in the containment of COVID-19 and more people returning to their normal routines in 2021, while the COVID-19 outbreak in early part of 2020 and the strict quarantine during that period caused more users to turn to online social and entertainment activities in 2020.

Other services

Revenue from our other services increased by 99.9% to RMB7.4 billion in 2021 from RMB3.7 billion in 2020, primarily due to the growth of our e-commerce business, which is further attributable to our optimizing supply, content, services, technology and user experience.

Management Discussion and Analysis

Cost of Revenues

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

	Year Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Revenue sharing costs and related taxes ⁽¹⁾	24,792,937	30.6	20,519,492	34.9
Bandwidth expenses and server custody costs ⁽²⁾	7,638,475	9.4	5,735,392	9.8
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽²⁾	6,246,286	7.7	4,573,549	7.8
Employee benefit expenses	3,451,634	4.3	1,712,980	2.9
Payment processing costs	1,602,030	2.0	1,004,480	1.7
Other cost of revenues	3,320,446	4.0	1,415,567	2.4
Total	47,051,808	58.0	34,961,460	59.5

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 34.6% to RMB47.1 billion in 2021 from RMB35.0 billion in 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 business; (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.

Management Discussion and Analysis

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, in 2021 and 2020, respectively:

	Year Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Gross profit	<u>34,029,705</u>	<u>42.0</u>	<u>23,814,637</u>	<u>40.5</u>

As a result of the foregoing, our gross profit increased by 42.9% to RMB34.0 billion in 2021 from RMB23.8 billion in 2020. Our gross profit margin increased to 42.0% in 2021 from 40.5% in 2020, mainly due to the decreased cost of revenues as a percentage of our total revenues primarily driven by the decrease in revenue sharing costs and related taxes as a percentage of our total revenues as a result of change in revenue mix, partially offset by increases in employee benefit expenses, and content costs as part of other cost of revenues, both as a percentage of our total revenues.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 66.0% to RMB44.2 billion in 2021 from RMB26.6 billion in 2020, and increased to 54.5% in 2021 from 45.3% in 2020 as a percentage of our total revenues. The increase was primarily attributable to (i) an increase in promotion and advertising expenses as a result of the increased spending for promotion of our products, which to some extent was due to the intense competition surrounding traffic acquisition, and (ii) the increased spending for our brand marketing campaign and for overseas market business development.

Administrative Expenses

Our administrative expenses increased by 102.8% to RMB3.4 billion in 2021 from RMB1.7 billion in 2020, 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. If the impact from share-based compensation expenses had been excluded, the administrative expenses as a percentage of revenues would have been 2.8% and 2.4% for 2021 and 2020, respectively.

Research and Development Expenses

Our research and development expenses increased by 128.4% to RMB15.0 billion in 2021 from RMB6.5 billion in 2020, primarily due to an 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, the research and development expenses as a percentage of revenues would have been 12.1% and 8.9% for 2021 and 2020, respectively.

Management Discussion and Analysis

Other Income

Our other income increased by 94.5% to RMB1.0 billion in 2021 from RMB528.0 million in 2020, primarily due to more government grants and value-added tax subsidies in 2021 as compared to 2020.

Other (Losses)/Gains, Net

We had other losses, net of RMB225.3 million in 2021, compared to other gains, net of RMB176.5 million in 2020, which was primarily due to the impairment provision for investments recorded in 2021.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB27.7 billion and a negative operating margin of 34.2% in 2021, compared to an operating loss of RMB10.3 billion and a negative operating margin of 17.6% in 2020.

Finance Expense, Net

We had finance expense, net of RMB38.5 million and RMB35.3 million in 2021 and 2020, respectively, 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

Fair value changes of convertible redeemable preferred shares were negative RMB51.3 billion in 2021, compared to negative RMB106.8 billion in 2020, primarily due to changes in valuation of the Company, which was determined by the offering price of Shares in our initial public offering.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method was RMB86.7 million in 2021, compared to nil in 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 RMB79.1 billion and RMB117.2 billion in 2021 and 2020, respectively.

Income Tax Benefits

We had income tax benefits of RMB1.0 billion and RMB565.5 million in 2021 and 2020, respectively, primarily due to the recognition of deferred tax assets attributable to the net losses incurred by certain subsidiaries.

Management Discussion and Analysis

Loss for the Year

As a result of the foregoing, our loss for the year was RMB78.1 billion and RMB116.6 billion in 2021 and 2020, respectively.

FOURTH QUARTER OF 2021 COMPARED TO FOURTH QUARTER OF 2020

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

	Unaudited Three Months Ended December 31,			
	2021 RMB	%	2020 RMB	%
<i>(in thousands, except for percentages)</i>				
Revenues	24,430,260	100.0	18,098,656	100.0
Cost of revenues	(14,281,697)	(58.5)	(9,594,824)	(53.0)
Gross profit	10,148,563	41.5	8,503,832	47.0
Selling and marketing expenses	(10,229,580)	(41.9)	(6,781,475)	(37.5)
Administrative expenses	(919,756)	(3.8)	(595,398)	(3.3)
Research and development expenses	(4,016,063)	(16.4)	(2,429,671)	(13.4)
Other income	222,516	0.9	131,845	0.7
Other losses, net	(995,834)	(4.0)	(206,658)	(1.1)
Operating loss	(5,790,154)	(23.7)	(1,377,525)	(7.6)
Finance expense, net	(56,730)	(0.2)	(8,717)	(0.0)
Fair value changes of convertible redeemable preferred shares	—	—	(17,695,493)	(97.8)
Share of losses of investments accounted for using the equity method	(24,771)	(0.1)	—	—
Loss before income tax	(5,871,655)	(24.0)	(19,081,735)	(105.4)
Income tax expenses	(331,088)	(1.4)	(182,045)	(1.0)
Loss for the period	(6,202,743)	(25.4)	(19,263,780)	(106.4)
Non-IFRS Measures:				
Adjusted net loss	(3,568,768)	(14.6)	(459,271)	(2.5)
Adjusted EBITDA	(1,290,186)	(5.3)	1,172,504	6.5

Management Discussion and Analysis

Revenues

Our revenues increased by 35.0% to RMB24.4 billion for the fourth quarter of 2021, from RMB18.1 billion for the same period of 2020. The increase was primarily attributable to our online marketing services, e-commerce business and live streaming.

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

	Unaudited Three Months Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>				
Online marketing services	13,236,475	54.2	8,511,345	47.0
Live streaming	8,827,182	36.1	7,899,803	43.6
Other services	2,366,603	9.7	1,687,508	9.4
Total	24,430,260	100.0	18,098,656	100.0

Online marketing services

Revenue from our online marketing services increased by 55.5% to RMB13.2 billion for the fourth quarter of 2021, from RMB8.5 billion for the same period of 2020, primarily attributable to user traffic growth and the growing number of advertisers, driven by improvements in advertiser experience and ad performance.

Live streaming

Revenue from our live streaming business increased by 11.7% to RMB8.8 billion for the fourth quarter of 2021, from RMB7.9 billion for the same period of 2020, as a result of 17.2% year-over-year growth in the monthly ARPPU, which was further supported by improved content quality and operating efficiency.

Other services

Revenue from our other services increased by 40.2% to RMB2.4 billion for the fourth quarter of 2021, from RMB1.7 billion for the same period of 2020, primarily due to the growth of our e-commerce business.

Management Discussion and Analysis

Cost of Revenues

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

	2021		2020	
	RMB	%	RMB	%
Unaudited				
Three Months Ended December 31,				
<i>(in thousands, except for percentages)</i>				
Revenue sharing costs and related taxes ⁽¹⁾	8,191,079	33.5	5,137,058	28.4
Bandwidth expenses and server custody costs ⁽²⁾	1,808,818	7.4	1,814,894	10.0
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽²⁾	1,686,273	6.9	1,338,734	7.4
Employee benefit expenses	893,225	3.7	560,532	3.1
Payment processing costs	526,692	2.2	317,145	1.8
Other cost of revenues	1,175,610	4.8	426,461	2.3
Total	14,281,697	58.5	9,594,824	53.0

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 48.8% to RMB14.3 billion for the fourth quarter of 2021, from RMB9.6 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) 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; (iii) increases in 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 business; and (iv) 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.

Management Discussion and Analysis

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 fourth quarter of 2021 and 2020, respectively:

	Unaudited Three Months Ended December 31,			
	2021		2020	
	RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>				
Gross profit	<u>10,148,563</u>	<u>41.5</u>	<u>8,503,832</u>	<u>47.0</u>

As a result of the foregoing, our gross profit increased by 19.3% to RMB10.1 billion for the fourth quarter of 2021, from RMB8.5 billion for the same period of 2020. Our gross profit margin decreased to 41.5% for the fourth quarter of 2021, from 47.0% 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 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 increased by 50.8% to RMB10.2 billion for the fourth quarter of 2021, from RMB6.8 billion for the same period of 2020, and increased to 41.9% from 37.5% as a percentage of our total revenues. The increase was primarily attributable 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 54.5% to RMB919.8 million for the fourth quarter of 2021, from RMB595.4 million for the same period of 2020, 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 65.3% to RMB4.0 billion for the fourth quarter of 2021, from RMB2.4 billion for the same period of 2020, primarily attributable to an 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, the research and development expenses as a percentage of revenues would have been 11.9% and 9.9% for the fourth quarter of 2021 and 2020, respectively.

Management Discussion and Analysis

Other Income

Our other income increased by 68.8% to RMB222.5 million for the fourth quarter of 2021, from RMB131.8 million for the same period of 2020, primarily due to more government grants and value-added tax subsidies for the fourth quarter of 2021 as compared to the same period of 2020.

Other Losses, Net

We recorded other losses, net of RMB995.8 million and RMB206.7 million for the fourth quarter of 2021 and 2020, respectively. The increase was primarily due to the impairment provision for investments recorded in 2021.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB5.8 billion and a negative operating margin of 23.7% for the fourth quarter of 2021, compared to an operating loss of RMB1.4 billion and a negative operating margin of 7.6% for the same period of 2020.

Finance Expense, Net

Our finance expense, net was RMB56.7 million and RMB8.7 million for the fourth quarter of 2021 and 2020, respectively, 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

Fair value changes of convertible redeemable preferred shares were nil for the fourth quarter of 2021, as a result of the completion of our initial public offering in February 2021, compared to negative RMB17.7 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 RMB24.8 million for the fourth 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 RMB5.9 billion and RMB19.1 billion for the fourth quarter of 2021 and 2020, respectively.

Management Discussion and Analysis

Income Tax Expenses

We incurred income tax expenses of RMB331.1 million and RMB182.0 million for the fourth quarter of 2021 and 2020, respectively.

Loss for the Period

As a result of the foregoing, our loss was RMB6.2 billion for the fourth quarter of 2021, compared to RMB19.3 billion for the same period of 2020.

FOURTH QUARTER OF 2021 COMPARED TO THIRD QUARTER OF 2021

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

	December 31, 2021		September 30, 2021	
	RMB	%	RMB	%
	Unaudited			
	Three Months Ended			
	<i>(in thousands, except for percentages)</i>			
Revenues	24,430,260	100.0	20,492,977	100.0
Cost of revenues	(14,281,697)	(58.5)	(11,984,377)	(58.5)
Gross profit	10,148,563	41.5	8,508,600	41.5
Selling and marketing expenses	(10,229,580)	(41.9)	(11,016,923)	(53.8)
Administrative expenses	(919,756)	(3.8)	(913,050)	(4.5)
Research and development expenses	(4,016,063)	(16.4)	(4,217,699)	(20.6)
Other income	222,516	0.9	425,534	2.2
Other losses, net	(995,834)	(4.0)	(190,052)	(0.9)
Operating loss	(5,790,154)	(23.7)	(7,403,590)	(36.1)
Finance (expense)/income, net	(56,730)	(0.2)	23,420	0.1
Share of losses of investments accounted for using the equity method	(24,771)	(0.1)	(36,995)	(0.2)
Loss before income tax	(5,871,655)	(24.0)	(7,417,165)	(36.2)
Income tax (expenses)/benefits	(331,088)	(1.4)	330,269	1.6
Loss for the period	(6,202,743)	(25.4)	(7,086,896)	(34.6)
Non-IFRS Measures:				
Adjusted net loss	(3,568,768)	(14.6)	(4,616,262)	(22.5)
Adjusted EBITDA	(1,290,186)	(5.3)	(3,174,157)	(15.5)

Management Discussion and Analysis

Revenues

Our revenues increased by 19.2% to RMB24.4 billion for the fourth quarter of 2021, from RMB20.5 billion for the third quarter of 2021, primarily attributable to our online marketing services, live streaming and 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 fourth and third quarter of 2021, respectively:

	Unaudited Three Months Ended			
	December 31, 2021		September 30, 2021	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Online marketing services	13,236,475	54.2	10,909,035	53.2
Live streaming	8,827,182	36.1	7,724,141	37.7
Other services	2,366,603	9.7	1,859,801	9.1
Total	24,430,260	100.0	20,492,977	100.0

Online marketing services

Revenue from our online marketing services increased by 21.3% to RMB13.2 billion for the fourth quarter of 2021, from RMB10.9 billion for the third quarter of 2021, primarily attributable to user traffic growth and the growing number of advertisers, driven by improvements in advertiser experience and ad performance.

Live streaming

Revenue from our live streaming business was RMB8.8 billion for the fourth quarter of 2021, compared to RMB7.7 billion for the third quarter of 2021, as more audience were drawn to our live streaming by improved content quality and operating efficiency.

Other services

Revenue from our other services increased by 27.3% to RMB2.4 billion for the fourth quarter of 2021, from RMB1.9 billion for the third quarter of 2021, primarily due to the growth of our e-commerce business.

Management Discussion and Analysis

Cost of Revenues

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

	Unaudited Three Months Ended		September 30, 2021	
	December 31, 2021 RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>				
Revenue sharing costs and related taxes ⁽¹⁾	8,191,079	33.5	6,105,445	29.8
Bandwidth expenses and server custody costs ⁽²⁾	1,808,818	7.4	1,945,954	9.5
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽²⁾	1,686,273	6.9	1,620,731	7.9
Employee benefit expenses	893,225	3.7	926,541	4.5
Payment processing costs	526,692	2.2	398,484	1.9
Other cost of revenues	1,175,610	4.8	987,222	4.9
Total	14,281,697	58.5	11,984,377	58.5

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 19.2% to RMB14.3 billion for the fourth quarter of 2021, from RMB12.0 billion for the third quarter of 2021, primarily attributable to the increase in revenue sharing costs and related taxes in line with our revenue growth.

Management Discussion and Analysis

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 fourth and third quarter of 2021, respectively:

	Unaudited Three Months Ended			
	December 31, 2021		September 30, 2021	
	RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>				
Gross profit	<u>10,148,563</u>	<u>41.5</u>	<u>8,508,600</u>	<u>41.5</u>

As a result of the foregoing, our gross profit increased by 19.3% to RMB10.1 billion for the fourth quarter of 2021, from RMB8.5 billion for the third quarter of 2021. Our gross profit margin was 41.5% for both the fourth and the third quarter of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 7.1% to RMB10.2 billion for the fourth quarter of 2021, from RMB11.0 billion for the third quarter of 2021, and decreased to 41.9% for the fourth quarter of 2021 from 53.8% for the third quarter of 2021 as a percentage of our total revenues. The decrease was primarily attributable to disciplined and more efficient spending on user acquisition and maintenance.

Administrative Expenses

Our administrative expenses slightly increased by 0.7% to RMB919.8 million for the fourth quarter of 2021, from RMB913.1 million for the third quarter of 2021.

Research and Development Expenses

Our research and development expenses decreased by 4.8% to RMB4.0 billion for the fourth quarter of 2021, from RMB4.2 billion for the third quarter of 2021.

Other Income

Our other income was RMB222.5 million for the fourth quarter of 2021, compared to RMB425.5 million for the third quarter of 2021, mainly attributable to less government grants in the fourth quarter of 2021 as compared to the third quarter of 2021.

Management Discussion and Analysis

Other Losses, Net

We recorded other losses, net of RMB995.8 million for the fourth quarter of 2021, compared to other losses, net of RMB190.1 million for the third quarter of 2021. The increase was primarily due to the impairment provision for investments recorded in the fourth quarter of 2021.

Operating Loss

As a result of the foregoing, we had operating loss of RMB5.8 billion for the fourth quarter of 2021, and operating loss of RMB7.4 billion for the third quarter of 2021, and our operating margin was negative 23.7% for the fourth quarter of 2021, compared to negative 36.1% for the third quarter of 2021.

Finance (Expense)/Income, Net

We had finance expense, net of RMB56.7 million in the fourth quarter of 2021, compared to finance income, net of RMB23.4 million in the third quarter of 2021. The change was primarily due to the increase in interest expense from lease liabilities, partially offset by 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 RMB24.8 million for the fourth quarter of 2021 and RMB37.0 million for the third quarter of 2021.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB5.9 billion for the fourth quarter of 2021, compared to RMB7.4 billion for the third quarter of 2021.

Income Tax (Expenses)/Benefits

We had income tax expenses of RMB331.1 million for the fourth quarter of 2021, compared to income tax benefits of RMB330.3 million for the third quarter of 2021, because more current income tax expenses were incurred than deferred income tax benefits for the fourth quarter of 2021.

Loss for the Period

As a result of the foregoing, our loss was RMB6.2 billion for the fourth quarter of 2021, compared to RMB7.1 billion for the third quarter of 2021.

Management Discussion and Analysis

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 years ended December 31, 2021 and 2020, respectively, to the nearest measures prepared in accordance with IFRS:

	Year Ended December 31,	
	2021	2020
	<i>(in RMB thousands)</i>	
Loss for the year	(78,077,101)	(116,635,242)
Add:		
Share-based compensation expenses	7,830,249	1,840,886
Fair value changes of convertible redeemable preferred shares	51,275,797	106,845,549
Net fair value changes on investments ⁽¹⁾	119,286	84,989
Adjusted net loss (unaudited)	(18,851,769)	(7,863,818)
Adjusted net loss (unaudited)	(18,851,769)	(7,863,818)
Add:		
Income tax benefits	(1,025,155)	(565,548)
Depreciation of property and equipment	3,985,910	3,077,674
Depreciation of right-of-use assets	2,735,442	1,656,457
Amortization of intangible assets	163,665	128,861
Finance expense, net	38,536	35,288
Adjusted EBITDA (unaudited)	(12,953,371)	(3,531,086)

Management Discussion and Analysis

Note:

- (1) Net fair value changes on investments represents net fair value (gains)/losses on financial assets at fair value through profit or loss of our investments in listed and unlisted entities and impairment provision for investments, which is unrelated to our core business and operating performance and subject to market fluctuations, and exclusion of which provides investors with more relevant and useful information to evaluate our performance.

The following table sets forth the reconciliations of our non-IFRS financial measures for the fourth quarter of 2021, the third quarter of 2021 and the fourth quarter of 2020, respectively, to the nearest measures prepared in accordance with IFRS:

	Unaudited		
	Three Months Ended		
	December 31,	September 30,	December 31,
	2021	2021	2020
	(in RMB thousands)		
Loss for the period	(6,202,743)	(7,086,896)	(19,263,780)
Add:			
Share-based compensation expenses	1,742,471	2,264,622	863,799
Fair value changes of convertible redeemable preferred shares	—	—	17,695,493
Net fair value changes on investments ⁽¹⁾	891,504	206,012	245,217
Adjusted net loss	(3,568,768)	(4,616,262)	(459,271)
Adjusted net loss	(3,568,768)	(4,616,262)	(459,271)
Add:			
Income tax expenses/(benefits)	331,088	(330,269)	182,045
Depreciation of property and equipment	1,077,220	1,030,724	903,482
Depreciation of right-of-use assets	776,990	721,717	499,239
Amortization of intangible assets	36,554	43,353	38,292
Finance expense/(income), net	56,730	(23,420)	8,717
Adjusted EBITDA	(1,290,186)	(3,174,157)	1,172,504

Note:

- (1) Net fair value changes on investments represents net fair value (gains)/losses on financial assets at fair value through profit or loss of our investments in listed and unlisted entities and impairment provision for investments, which is unrelated to our core business and operating performance and subject to market fluctuations, and exclusion of which provides investors with more relevant and useful information to evaluate our performance.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

Other than the funds raised through our Global Offering in February 2021, 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 RMB32.6 billion as of December 31, 2021, compared to RMB20.4 billion as of December 31, 2020.

The following table sets forth a summary of our cash flows for the years ended December 31, 2021 and 2020, respectively:

	Year Ended December 31,	
	2021	2020
	(in RMB thousands)	
Net cash (used in)/generated from operating activities	(5,519,291)	2,288,640
Net cash used in investing activities	(18,361,335)	(4,867,465)
Net cash generated from financing activities	36,500,187	19,290,120
Net increase in cash and cash equivalents	12,619,561	16,711,295
Cash and cash equivalents at the beginning of the year	20,391,545	3,996,236
Effects of exchange rate changes on cash and cash equivalents	(398,687)	(315,986)
Cash and cash equivalents at the end of the year	32,612,419	20,391,545

Net Cash (Used in)/Generated from Operating Activities

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

For the year ended December 31, 2021, our net cash used in operating activities was RMB5.5 billion, which was primarily attributable to our loss before income tax of RMB79.1 billion, adjusted by non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB51.3 billion, share-based compensation expenses of RMB7.8 billion, depreciation of property and equipment of RMB4.0 billion, depreciation of right-of-use assets of RMB2.7 billion, partially offset by net fair value gains on financial assets at fair value through profit or loss of RMB1.0 billion. The amount was further adjusted by changes in working capital, which primarily comprised increases in accounts payables of RMB8.0 billion and other payables and accruals of RMB3.4 billion, partially offset by increase in trade receivables of RMB2.0 billion and increase in prepayments, other receivables and other current assets of RMB907.2 million. We also paid income tax of RMB1.5 billion.

Management Discussion and Analysis

Net Cash Used in Investing Activities

For the year ended December 31, 2021, our net cash used in investing activities was RMB18.4 billion, which was primarily attributable to purchase of investments in current financial assets at fair value through profit or loss of RMB72.4 billion, purchase of time deposits with initial terms of over three months of RMB12.9 billion, purchase of property, equipment and intangible assets of RMB7.8 billion and purchase of investments in non-current financial assets at fair value through profit or loss of RMB1.0 billion, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB67.4 billion and proceeds from maturity of time deposits with initial terms over three months of RMB8.2 billion.

Net Cash Generated from Financing Activities

For the year ended December 31, 2021, our net cash generated from financing activities was RMB36.5 billion, which was primarily attributable to net proceeds from issuance of ordinary shares relating to the initial public offering of RMB39.2 billion, partially offset by payments for principal elements of lease and the related interest of RMB2.7 billion.

BORROWINGS

We did not have any borrowings as of December 31, 2021.

GEARING RATIO

As of December 31, 2021, our gearing ratio, calculated as total borrowings divided by total equity attributable to equity holders of the Company, was zero.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2021.

SIGNIFICANT INVESTMENTS HELD

As of December 31, 2021, we did not hold any significant investments in the equity interests of any other companies.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the year ended December 31, 2021, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Management Discussion and Analysis

PLEDGE OF ASSETS

As of December 31, 2021, we had not pledged any assets of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as otherwise disclosed in this annual report, as of the Latest Practicable Date, we have no specific plan for material investments or acquisition of capital assets. However, we will continue to identify new opportunities for business development and investments.

FOREIGN EXCHANGE RISK

For the year ended December 31, 2021, most transactions of the Group were settled in RMB and USD. Thus, our business is not exposed to any significant foreign exchange risk as the Group has no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of the entities within the Group.

The Group has not engaged in hedging activities designed or intended to manage foreign exchange rate risk during the year ended December 31, 2021. However, the Group will continue to monitor foreign exchange risk from time to time based on its business development requirements to best preserve the Group's cash value, and may enter into forward foreign exchange contracts or engage in other hedging activities when necessary.

IMPACT OF THE CORONAVIRUS OUTBREAK

During the outbreak of COVID-19, including the emergence of the Delta and Omicron virus variants, the PRC government adopted various social distancing initiatives in response to the pandemic, and 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 certain factors, including (i) decreased advertising spending from certain of our advertisers who experienced uncertainties in their business operations due to the further spread of COVID-19 and its multiple variants, which in turn affected our online marketing service revenue; (ii) reduced incomes and declined consumption of our users as a result of the economic disruption caused by the COVID-19 pandemic, which had an impact on the revenue from our live streaming business and the growth of our e-commerce GMV; and (iii) supply chain disruptions and logistics challenges that had limited our merchants' capabilities to provide merchandise and services to our users, affecting our e-commerce GMV.

While there has been improvement in the COVID-19 situation in China, we are uncertain as to when the outbreak of COVID-19 will continue to be contained, and we also cannot predict if the impact will be long-lasting. In particular, the recent emergence of the Omicron virus variant, a COVID-19 virus variant that is significantly more infectious than its predecessors, could affect the overall business sentiment. We took a series of measures in response to the outbreak to protect our employees in compliance with governments' measures, including, among others, remote working arrangements for our employees and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations.

Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2021.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on February 11, 2014 as an exempted company with limited liability under the laws of the Cayman Islands. The Class B Shares were listed on the Main Board of the Stock Exchange on the Listing Date.

USE OF PROCEEDS

Use of Proceeds from 2020 Issuance of Convertible Redeemable Preferred Shares

The Company raised net proceeds of approximately RMB20,956.5 million from issuance of convertible redeemable series F-1 & F-2 preferred shares during the year ended December 31, 2020 (the “**2020 Issuance of Convertible Redeemable Preferred Shares**”). The convertible redeemable series F-1 & F-2 preferred shares were automatically converted into Class B Shares upon the Listing.

There has been no change in the intended use of net proceeds. The Group has utilized the net proceeds from the 2020 Issuance of Convertible Redeemable Preferred Shares as set out in the table below:

Net proceeds raised (RMB million)	Proposed use of net proceeds	Amount of net proceeds utilized as of December 31, 2021 (RMB million)	Balance of net proceeds as of December 31, 2021 (RMB million)	Expected timeline of full utilization of net proceeds
20,956.5	Business operations and other general corporate purposes	9,328.7	8,676.3	Before December 31, 2024
	Capital expenditure	2,951.5		Before December 31, 2024

Use of Proceeds from the Global Offering

The Class B Shares were listed on the Main Board of the Stock Exchange on the Listing Date. Based on the offer price of HK\$115.00 per offer share, the net proceeds from the Global Offering received by the Company, after deduction of the underwriting commission and other expenses payable by the Company in connection with the Global Offering, were approximately HK\$41,218.0 million.

Report of the Board of Directors

On February 7, 2021, the underwriters of the Global Offering fully exercised the over-allotment option in respect of an aggregate of 54,782,700 Class B Shares, among which 50,737,300 Class B Shares were newly allotted and issued by the Company. The additional net proceeds of approximately HK\$5,746.4 million were received by the Company from the allotment and issuance of such 50,737,300 new Class B Shares, after deducting the underwriting commission and related expenses payable by the Company relating to the exercise of the over-allotment option.

There was no change in the intended use of net proceeds as previously disclosed in the Prospectus. Please refer to “Future Plans and Use of Proceeds” in the Prospectus for details.

As of December 31, 2021, the Group has utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from the Global Offering <i>(HK\$ million)</i>	Amount of net proceeds utilized as of December 31, 2021 <i>(HK\$ million)</i>	Balance of net proceeds as of December 31, 2021 <i>(HK\$ million)</i>	Expected timeline of full utilization of net proceeds
Approximately 35% to enhance and grow the ecosystem	16,437.5	9,409.6	7,027.9	Before December 31, 2023
Approximately 30% to strengthen research and development and technological capabilities	14,089.3	6,981.4	7,107.9	Before December 31, 2023
Approximately 25% to selectively acquire or invest in products, services and businesses	11,741.1	335.6	11,405.5	Before December 31, 2023
Approximately 10% for working capital and general corporate purposes	4,696.5	2,162.8	2,533.7	Before December 31, 2023
Total	46,964.4	18,889.4	28,075.0	

Report of the Board of Directors

Since the Company is an offshore holding company, it will need to make capital contributions and loans to its PRC subsidiaries or through loans to the Consolidated Affiliated Entities such that the net proceeds received from 2020 Issuance of Convertible Redeemable Preferred Shares and the Global Offering can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. The Company cannot assure that it can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use the net proceeds as described above, in each case on a timely basis, or at all. This is because PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent the Company from using the net proceeds to make loans or additional capital contributions to its PRC subsidiaries or Consolidated Affiliated Entities, which could materially and adversely affect its liquidity and its ability to fund and expand its business.

BUSINESS AND COMPANY-RELATED INFORMATION

Principal Activities

The Group is a leading content community and social platform. As the various parts of the Group's platform work together, they enable numerous interactions among the Group's ecosystem participants and generate a significant network effect:

- **Content:** The Group's users have contributed to a vast and organically growing repository of short video and live streaming content, as well as the community and the myriad of social interactions and connections that springs from it. The Group promotes content on its platform that embraces all lifestyles and reflects the lives of its users.
- **Business:** The Group works with its business partners to provide products and services that address the various needs that arise naturally on its platform. These products and services include entertainment, online marketing services, e-commerce, online games, online knowledge-sharing, and more.
- **Technology and Data:** The Group's advanced technologies and massive data repository support its ecosystem. The Group's technological capabilities enable it to serve the interests and needs of users and cover various aspects of content creation, compression, transmissions, analysis, recommendation, search and other fields.

Report of the Board of Directors

Results of Operations

The results of the Group for the year ended December 31, 2021 are set out in the consolidated income statement contained in this annual report.

Five-Year Financial Summary

A summary of the condensed consolidated income statements and statements of comprehensive loss, and condensed consolidated balance sheets of the Group is set out on page 6 of this annual report.

Dividend Policy and Final Dividends

The Company is 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 its 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.

Subject to the requirements of the Articles of Association, Cayman Islands law and other applicable laws and regulations, the Board has absolute discretion to recommend any dividend. The determination to pay dividends will be made at the discretion of the Board and will depend upon the Group's earnings and financial condition, operating requirements, capital and investment requirements, level of indebtedness and any other factors that the Board may deem relevant. The Company will continue to re-evaluate its dividend policy in light of its financial condition and the prevailing economic environment. Dividend distribution to the Shareholders is recognized as a liability in the period in which the dividends are approved by the Shareholders or Directors, where appropriate.

The Company does not have any present plan to pay any dividends to our Shareholders in the foreseeable future. However, the Company may distribute dividends in the future by way of cash or by other means that the Board considers appropriate.

After due consideration of the Shareholders' as well as the Company's long-term interests, the Board did not recommend the payment of a final dividend for the year ended December 31, 2021.

As of the Latest Practicable Date, there is no arrangement under which a Shareholder has waived or agreed to waive any dividend (including future dividends).

Report of the Board of Directors

Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance, including analysis of the Group's financial performance, an indication of likely future developments in the Group's business, a description of the principal risks and uncertainties facing the Group and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report. These discussions form part of the Group's business review.

Future Development

The Company aims to be the most customer-obsessed company in the world. The Group's mission is to help people discover their needs and use their talents in order to find their unique brand of happiness. To achieve such mission and further strengthen the Group's market leadership, the Group intends to pursue the following strategies:

- continue to exceed users' expectations;
- continue to strengthen our technological capabilities;
- further expand on our ecosystem and monetization capabilities; and
- selectively pursue strategic alliances, investments and acquisitions.

Environmental Policies and Performance

The Group is not subject to significant environmental risks. During the Reporting Period, the Group had not been subject to any fines or other penalties due to non-compliance with environmental regulations.

More details of the environmental policies and performance of the Company are set out in the environmental, social and governance report to be issued by the Company in due course.

Relationships with Stakeholders

Employees

The Group had 28,098 full-time employees as of December 31, 2021. The Group also used some third-party labor outsourcing and labor dispatch services, though most of our employees were directly employed by us. Substantially all of the Group's employees are based in China, primarily at our headquarters in Beijing as well as in Chengdu, Wuhan, Wuxi, Tianjin and other cities.

Report of the Board of Directors

The Group's success depends on its ability to attract, retain and motivate qualified personnel. The Group adopts high standards in recruitment with strict procedures to ensure the quality of new hires. The Group uses various methods for our recruitment, including campus recruitment, online recruitment, internal recommendation and recruitment through headhunter firms or agents, to satisfy its demand for different types of talents, and pay competitive market salaries.

The Group provides robust training programs for its employees, which it believes are effective in equipping them with the necessary skillset and work ethic. As required by PRC laws, it participates in mandatory employee social security schemes that are organized by municipal and provincial governments, including pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing provident funds. The Group and its employees are required to bear the costs of the social security schemes in proportion to a specified percentage. The Group is required under PRC law to make contributions to employee social security plans directly at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

The total remuneration expenses of the employees of the Group for the year ended December 31, 2021 are set out in Note 10 to the Consolidated Financial Statements in this annual report.

Customers and Suppliers

The Group's major customers primarily include advertisers, merchants and individuals. The Group's top five customers accounted for less than 10% of the Group's total revenues for the year ended December 31, 2021. The Group's major suppliers primarily include marketing service providers, cloud service providers and bandwidth service providers. The Group's top five suppliers accounted for less than 15% of the Group's purchasers for the year ended December 31, 2021.

Property and Equipment

Details of movements in the property and equipment of the Group during the Reporting Period are set out in Note 15 to the Consolidated Financial Statements in this annual report.

Share Capital

Details of the movements in the Company's share capital during the Reporting Period are set out in Note 24 to the Consolidated Financial Statements in this annual report.

Reserves and Distributable Reserves

Details of movements in the reserves of the Company during the Reporting Period are set out in Note 38 to the Consolidated Financial Statements in this annual report. As of December 31, 2021, the Company had distributable reserves amounting to RMB81,509.9 million.

Report of the Board of Directors

Bank Loans and Other Borrowings

As of December 31, 2021, the Group did not have any bank loans or other borrowings.

Issue of Debentures

The Group has not issued any debentures during the Reporting Period.

Purchase, Sale or Redemption of the Company's 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 Reporting Period.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

Tax Relief and Exemption and Professional Tax Advice Recommended

The Company is not aware of any tax relief or exemption available to the Shareholders by reasons of their holding of the Company's securities. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights (including entitlements to any relief of taxation) in relation to, the Shares, they are advised to consult an expert.

Charitable Donations

During the Reporting Period, the Group made approximately RMB75.7 million charitable and other donations.

Contracts with the Controlling Shareholders

Save as disclosed in this annual report, no contract of significance has been entered into among the Company or any of its subsidiaries, the Consolidated Affiliated Entities and the Controlling Shareholders during the Reporting Period.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existing during the Reporting Period.

Report of the Board of Directors

Corporate Governance

The Company is committed to maintaining and promoting high standards of corporate governance which are crucial to the Company'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 during the Reporting Period. Information on the corporate governance practices adopted by the Company is set forth in the section headed "Corporate Governance Report" of this annual report.

Sufficiency of Public Float

Based on the information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public since the Listing Date and up to the Latest Practicable Date.

Legal Proceedings and Compliance

The Group may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of its business. During the Reporting Period, the Group had not been a party to, and was not aware of any threat of, any legal, arbitral or administrative proceedings, which, in its opinion, would likely have a material and adverse effect on its business, financial conditions or results of operations.

The Group is subject to applicable laws and regulations in the PRC in respect of its business operations. During the Reporting Period, the Group had not been and were not involved in any non-compliance incidents that led to fines, enforcement action or other penalties that could, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition or results of operations, and the Group had been in compliance with applicable laws and regulations in all material respects.

Important Events after December 31, 2021

Save as otherwise disclosed in this annual report, there were no other significant events affecting the Group which occurred after December 31, 2021 and up to the Latest Practicable Date.

Annual General Meeting

The 2022 AGM of the Company will be held on Friday, June 17, 2022. A notice convening the 2022 AGM will be published and despatched to the Shareholders in the manner required by the Listing Rules in due course.

Report of the Board of Directors

Closure of Register of Members

For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Tuesday, June 14, 2022 to Friday, June 17, 2022 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2022 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, June 13, 2022.

Weighted Voting Rights

The Company is controlled through weighted voting rights. Each Class A Share has 10 votes per share and each Class B Share has one vote per share except with respect to resolutions regarding a limited number of Reserved Matters, where each Share has one vote. The Company's weighted voting rights structure will enable the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest in the share capital of the Company. This allows the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control the Company with a view to its long-term prospects and strategy.

Shareholders and prospective investors are advised to be aware of the potential risks of investing in companies with weighted voting rights structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of the Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration.

As of the Latest Practicable Date, the WVR Beneficiaries are Mr. SU Hua and Mr. CHENG Yixiao.

- (1) Mr. SU Hua is interested in and controls, through Reach Best, 427,469,521 Class A Shares and 54,713,783 Class B Shares, representing approximately 11.30% of the Company's total issued share capital, approximately 11.30% of the voting rights in the Company with respect to shareholder resolutions in relation to the Reserved Matters, and approximately 38.78% with respect to matters other than the Reserved Matters.
- (2) Mr. CHENG Yixiao is interested and controls, through Ke Yong, 338,767,480 Class A Shares and 43,770,873 Class B Shares, representing approximately 8.96% of the Company's total issued share capital, approximately 8.96% of the voting rights in the Company with respect to shareholder resolutions in relation to the Reserved Matters, and approximately 30.74% with respect to matters other than the Reserved Matters.

Class A Shares may be converted into Class B Shares on a one to one ratio. As of the Latest Practicable Date, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 766,237,001 Class B Shares, representing approximately 21.88% of the total number of issued and outstanding Class B Shares as of the Latest Practicable Date.

Report of the Board of Directors

The weighted voting rights attached to Class A Shares will cease when none of the WVR Beneficiaries have beneficial ownership of any of the Class A Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (1) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where both WVR Beneficiaries are: (1) deceased; (2) no longer members of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing their duties as directors; or (4) deemed by the Stock Exchange to no longer meet the requirements of directors set out in the Listing Rules;
- (2) when the holders of Class A Shares have transferred to other persons the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (3) where the vehicles holding Class A Shares on behalf of both WVR Beneficiaries no longer comply with Rule 8A.18(2) of the Listing Rules; or
- (4) when all of the Class A Shares have been converted to Class B Shares.

DIRECTORS AND SENIOR MANAGEMENT

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors

Mr. SU Hua (宿華) (*Chairman of the Board*)
Mr. CHENG Yixiao (程一笑)

Non-executive Directors

Mr. LI Zhaohui (李朝暉)
Mr. ZHANG Fei (張斐)
Dr. SHEN Dou (沈抖)
Mr. LIN Frank (林欣禾) (*alias LIN Frank Hurst*)

Independent Non-executive Directors

Mr. WANG Huiwen (王慧文)
Mr. HUANG Sidney Xuande (黃宣德)
Mr. MA Yin (馬寅)

Report of the Board of Directors

The biographical details of the Directors are set out in “— Biographical Details and Other Information of the Directors” below.

In accordance with article 17.19 of the Articles of Association, Mr. LI Zhaohui, Dr. SHEN Dou and Mr. LIN Frank shall retire by rotation at the 2022 AGM and, being eligible for re-election at the 2022 AGM. Details of the Directors to be re-elected at the 2022 AGM are set out in the circular to the Shareholders to be despatched in due course.

Confirmation of Independence of Independent Non-executive Directors

Our Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

Biographical Details and Other Information of the Directors

We set forth below the updated biographical details and other information of the Directors.

Executive Directors

Mr. SU Hua (宿華先生)

Mr. SU Hua, aged 39, is our co-founder, executive Director and chairman of the Board. He is also a member of the Remuneration Committee. Mr. SU currently holds directorship in certain subsidiaries of the Group. Since October 2021, Mr. SU has ceased to act as the Chief Executive Officer of the Group, while he continued to serve in the Group as an executive Director and chairman of the Board, and focused primarily on formulating the Group’s long-term strategies and exploring new initiatives.

Mr. SU joined the Group in November 2013. Prior to that, Mr. SU worked as an engineer at Google China from December 2006 to October 2008, and Baidu, Inc. (a company listed on Nasdaq with stock symbol of BIDU with its secondary listing on the Stock Exchange with stock code of 9888) from January 2010 to May 2011.

Mr. SU received his bachelor’s degree in computer software from the School of Software, Tsinghua University in Beijing, the PRC, in July 2005.

Mr. CHENG Yixiao (程一笑先生)

Mr. CHENG Yixiao, aged 38, is our co-founder, executive Director and Chief Executive Officer. He is also a member of the Nomination Committee. Mr. CHENG currently holds directorship in certain subsidiaries of the Group and he has been appointed as the Chief Executive Officer of the Group since October 2021. Mr. CHENG is responsible for overseeing the management of the business and operations of the Group, including leading the day-to-day operations, supervising product-related matters and strategic investments and acquisitions of the Group.

Prior to founding the Group, Mr. CHENG was a software engineer and developer at Hewlett-Packard from August 2007 to July 2009, and worked at Renren Inc. (a company listed on the New York Stock Exchange with stock symbol of RENN) from September 2009 to February 2011. “*GIF Kuaishou*”, our original mobile app for users to create and share animated images, was launched by Mr. CHENG in 2011.

Report of the Board of Directors

Mr. CHENG received his bachelor's degree in software engineering from the Software College of Northeastern University in Liaoning Province, the PRC, in July 2007.

Non-executive Directors

Mr. LI Zhaohui (李朝暉先生)

Mr. LI Zhaohui, aged 46, is a non-executive Director. He is also a member of the Remuneration Committee. As a non-executive Director, Mr. LI is primarily responsible for providing professional advice to the Board.

Mr. LI joined Tencent Holdings Ltd (a company listed on the Stock Exchange with stock code of 700) in 2011, and currently serves as the managing partner of Tencent Investment and the vice president of Tencent. He was an investment principal at Bertelsmann Asia Investment Fund from September 2008 to May 2010.

Mr. LI also holds directorships at various other companies. He has served as a director of Howbuy Wealth Management Co., Ltd. (a company whose shares are quoted on the National Equities Exchange and Quotations with stock code of 834418) since December 2013. He has been a director of KE Holdings Inc. (a company listed on the New York Stock Exchange with stock symbol of BEKE) since December 2018. He has also been a director of Amer Sports Holding (Cayman) Limited (previously named Mascot JVCo (Cayman) Limited, which was delisted from Nasdaq Helsinki Stock Exchange on September 4, 2019) since April 2019. He has been a director of Zhihu Inc. (a company listed on the New York Stock Exchange since March 26, 2021 with stock symbol of ZH) since September 2015. He also served as a director of Missfresh Limited (a company listed on Nasdaq since June 25, 2021 with stock symbol of MF) since June 2017.

Mr. LI received his bachelor's degree in economics (majoring in enterprise management) from Peking University in Beijing, the PRC, in July 1998 and his MBA degree from Duke University Fuqua School of Business in North Carolina, the United States, in May 2004.

Mr. ZHANG Fei (張斐先生)

Mr. ZHANG Fei, aged 49, is a non-executive Director. He is also a member of the Nomination Committee. As a non-executive Director, Mr. ZHANG, together with other members of the Board, provides oversight in respect of the formulation of business plans and strategic and major decisions of the Group.

Mr. ZHANG has over 20 years of venture capital experience, with a focus in the areas of AI/cloud computing, social/digital media and entertainment, and electric vehicle/autonomous driving. He was a partner at Ceyuan Ventures (策源創投) in Beijing from 2004 to 2007, where he set up and managed a venture fund and led investments in multiple portfolios. Since January 2011, Mr. ZHANG was a partner of 5Y Capital (formerly known as Morningside Venture Capital). Around 2016, he founded and has been a fund manager and the Responsible Officer of Neumann Advisory Hong Kong Limited, a SFC Type 9 licensed corporation.

Mr. ZHANG received his bachelor's degree of engineering in automation and control from the Shanghai Jiao Tong University in Shanghai, the PRC, in July 1994, and his MBA degree from the China Europe International Business School in Shanghai, the PRC, in May 1999.

Report of the Board of Directors

Dr. SHEN Dou (沈抖博士)

Dr. SHEN Dou, aged 42, is a non-executive Director. As a non-executive Director, Dr. SHEN is primarily responsible for participating in the formulation of business plans and strategic and major decisions of the Group as a member of the Board.

Dr. SHEN has served as an executive vice president of Baidu, Inc. (a company listed on Nasdaq with stock symbol of BIDU with its secondary listing on the Stock Exchange with stock code of 9888) since May 2019. Dr. Shen has also been a director of Beijing Xiaodu Interactive Entertainment Technology Co., Ltd. (北京小度互娛科技有限公司) since January 2018, and the chairman of Beijing Xiaodu Interactive Entertainment Technology Co., Ltd. (北京小度互娛科技有限公司) since September 2020. Previously, Dr. SHEN served as senior vice president of Baidu, Inc., overseeing the businesses related to Baidu App, Haokan short video app and Smart Mini Program. Dr. SHEN joined Baidu in 2012 and has served in management roles in business lines, including web search, advertising display and the financial services group. Prior to joining Baidu, Dr. SHEN worked in the adCenter group at Microsoft and co-founded BuzzLabs, Inc., a company engaged in social media monitoring and analysis, which was subsequently acquired by CityGrid Media.

Dr. SHEN holds directorships at various other companies. Dr. SHEN has been a director of Trip.com (a company listed on Nasdaq with stock symbol of TCOM with its secondary listing on the Stock Exchange with stock code of 9961) since October 2019 and a director of iQIYI, Inc. (a company listed on Nasdaq with stock symbol of IQ) since September 2019. He was previously a director of Uxin Limited (a company listed on Nasdaq with stock symbol of UXIN) from May 2018 to November 2019.

Dr. SHEN received his bachelor's degree in information engineering (computer technology) from North China Electric Power University in Beijing, the PRC, in June 2001, a master's degree in computer science and technology from Tsinghua University in Beijing, the PRC, in July 2004, and a Ph.D. degree in computer science from the Hong Kong University of Science and Technology in Hong Kong in November 2007. Dr. SHEN was awarded by Beijing Overseas Talent Service Joint Council (北京市海外學人工作聯席會) as "Beijing High-Caliber Talent from Overseas (北京市海外高層次人才)" and "Beijing Distinguished Expert (北京市特聘專家)" in July 2014. Dr. SHEN was also acknowledged by Beijing Senior Specialized Technique Qualification Evaluation Committee (北京市高級專業技術資格評審委員會) as a senior engineer (正高級工程師) in computer technology in May 2018.

Mr. LIN Frank (林欣禾先生) (alias LIN Frank Hurst)

Mr. LIN Frank, aged 57, is a non-executive Director. As a non-executive Director, Mr. LIN is primarily responsible for participating in the formulation of business plans and strategic and major decisions of the Group as a member of the Board.

Mr. LIN has been a co-founder and general partner of DCM China, a technology venture capital firm, since 2006. He co-founded and was the chief operations officer of SINA Corporation (a company listed on Nasdaq with stock symbol SINA), helping to guide it to become the first Chinese internet company to list in the United States.

Report of the Board of Directors

Mr. LIN also holds directorships at various listed companies, including China Online Education Group (a company listed on the New York Stock Exchange with stock symbol COE) since June 2013, Vipshop Holdings Limited (a company listed on the New York Stock Exchange with stock symbol VIPS) since January 2011, and Tuniu Corporation (a company listed on Nasdaq with stock symbol TOUR) since December 2009. He was previously a director of 58.com Inc. (a company listed on the New York Stock Exchange with stock symbol WUBA and delisted on September 18, 2020) from March 2010 to April 2020.

Mr. LIN received his bachelor's degree in engineering from Dartmouth College in New Hampshire, the United States in June 1988, and his MBA degree from Stanford University in California, the United States, in June 1993.

Independent Non-executive Directors

Mr. WANG Huiwen (王慧文先生)

Mr. WANG Huiwen, aged 43, is an independent non-executive Director. He is also the chairman of both Nomination Committee and Corporate Governance Committee, and a member of the Audit Committee and the Remuneration Committee. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. WANG has over 10 years of managerial and operational experience in the internet industry. In December 2005, he co-founded xiaonei.com. xiaonei.com was sold to China InterActive Corp in October 2006, which was later renamed as Renren Inc. (a company listed on the New York Stock Exchange with stock symbol of RENN). In January 2009, he co-founded taofang.com and worked there from June 2008 to October 2010. In 2010, Mr. WANG co-founded Meituan (a company listed on the Stock Exchange with stock code of 3690) and has been serving as its executive director since October 2015.

Mr. WANG received his bachelor's degree in electronic engineering from Tsinghua University in Beijing, the PRC, in July 2001.

Mr. HUANG Sidney Xuande (黄宣德先生)

Mr. HUANG Sidney Xuande, aged 56, is an independent non-executive Director. He is also the chairman of both Audit Committee and Remuneration Committee, and a member of the Nomination Committee and Corporate Governance Committee. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. HUANG has over 15 years of experience in the technology and internet industry. He is currently a senior advisor of JD.com, Inc. (a company listed on Nasdaq with stock symbol of JD with its secondary listing on the Stock Exchange with stock code of 9618) and was its chief financial officer from September 2013 until his retirement in September 2020, including the last three months as an executive coach to his successor. He has been an independent director of Yatsen Holding Limited (a company listed on the New York Stock Exchange with stock symbol of YSG) since November 2020. Mr. HUANG was a director of Bitauto Holdings Limited (a company which was listed on the New York Stock Exchange and privatized in November 2020) from November 2010 to August 2020.

Report of the Board of Directors

Mr. HUANG previously served as chief financial officer of VancelInfo Technologies Inc. and its successor company, Pactera Technology International Ltd., from July 2006 to September 2013. He was also the chief operating officer of VancelInfo Technologies Inc. from 2008 to 2010 and the co-president from 2011 to 2012. He also served as chief financial officer at two China-based companies in the technology and internet sectors between August 2004 and March 2006. He was an investment banker at Citigroup Global Markets Inc. in New York from August 2002 to July 2004. He held various positions including audit manager at KPMG LLP from January 1997 to August 2000 and qualified as a Certified Public Accountant in the State of New York in October 1999.

Mr. HUANG has been an Academic Visitor at St Antony's College of Oxford University in the United Kingdom since October 2021. He received his bachelor's degree in accounting from Bernard M. Baruch College of The City University of New York in the United States, in February 1997, and his MBA degree from the Kellogg School of Management at Northwestern University in the United States, in June 2002.

Mr. MA Yin (馬寅先生)

Mr. MA Yin, aged 47, is an independent non-executive Director. He is also a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. MA founded Tianxing Jiuzhou Holdings Co., Ltd. (天行九州控股有限公司, subsequently renamed Aranya (阿那亞控股集團有限公司)) in January 1999, and has been the general manager since February 2014. From April 2006 to September 2013, Mr. MA served various managerial roles at Yeland Group Co, Ltd. (億城集團股份有限公司, subsequently renamed HNA Investment Group Co., Ltd. (海航投資集團股份有限公司) in 2015, and is a company listed on the Shenzhen Stock Exchange with stock code of 000616), including assistant to the general manager, vice president, and executive vice president. He was a director of HNA Investment Group Co., Ltd. (海航投資集團股份有限公司) from April 2007 to September 2013 and the president from October 2011 to September 2013.

Mr. MA received his executive MBA degree from Peking University in Beijing, the PRC, in July 2009.

Report of the Board of Directors

Biographical Details and Other Information of the Senior Management

We set forth below the updated biographical details and other information of our senior management members.

Mr. SU Hua (宿華先生)

Mr. SU Hua, aged 39, is our co-founder, executive Director and chairman of the Board. With effect from October 29, 2021, Mr. SU has ceased to serve as our chief executive officer. For further details, see “— Biographical Details and Other Information of the Directors — Executive Directors” above.

Mr. CHENG Yixiao (程一笑先生)

Mr. CHENG Yixiao, aged 38, is our co-founder, executive Director and Chief Executive Officer. For further details, see “— Biographical Details and Other Information of the Directors — Executive Directors” above.

Mr. CHONG Nicholas Yik Kay (鍾奕祺先生)

Mr. CHONG Yik Kay, aged 54, has retired from his role as the chief financial officer of the Company with effect from January 17, 2022. For details, please refer to the announcement of the Company dated January 17, 2022.

Mr. JIN Bing (金秉先生)

Mr. JIN Bing, aged 44, has been appointed as our chief financial officer with effect from January 17, 2022. He is primarily responsible for overall finance (accounting, financial management, etc.), audit and internal controls, and capital market activities of our Group.

Mr. JIN has strong and diversified financial background and experience. From August 2010 to March 2014, Mr. JIN worked at Citi’s China Investment Banking Department. From March 2014 to April 2017, Mr. JIN served several positions including as the Head of China Technology of Investment Banking and Capital Markets, Asia Pacific, at Credit Suisse, where he worked with many listed and private Chinese technology companies for various financing and mergers and acquisitions transactions. From May 2017 to April 2021, Mr. JIN served as the chief financial officer of Joyy Inc. (formerly known as YY Inc., a company listed on NASDAQ with stock code of YY). From May 2021 to January 2022, Mr. JIN served as the chief financial officer of Zuoyebang. He also previously worked in other areas including public service, consulting and corporate banking.

Mr. JIN received his bachelor’s degree in English from Beijing Foreign Studies University, the PRC, in June 2000, his master’s degree in Pacific International Affairs from the University of California, San Diego, the United States, in June 2004, and his MBA degree from the Wharton School of the University of Pennsylvania, the United States, in May 2010.

Report of the Board of Directors

Mr. CHEN Dingjia (陳定佳先生)

Mr. CHEN Dingjia, aged 40, is our Chief Technology Officer. He is primarily responsible for technology development, product testing, operation maintenance, and certain new businesses of our Group. Mr. CHEN joined our Group in November 2015 and has been serving as the Chief Technology Officer since then.

Before joining our Group, Mr. CHEN worked at Tencent Technology (Shenzhen) Co., Ltd. from July 2005 to January 2015, and Guangzhou Tencent Technology Co., Ltd. from February 2015 to October 2015, where he served various roles including group leader, chief leader and assistant general manager.

Mr. CHEN received his bachelor's degree in computer software from the School of Software, Tsinghua University in Beijing, the PRC, in July 2005.

Directors' Service Contracts and Appointment Letters

Executive Directors

Each of the executive Directors has entered into a service contract with the Company. Pursuant to the agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board or until the third annual general meeting of the Company after the Listing Date (whichever is earlier), subject to retirement as and when required under the Articles of Association. The service contract could be terminated in accordance with its terms and conditions or by either party giving to the other not less than three months' prior notice in writing. No annual director's fees are payable to the executive Directors under the current arrangement.

Non-executive Directors

Each of the non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment shall be three years from the Listing Date, subject to retirement as and when required under the Articles of Association. The appointment letter could be terminated in accordance with its terms and conditions or by either party giving to the other not less than one month's prior notice in writing. Under these appointment letters, the non-executive Directors are not entitled to receive annual salaries in their capacity as non-executive Directors.

Independent Non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment shall be three years from the Listing Date, subject to retirement as and when required under the Articles of Association. The appointment letter could be terminated in accordance with its terms and conditions or by either party giving to the other not less than one month's prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK\$500,000.

Report of the Board of Directors

Save as disclosed above, none of the Directors has or will have a service contract with any member of the Group, other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Details of the emoluments of the Directors during the year ended December 31, 2021 are set out in Note 10(b) to the Consolidated Financial Statements in this annual report.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

Save as disclosed in Note 10(b)(v) to the Consolidated Financial Statements in this annual report and in “— Connected Transactions” in this section below, to the best knowledge of the Directors, none of the Directors or any entity connected with a Director, is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2021.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in “— Pre-IPO and Post-IPO Share Incentive Plans” in this section below, at no time during the year ended December 31, 2021 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or any of its holding companies or any of subsidiaries of its holding companies a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Directors' Interest in Competing Business

Dr. SHEN Dou is currently the chairman and director of Beijing Xiaodu Interactive Entertainment Technology Co., Ltd. (北京小度互娱科技有限公司), the business of which involves operations of a short video app.

Save as disclosed in this annual report and except for the interests of the Controlling Shareholders in the Group, during the year ended December 31, 2021, neither the Controlling Shareholders nor any of the Directors had any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

Report of the Board of Directors

Emolument Policy

The remuneration of the Directors is paid in the form of salaries, allowances, benefits in kind, pension scheme contributions and share-based payments.

The Company has established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules (with effect from the Listing Date) and with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management, having regard to the factors such as the level of remuneration paid by comparable companies, the time commitment and responsibilities of the Directors and senior management, and the employment conditions of the Group.

The Directors and the senior management members are eligible participants of the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO RSU Scheme.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for the loss of office.

Details of the emoluments of the Directors, and five highest paid individuals during the year ended December 31, 2021 are set out in Note 10 to the Consolidated Financial Statements in this annual report.

Retirement and Employee Benefits Scheme

Details of the retirement and employee benefits scheme of the Company are set out in Note 10 to the Consolidated Financial Statements in this annual report.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force. Pursuant to article 39.1 of the Articles of Association, a Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favor, or in which he is acquitted. The Company has taken out and maintained appropriate insurance coverage in respect of potential legal actions against its Directors and officers.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations

In accordance with the archiving notice submitted through the Disclosure of Interests Online (DION) System, as far as the Directors are aware and as of December 31, 2021, the interests or short positions of the Directors and the chief executive in any Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which shall be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which have been taken or deemed to have been taken under such provisions of the SFO) or which is required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which is required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, is set forth below:

Report of the Board of Directors

(a) Interest in Shares of the Company

Name	Capacity/Nature of interest	Number and class of shares held ⁽¹⁾	Approximate percentage of shareholding of each class of shares in the Company ⁽¹⁾	Approximate percentage of shareholding in the issued and outstanding share capital of the Company ⁽¹⁾
Class A Shares — Mr. SU Hua				
Reach Best ⁽²⁾	Beneficial interest	427,469,521 Class A Shares	55.79%	10.11%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽²⁾	427,469,521 Class A Shares	55.79%	10.11%
Mr. SU Hua	Beneficiary of a trust ⁽²⁾ Founder of a trust ⁽²⁾	427,469,521 Class A Shares	55.79%	10.11%
Class A Shares — Mr. CHENG Yixiao				
Ke Yong ⁽³⁾	Beneficial interest	338,767,480 Class A Shares	44.21%	8.01%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽³⁾	338,767,480 Class A Shares	44.21%	8.01%
Mr. CHENG Yixiao	Beneficiary of a trust ⁽³⁾ Founder of a trust ⁽³⁾	338,767,480 Class A Shares	44.21%	8.01%
Class B Shares — Mr. SU Hua				
Reach Best ⁽²⁾	Beneficial interest	54,713,783 Class B Shares	1.58%	1.29%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽²⁾	54,713,783 Class B Shares	1.58%	1.29%
Mr. SU Hua	Beneficiary of a trust ⁽²⁾ Founder of a trust and other ⁽²⁾	60,412,886 Class B Shares	1.75%	1.43%
Class B Shares — Mr. CHENG Yixiao				
Ke Yong ⁽³⁾	Beneficial interest	43,770,873 Class B Shares	1.26%	1.04%
Vistra Trust (Singapore) Pte. Limited	Trustee ⁽³⁾	43,770,873 Class B Shares	1.26%	1.04%
Mr. CHENG Yixiao	Beneficiary of a trust ⁽³⁾ Founder of a trust ⁽³⁾	43,770,873 Class B Shares	1.26%	1.04%
Class B Shares — Mr. ZHANG Fei				
Mr. ZHANG Fei	Founder of a trust ⁽⁴⁾	3,842,878 Class B Shares	0.11%	0.09%

Report of the Board of Directors

Notes:

- (1) As of December 31, 2021, the Company had 4,226,773,225 issued and outstanding share capital in total, comprising 766,237,001 Class A Shares and 3,460,536,224 Class B Shares.
- (2) The entire interest in Reach Best is held by an entity wholly owned by Vistra Trust (Singapore) Pte. Limited as trustee for a trust established by Mr. SU Hua (as settlor) for the benefit of Mr. SU Hua and his family. Mr. SU Hua is deemed to be interested in the 427,469,521 Class A Shares and 54,713,783 Class B Shares held by Reach Best under the SFO.

As of December 31, 2021, Mr. SU Hua is also deemed to be interested in the 5,699,103 outstanding and unexercised options underlying Class B Shares pursuant to the Pre-IPO ESOP of the Company.
- (3) The entire interest in Ke Yong is held by an entity wholly owned by Vistra Trust (Singapore) Pte. Limited as trustee for a trust established by Mr. CHENG Yixiao (as settlor) for the benefit of Mr. CHENG Yixiao and his family. Mr. CHENG Yixiao is deemed to be interested in the 338,767,480 Class A Shares and 43,770,873 Class B Shares held by Ke Yong under the SFO.
- (4) Mr. ZHANG Fei is deemed to be interested in the 3,842,878 Class B Shares held by an entity controlled by the trustee of a discretionary trust, of which Mr. ZHANG Fei is a founder, under the SFO.

(b) Interest in associated corporations

Name of director or chief executive	Nature of interest ⁽¹⁾	Associated corporations	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation ⁽⁴⁾
Mr. SU Hua	Beneficial interest	Hangzhou Youqu ⁽²⁾	10,000,000	90.00%
		Beijing One Smile ⁽³⁾	10,000,000	32.32%
Mr. CHENG Yixiao	Beneficial interest	Beijing One Smile ⁽³⁾	10,000,000	25.86%

Notes:

- (1) All interests stated are long position.
- (2) Hangzhou Youqu is a Consolidated Affiliated Entity and is owned as to 90% and 10% by Mr. SU Hua and Ms. PENG Xiaochun, respectively.
- (3) Beijing One Smile is a Consolidated Affiliated Entity and is owned as to (i) 32.32% by Mr. SU Hua, (ii) 29.24% by Mr. YANG Yuanxi, (iii) 25.86% by Mr. CHENG Yixiao, (iv) 7.40% by Mr. YIN Xin, and (v) 5.18% by Ms. HU Changjuan.
- (4) The calculation is based on the registered capital of Beijing One Smile and Hangzhou Youqu, respectively.

Report of the Board of Directors

Save as disclosed above, as far as the Directors are aware and as of December 31, 2021, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

In accordance with the archiving notice submitted through the Disclosure of Interests Online (DION) System, as far as the Directors are aware and as of December 31, 2021, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be maintained by the Company pursuant to section 336 of the SFO:

Name of substantial shareholder	Capacity/Nature of interest	Number and class of shares held ⁽¹⁾	Approximate percentage of shareholding of each class of shares in the Company ⁽¹⁾	Approximate percentage of shareholding in the issued and outstanding share capital of the Company ⁽¹⁾
Class B Shares — Tencent Shareholders				
Tencent Mobility Limited ⁽²⁾	Beneficial interest	506,143,854 Class B Shares	14.63%	11.97%
Morespark Limited ⁽²⁾	Beneficial interest	53,619,657 Class B Shares	1.55%	1.27%
Parallel Nebula Investment Limited ⁽²⁾	Beneficial interest	83,127,760 Class B Shares	2.40%	1.97%
Image Frame Investment (HK) Limited ⁽²⁾	Beneficial interest	80,048,189 Class B Shares	2.31%	1.89%
TPP Follow-on I Holding F Limited ⁽²⁾	Beneficial interest	6,003,614 Class B Shares	0.17%	0.14%
Class B Shares — 5Y Capital Shareholders				
Morningside China TMT Fund II, L.P. ⁽³⁾	Beneficial interest	377,895,981 Class B Shares	10.92%	8.94%
Morningside China TMT Special Opportunity Fund, L.P. ⁽³⁾	Beneficial interest	29,440,622 Class B Shares	0.85%	0.70%
Morningside China TMT Fund III Co-investment, L.P. ⁽³⁾	Beneficial interest	2,792,799 Class B Shares	0.08%	0.07%
MSVC SPF II, L.P. ⁽³⁾	Beneficial interest	2,405,255 Class B Shares	0.07%	0.06%

Report of the Board of Directors

Name of substantial shareholder	Capacity/Nature of interest	Number and class of shares held ⁽¹⁾	Approximate percentage of shareholding of each class of shares in the Company ⁽¹⁾	Approximate percentage of shareholding in the issued and outstanding share capital of the Company ⁽¹⁾
Morningside China TMT Special Opportunity Fund II, L.P. ⁽³⁾	Beneficial interest	5,437,377 Class B Shares	0.16%	0.13%
Morningside China TMT Fund IV Co-Investment, L.P. ⁽³⁾	Beneficial interest	489,738 Class B Shares	0.01%	0.01%
Class B Shares — DCM Shareholders				
DCM Ventures China Fund (DCM VII), L.P. ⁽⁴⁾	Beneficial interest	267,122,492 Class B Shares	7.72%	6.32%
DCM VII, L.P. ⁽⁴⁾	Beneficial interest	25,736,077 Class B Shares	0.74%	0.61%

Notes:

- (1) As of December 31, 2021, the Company had 4,226,773,225 issued and outstanding share capital in total, comprising 766,237,001 Class A Shares and 3,460,536,224 Class B Shares.
- (2) Tencent Mobility Limited, Morespark Limited, Image Frame Investment (HK) Limited, Parallel Nebula Investment Limited and TPP Follow-on I Holding F Limited are ultimately controlled by Tencent Holdings Ltd, a company listed on the Stock Exchange (stock code: 700).
- (3) Morningside China TMT Fund II, L.P. is controlled by Morningside China TMT GP II, L.P., its general partner, which is in turn controlled by TMT General Partner Ltd. and Morningside Venture (VIII) Investments Limited. Morningside China TMT Special Opportunity Fund, L.P. and Morningside China TMT Fund III Co-investment, L.P. are controlled by Morningside China TMT GP III, L.P., their general partner, which is in turn controlled by TMT General Partner Ltd. MSVC SPF II, L.P. is controlled by MSVC SPF II GP, L.P., its general partner, which is in turn controlled by TMT General Partner Ltd. Both Morningside China TMT Fund IV Co-Investment, L.P. and Morningside China TMT Special Opportunity Fund II, L.P. are controlled by Morningside China TMT GP IV, L.P., which is in turn controlled by TMT General Partner Ltd.

Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which 5Y Capital Shareholders have an interest. Each of LIU Qin, SHI Jianming and Morningside Venture (VII) Investments Limited is entitled to exercise or control the exercise of one-third of the voting power at general meeting of TMT General Partner Ltd., and is therefore also deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. NI Yuanyuan is the spouse of LIU Qin, and LOU Yiting is the spouse of SHI Jianming. Each of NI Yuanyuan and LOU Yiting is therefore also deemed to be interested in the Shares in which TMT General Partner Ltd. is interested through the interest of their respective spouse. Morningside Venture (VII) Investments Limited is indirectly 100% held through a series of 100% owned holding companies (including Morningside Ventures Limited, Morningside Group International Limited and Morningside-Springfield Group Limited) by the Landmark Trust Switzerland SA as trustee of a discretionary trust established by Mdm. CHAN TAN Ching Fen for the benefit of certain members of her family and other charitable objects. Morningside Venture (VIII) Investments Limited is wholly controlled by Bosma Limited, which is in turn wholly controlled by Indigo Enterprises Holdings (PTC) Limited.

- (4) DCM Investment Management VII, L.P. is the general partner of each of DCM Ventures China Fund (DCM VII), L.P. and DCM VII, L.P. and DCM International VII, Ltd. is the general partner of DCM Investment Management VII, L.P.

Report of the Board of Directors

Save as disclosed above, as of December 31, 2021, the Directors were not aware of any person (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

PRE-IPO AND POST-IPO SHARE INCENTIVE PLANS

Pre-IPO ESOP

The following is a summary of the principal terms of the amended and restated share incentive plan of the Company as approved and adopted pursuant to the written resolutions of all Shareholders of the Company dated February 6, 2018 as amended from time to time. The terms of the Pre-IPO ESOP are not subject to the provisions of Chapter 17 of the Listing Rules. For detailed information of share options granted to our Directors, members of the senior management and other connected persons of the Company under the Pre-IPO ESOP, please refer to “Statutory and General Information — 4. Pre-IPO ESOP” in Appendix V of the Prospectus.

Purpose

The purpose of the Pre-IPO ESOP is to promote the success of the Company and the interests of its Shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, Directors and other eligible persons and to further link the interests of award recipients under the Pre-IPO ESOP with those of the Shareholders generally.

Selected participants to the Pre-IPO ESOP

Awards under the Pre-IPO ESOP may be granted only to those persons that the Administrator (as defined below) determines to be Eligible Persons. An “Eligible Person” means any person who qualifies as one of the following at the time of grant of the respective Award (as defined below):

- (a) an officer (whether or not a Director) or employee of the Company or any of its affiliates;
- (b) any member of the Board; or
- (c) any director of one of the Company’s affiliates, or any individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Company or one of its affiliates, as applicable, in a capital raising transaction or as a market maker or promoter of that entity’s securities) to the Company or one of its affiliates.

An advisor or consultant may be selected as an Eligible Person pursuant to paragraph (c) above only if such person’s participation in the Pre-IPO ESOP would not adversely affect the Company’s compliance with any applicable laws. Subject to the provisions of the Pre-IPO ESOP, the Administrator may, from time to time, select from among all Eligible Persons to whom Awards in the form of options (“**Options**”) and restricted share awards (“**Restricted Shares**”) (collectively “**Awards**”) shall be granted and shall determine the nature and amount of each option.

Report of the Board of Directors

Maximum number of shares

The maximum aggregate number of Shares which may be issued is 711,946,697, subject to any adjustments for other dilutive issuances.

Administration

The Pre-IPO ESOP is administered by and all Awards under the Pre-IPO ESOP are authorized by the Administrator. The “**Administrator**” means the Board or a committee of the Board to administer all or certain aspects of the Pre-IPO ESOP. Any such committee shall be comprised solely of one or more Directors or such number of Directors as may be required under applicable law and the Memorandum and Articles of Association of the Company. The Board or the committee, as the case may be, may delegate its powers under the Pre-IPO ESOP or different levels of authority to different committees or one or more officers of the Company to the extent permitted by the Companies Act and any other applicable law. Pursuant to the delegation of power and authority, actions by such committees or officers shall constitute actions by the Administrator. Unless otherwise provided in the Memorandum and Articles of Association of the Company or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

Subject to the express provisions of the Pre-IPO ESOP, the Administrator is authorized and empowered to do all things it deems necessary or desirable in connection with the authorization of Awards and the administration of the Pre-IPO ESOP (in the case of a committee or delegation to one or more officers, within the authority delegated to that committee or person(s)).

Grant of Awards

The Administrator is authorized to approve and grant Awards to Participants in accordance with the terms of the Pre-IPO ESOP. Awards granted will be evidenced by an agreement (“**Award Agreement**”) between the Company and the Participant in the form approved by the Administrator. The Award Agreement evidencing an Award shall contain the terms established by the Administrator for that Award, as well as any other terms, provisions, or restrictions that the Administrator may impose on the Award; in each case subject to the applicable provisions and limitations under the Pre-IPO ESOP. The Administrator may require that the recipient of an Award promptly execute and return to the Company his or her Award Agreement evidencing the Award. In addition, the Administrator may require that the spouse of any married recipient of an Award also promptly execute and return to the Company the Award Agreement evidencing the Award granted to the recipient or such other spousal consent form that the Administrator may require in connection with the grant of the Award.

Report of the Board of Directors

Options

(a) Exercise price

Subject to the following provisions under the Pre-IPO ESOP, the Administrator will determine the purchase price per share of the ordinary shares covered by each Option (the “**exercise price**” of the Option) at the time of the grant of the Option, which exercise price will be set out in the applicable Award Agreement subject to certain pricing limit as set out in the Pre-IPO ESOP.

(b) Payment

The Company will not be obligated to deliver certificates for the ordinary shares to be purchased on exercise of an option unless and until it receives full payment of the exercise price therefor, all related withholding obligations have been satisfied, and all other conditions to the exercise of the option set forth in the Pre-IPO ESOP or in the Award Agreement have been satisfied. The purchase price of any ordinary shares purchased on exercise of an option must be paid in full at the time of each purchase in such lawful consideration as may be permitted or required by the Administrator.

(c) Vesting and Term

The Administrator will determine the vesting and/or exercisability provisions of each option (which may be based on performance criteria, passage of time or other factors or any combination thereof), which provisions will be set out in the applicable Award Agreement. Unless the Administrator otherwise expressly provides, once exercisable an option will remain exercisable until the expiration or earlier termination of the option. To the extent required to satisfy applicable securities laws and subject to early termination as set out the Pre-IPO ESOP, no option (except an option granted to an officer, Director, or consultant of the Company or any of its Affiliates) shall vest and at a rate of less than 20% per year over five years after the date the option is granted unless otherwise provided by the Administrator.

Each option shall expire not more than 10 years after its date of grant, subject to earlier termination as provided in or pursuant to the Pre-IPO ESOP. Any payment of cash or allotment of shares in payment for or pursuant to an option may be delayed until a future date if specifically authorized by the Administrator in writing and by the Participant.

(d) Exercise

The option, to the extent then vested, shall become exercisable upon the earlier of (i) the Listing Date, (ii) the occurrence of a change in control event (as defined under the Pre-IPO ESOP); except that, the Administrator, subject to applicable laws and regulations, expressly provides that the option could also become exercisable during one or several window periods before either of the dates mentioned above. Any exercisable Option will be deemed to be exercised when the Company receives written notice of such exercise from the Participant (on a form and in such manner as may be required by the Administrator), together with any required payment and any written statement required under the Pre-IPO ESOP.

Report of the Board of Directors

Restricted Shares

(a) Purchase Price

Subject to paragraph (b) below, the Administrator will determine the purchase price per share of the ordinary shares covered by each award of Restricted Shares (“**Share Award**”) at the time of grant of the Award. In no case will such purchase price be less than the par value of the ordinary shares.

(b) Payment

The Company will not be obligated to record in the Company’s register of members, or issue certificates evidencing, ordinary shares awarded under the Share Award unless and until it receives full payment of the purchase price therefor and all other conditions to the purchase, as determined by the Administrator, have been satisfied, at which point the relevant shares shall be issued and noted in the Company’s register of members. The purchase price of any shares subject to a Share Award must be paid in full at the time of the purchase in such lawful consideration as may be permitted or required by the Administrator.

(c) Vesting and Term

The restrictions imposed on the ordinary shares subject to a Share Award (which may be based on performance criteria, passage of time or other factors or any combination thereof) will be set out in the applicable Award Agreement. To the extent required to satisfy applicable securities laws, the restrictions imposed on the ordinary shares subject to a Share Award (other than an Award granted to an officer, Director, or consultant of the Company or any of its Affiliates, which may include more restrictive provisions) shall lapse as to such shares, subject to repurchase as set out in the Pre-IPO ESOP, at a rate of at least 20% of the shares subject to the Award per year over the five years after the date the Award is granted.

A Share Award shall either vest or be repurchased by the Company not more than 10 years after the date of grant subject to repurchase and early termination as provided in or pursuant to the Pre-IPO ESOP. Any payment of cash or allotment of shares in payment for a Share Award may be delayed until a future date if specifically authorized by the Administrator in writing and by the Participant.

Outstanding Share Options Granted under the Pre-IPO ESOP

Up to the Listing Date, the Company has granted share options under the Pre-IPO ESOP to 7,020 grantees (including Directors, officer and other employees of the Company) to subscribe for an aggregate of 626,184,514 Shares, a portion of which corresponding to 363,146,799 Shares has been exercised. All these 363,146,799 Shares have been issued as Class B Shares upon the Listing. No consideration has been paid by the grantees for the grant of Options under the Pre-IPO ESOP. For details, please refer to “Statutory and General Information — 4. Pre-IPO ESOP — Outstanding share options granted” in Appendix V of the Prospectus.

Up to the Listing Date, the Company has not issued any restricted shares under the Pre-IPO ESOP.

Report of the Board of Directors

The Company had not granted further share options or restricted shares under the Pre-IPO ESOP after the Listing. The table below shows the details of movements of share options granted to the Directors and other employees under the Pre-IPO ESOP:

Name	Date of Grant	Vesting period	Exercise Price (US\$)	Number of Shares underlying options outstanding as of the Listing Date	Number of options exercised during the Listing Date to December 31, 2021	Number of options lapsed/cancelled from the Listing Date to December 31, 2021	Number of Shares underlying options outstanding as of December 31, 2021
SU Hua	June 30, 2017 to April 1, 2020	4 years	0.0422	5,699,103	0	0	5,699,103
Other grantees	December 22, 2014 to January 7, 2021	0-4 years	0.0422-16.66	256,488,748	(66,621,188)	(14,667,522)	175,200,038
Total				<u>262,187,851</u>	<u>(66,621,188)</u>	<u>(14,667,522)</u>	<u>180,899,141</u>

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was approved and adopted by all the then Shareholders of the Company on January 18, 2021. The Post-IPO Share Option Scheme commenced on the Listing Date and will expire on the tenth anniversary of the commencement date. The following is a summary of certain principal terms of the Post-IPO Share Option Scheme.

Purpose

The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and the Shareholders as a whole. The Post-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

Report of the Board of Directors

Selected Participants

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the Post-IPO Share Option Scheme is not permitted under the laws and regulations where of such place or, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

Maximum Number of Class B Shares

The total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 334,195,773 Class B Shares, being no more than 10% of the Class B Shares in issue on the Listing Date (the “**Option Scheme Mandate Limit**”) (excluding any Class B Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and grants under the Post-IPO RSU Scheme). The Option Scheme Mandate Limit represented approximately 7.83% of the issued share capital of the Company (on a one share one vote basis) as at the Latest Practicable Date. Options which have lapsed in accordance with the terms of the rules of the Post-IPO Share Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Class B Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Class B Shares in issue from time to time (the “**Option Scheme Limit**”). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the refreshed Option Scheme Mandate Limit cannot exceed 10% of the Class B Shares in issue as at the date of such approval. Options previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (and to which provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

The Company may also grant options in excess of the Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by the Shareholders in general meeting.

Report of the Board of Directors

Maximum Entitlement of a Grantee

Unless approved by our Shareholders, the total number of Class B Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Class B Shares in issue (the “**Individual Limit**”). Any further grant of options to a selected participant which would result in the aggregate number of Class B Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of our Shareholders (with such selected participant and his associates abstaining from voting).

Subscription Price

The amount payable for each Class B Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board but shall be not less than the greater of:

- (a) the closing price of a Class B Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;
- (b) the average closing price of the Class B Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (c) the nominal value of a Class B Share on the date of grant.

Time of Exercise of an Option

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board or its delegate(s) may from time to time determine stating that the option is thereby exercised and the number of Class B Shares in respect of which it is exercised.

Grant of Options

An offer shall be made to selected participants by a letter in duplicate which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board or its delegate(s) such other terms either on a case basis or generally.

Report of the Board of Directors

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Class B Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof are received by our Company, provided such are received by our Company within 20 business days from the date on which the offer letter is delivered to the grantee.

Duration

The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted under the Post-IPO Share Option Scheme), but in all other respects the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Post-IPO Share Option Scheme. Accordingly, as of December 31, 2021, the remaining life of the Post-IPO Share Option Scheme is approximately nine years and one month.

No Options Granted under the Post-IPO Share Option Scheme

Between the Listing Date and December 31, 2021, no share options had been granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme since its adoption and there is no outstanding share option under the Post-IPO Share Option Scheme.

Post-IPO RSU Scheme

The Post-IPO RSU Scheme was approved and adopted by all the then Shareholders of the Company on January 18, 2021. The Post-IPO RSU Scheme commenced on the Listing Date. Subject to any early termination as may be determined by the Board and the Shareholders pursuant to the Post-IPO RSU Scheme, the Post-IPO RSU Scheme shall be valid and effective for the period of ten years commencing on the date of adoption.

The Post-IPO RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares. The Company may appoint a trustee (the “**Trustee**”) to administer the Post-IPO RSU Scheme with respect to the grant of any Award (as defined below) by the Board or its delegate(s) (including a committee of the Board, the chief executive officer of the Company or person(s) to which the Board has delegated its authority) which may vest in the form of Class B Shares (the “**Award Shares**”) or the actual selling price of the Award Shares in cash in accordance with the Post-IPO RSU Scheme. The following is a summary of certain principal terms of the Post-IPO RSU Scheme.

Report of the Board of Directors

Purpose

The purposes of the Post-IPO RSU Scheme is to recognize and reward Eligible Persons (as defined below) for their contribution to the Group, to attract best available personnel, and to provide additional incentives to them so as to align the interests of the Eligible Persons with those of the Group and to further promote the long-term success of the Group's business.

RSU Awards

An award of restricted share units under the Post-IPO RSU Scheme (the "**Award(s)**") gives a participant in the Post-IPO RSU Scheme a conditional right when the Award vests to obtain either the Award Shares or an equivalent value in cash with reference to the market value of the Award Shares on or about the date of vesting, as determined by the Board or its delegate(s) in its absolute discretion. An Award may include, if so specified by the Board or its delegate(s) in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests. For the avoidance of doubt, the Board or its delegate(s) at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participant even though the Award Shares have not yet vested.

RSU Participants

Any individual, being an employee, Director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) (an "**Eligible Person**" and, collectively "**Eligible Persons**") who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award. However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Post-IPO RSU Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Post-IPO RSU Scheme.

Grant of Awards

The Board or its delegate(s) may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board's delegate(s), to any selected participant other than a Director or an officer of the Company) by way of an award letter ("**Award Letter**"). The Award Letter will specify the grant date, the number of Award Shares underlying the Award, the vesting criteria and conditions, the vesting date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director or the chairman of the Company shall be subject to the prior approval of the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of an Award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Class B Shares to connected persons of the Company.

Report of the Board of Directors

Post-IPO RSU Scheme Limit

No Award shall be granted pursuant to the Post-IPO RSU Scheme without Shareholders' approval if as a result of such grant (assumed accepted), the aggregate number of Class B Shares (being in a board lot or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Class B Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the Post-IPO RSU Scheme (excluding Awards that have lapsed or been cancelled in accordance with the rules of the Post-IPO RSU Scheme) will exceed in total 205,409,736 Shares (the "**Post-IPO RSU Scheme Limit**"), subject to an annual limit of 3% of the total number of issued shares of the Company at the relevant time. The Post-IPO RSU Scheme Limit may be refreshed from time to time pursuant to the paragraph below.

Refresh of Post-IPO RSU Scheme Limit

The Post-IPO RSU Scheme Limit may be refreshed from time to time subject to prior Shareholders' approval, but in any event, the total number of Shares that underlying the RSUs granted following the date of approval of the refreshed limit (the "**New Approval Date**") under the limit as refreshed from time to time must not exceed 3% of the number of Shares in issue as at the relevant New Approval Date. Shares underlying the RSUs granted pursuant to the Post-IPO RSU Scheme (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with the Post-IPO RSU Scheme) prior to such New Approval Date will not be counted for the purpose of determining the maximum aggregate number of Shares that may underlie the RSUs granted following the New Approval Date under the limit as renewed.

Appointment of Trustee

The Company may appoint a Trustee to assist with the administration and vesting of RSUs granted pursuant to the Post-IPO RSU Scheme. Subject to the approval of the Board or its delegate(s), the Company may (i) allot and issue Shares to the Trustee to be held by the Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the Trustee to receive existing Class B Shares from any Shareholder or purchase existing Class B Shares (either on-market or off-market) to satisfy the RSUs upon exercise. The Company shall procure that sufficient funds are provided to the Trustee by whatever means as the Board or its delegate(s) may determine to enable the Trustee to satisfy its obligations in connection with the administration of the Post-IPO RSU Scheme.

RSUs Granted under the Post-IPO RSU Scheme

Since the Listing Date and up to December 31, 2021, 94,610,922 RSUs had been granted to an aggregate of 16,280 employees (who are not our Directors) of the Group, among which 1,169,325 RSUs had been vested and 6,435,090 RSUs had been lapsed or cancelled in accordance with the terms of the Post-IPO RSU Scheme. No RSUs had been granted to our Directors under the Post-IPO RSU Scheme as of December 31, 2021.

As such, the total number of Class B Shares available for grant under the Post-IPO RSU Scheme is 117,233,904 Class B Shares, representing approximately 2.77% of the issued share capital of the Company as of December 31, 2021.

Report of the Board of Directors

Details of RSUs granted under the Post-IPO RSU Scheme during the Reporting Period are as follows:

Grantees in aggregate	Date of Grant	Vesting period	Number of Shares underlying RSUs granted from the Listing Date to December 31, 2021	RSUs vested from the Listing Date to December 31, 2021
16,280	February 23, 2021 to December 28, 2021	0-4 years	94,610,922	1,169,325
Total			94,610,922	1,169,325

Further details of movements in the Post-IPO RSU Scheme are set out in Note 27 to the Consolidated Financial Statements in this annual report.

EQUITY-LINKED AGREEMENTS

Other than the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO RSU Scheme, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the Reporting Period or subsisted as of December 31, 2021.

CONNECTED TRANSACTIONS

Upon Listing, transactions between members of the Group and the Company's connected persons have become connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the non-exempt continuing connected transactions and partially-exempt continuing connected transactions of the Group for the year ended December 31, 2021 are set out below, which are entered into with Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) ("**Tencent Computer**"). Tencent Computer is a subsidiary of Tencent, which is a substantial shareholder of our Company, and therefore Tencent Computer is a connected person of our Company.

Report of the Board of Directors

Non-exempt Continuing Connected Transactions

Marketing and Promotion Services Framework Agreement

On January 18, 2021, Beijing Dajia (for itself and on behalf of other members of the Group) entered into a marketing and promotion services framework agreement (the “**Marketing and Promotion Services Framework Agreement**”) with Tencent Computer (for itself and on behalf of the Represented Tencent Group (i.e. the group members of Tencent, excluding China Literature Limited and its subsidiaries, and TME Group and its subsidiaries)).

Pursuant to the Marketing and Promotion Services Framework Agreement, the Represented Tencent Group will market and promote the Group’s products and services on its platforms, and the Group will provide marketing and promotion services to the Represented Tencent Group. In return for the marketing and promotion services provided by the Represented Tencent Group to the Group, the Group will pay service fees in one or more of the following manners, depending on the type of marketing and promotion services and the platforms of the Represented Tencent Group through which such services are provided, including Cost-Per-Click, Cost-Per-Mille, Cost-Per-Time, Cost-Per-Activity, Cost-Per-Sale and Cost-Per-Download. In return for the marketing and promotion services provided by the Group to the Represented Tencent Group, the Represented Tencent Group will pay service fees in one or more of the following manners, depending on the type of our marketing and promotion services and the platforms through which such services are provided, including Cost-Per-Click, Cost-Per-Mille and Cost-Per-Time.

On August 25, 2021, Beijing Dajia entered into the supplemental agreement to the Marketing and Promotion Services Framework Agreement (the “**Supplemental Marketing and Promotion Services Agreement**”) with Tencent Computer, pursuant to which the scope of the Represented Tencent Group under the Marketing and Promotion Services Framework Agreement shall be Tencent and its group members, including China Literature Limited and TME Group and their respective subsidiaries, and the existing annual caps for the service fees chargeable by the Group from the Represented Tencent Group under the Marketing and Promotion Services Framework Agreement shall be revised from approximately RMB740.2 million, RMB962.2 million and RMB1,250.9 million to approximately RMB1,292.0 million, RMB1,698.0 million and RMB2,210.0 million for the years ending December 31, 2021, 2022 and 2023, respectively.

The term of the Marketing and Promotion Services Framework Agreement and the Supplemental Marketing and Promotion Services Agreement will both commence on the Listing Date and end on December 31, 2023, subject to renewal upon the mutual agreement of both parties and in compliance with the Listing Rules. Separate underlying agreements will be entered into which will set out the precise scope of services, service fees calculation, method of payment and other details of the service arrangement in the manner provided in the Marketing and Promotion Services Framework Agreement and the Supplemental Marketing and Promotion Services Agreement. For further details, please refer to the Prospectus and the announcement of the Company dated August 25, 2021.

Report of the Board of Directors

The annual cap of service fees to be paid by the Represented Tencent Group to the Group for the year ended December 31, 2021 is approximately RMB1,292.0 million, while the actual transaction amount for the year ended December 31, 2021 were approximately RMB1,010.4 million. The annual cap of service fees to be paid by the Group to the Represented Tencent Group for the year ended December 31, 2021 is approximately RMB4,102.2 million, while the actual transaction amount for the year ended December 31, 2021 were approximately RMB2,132.8 million.

Cloud Services and Technical Services Framework Agreement

On January 18, 2021, Beijing Dajia (for itself and on behalf of other members of the Group) entered into a cloud services and technical services framework agreement (the “**Cloud Services and Technical Services Framework Agreement**”) with Tencent Computer (for itself and on behalf of the Represented Tencent Group (i.e. the group members of Tencent, excluding China Literature Limited and its subsidiaries, and TME Group and its subsidiaries)), pursuant to which the Represented Tencent Group will provide cloud services and other cloud-related technical services to the Group for service fees.

Pursuant to the Cloud Services and Technical Services Framework Agreement, the service fees will be determined after arm’s length negotiation between the parties based on the fee rates disclosed on the relevant official platforms or websites of the Represented Tencent Group.

On August 25, 2021, Beijing Dajia entered into the supplemental agreement to the Cloud Services and Technical Services Framework Agreement (the “**Supplemental Cloud Services and Technical Services Agreement**”) with Tencent Computer, pursuant to which the annual caps under the Cloud Services and Technical Services Framework Agreement shall be revised from approximately RMB1,970.0 million, RMB2,320.0 million and RMB2,645.0 million to approximately RMB2,600.0 million, RMB2,800.0 million and RMB2,900.0 million for the years ending December 31, 2021, 2022 and 2023, respectively.

The term of the Cloud Services and Technical Services Framework Agreement and the Supplemental Cloud Services and Technical Services Agreement will both commence on the Listing Date and end on December 31, 2023, subject to renewal upon the mutual agreement of both parties and in compliance with the Listing Rules. Separate underlying agreements will be entered into which will set out the precise scope of services, service fees calculation, method of payment and other details of the service arrangement in the manner provided in the Cloud Services and Technical Services Framework Agreement and the Supplemental Cloud Services and Technical Services Agreement. For further details, please refer to the Prospectus and the announcement of the Company dated August 25, 2021.

The annual cap for the year ended December 31, 2021 is approximately RMB2,600.0 million, while the actual transaction amount for the year ended December 31, 2021 were approximately RMB2,137.7 million.

Report of the Board of Directors

Payment Services Framework Agreement

On January 18, 2021, Beijing Dajia (for itself and on behalf of other members of the Group) entered into a payment services framework agreement (the “**Payment Services Framework Agreement**”) with Tencent Computer (for itself and on behalf of the Represented Tencent Group (i.e. the group members of Tencent, excluding China Literature Limited and its subsidiaries, and TME Group and its subsidiaries)), pursuant to which the Represented Tencent Group will provide the Group with payment services through its payment channels to enable the Group’s users to conduct online transactions on the Group’s platform through Tencent payment channel. The Group shall in return pay payment processing costs to Tencent.

Pursuant to the Payment Services Framework Agreement, the payment processing costs will be determined after arm’s length negotiation between the parties with reference to the market rates. The charge rates and calculation method shall be agreed between the parties separately.

The term of the Payment Services Framework Agreement will commence on the Listing Date and end on December 31, 2023, subject to renewal upon the mutual agreement of both parties and in compliance with the Listing Rules. Separate underlying agreements will be entered into which will set out the precise scope of services, service fees calculation, method of payment and other details of the service arrangement in the manner provided in the Payment Services Framework Agreement. For further details, please refer to the Prospectus.

The annual cap for the year ended December 31, 2021 is approximately RMB1,118.4 million, while the actual transaction amount for the year ended December 31, 2021 were approximately RMB896.2 million.

Game Co-operation Framework Agreement

On January 18, 2021, Beijing Dajia (for itself and on behalf of other members of the Group) entered into a game co-operation framework agreement (the “**Game Co-operation Framework Agreement**”) with Tencent Computer (for itself and on behalf of the Represented Tencent Group (i.e. the group members of Tencent, excluding China Literature Limited and TME Group and their respective subsidiaries)). Under the Game Co-operation Framework Agreement, the Group will display and recommend designated mobile and computer games developed or distributed by the Represented Tencent Group. The Group’s users interested in such games appearing on our platform (the “**Interested Users**”) will be re-directed to downloading pages to download such games.

The revenue arising out of the Game Co-operation Framework Agreement shall be split between the Group and the Represented Tencent Group and shall be determined in accordance with the following formula:

Net proceeds x revenue sharing percentage

Report of the Board of Directors

Net proceeds refers to the aggregate amount of revenue received by the Represented Tencent Group from such Interested Users through purchasing virtual items connected with the relevant games after deduction of the payment platform commissions charged by payment channels. The amount to be shared by the Group shall be separately determined for each designated game. The exact prescribed revenue sharing percentage for individual game shall be determined after arm's length negotiation between the relevant parties. The basis for determining the revenue sharing percentage includes (a) the revenue sharing percentage in respect of the game co-operation between the Group and business partners who are independent third parties of the Group; (b) the revenue sharing percentage in respect of the game co-operation between the Represented Tencent Group and its business partners; and (c) the general industry practice of revenue sharing in respect of game co-operation.

The term of the Game Co-operation Framework Agreement commenced on the Listing Date and end on December 31, 2023, subject to renewal upon the mutual agreement of both parties and in compliance with the Listing Rules. The collaboration outlined under the Game Co-operation Framework Agreement and the revenue sharing arrangement are in line with industry practice. Separate underlying agreements will be entered into which will set out the precise scope of services, service fees calculation, method of payment and other details of the service arrangement in the manner provided in the Game Co-operation Framework Agreement. For further details, please refer to the Prospectus.

The sharing of revenue based on the formula provided under the Game Co-operation Framework Agreement (i.e. revenue split based on a prescribed ratio) is consistent with historical and the prevailing market practices in relation to online game co-operation arrangements with the Represented Tencent Group or independent third parties. We are of the view that it would be unsuitable to adopt monetary annual caps for the Game Co-operation Framework Agreement. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual cap for the Game Co-operation Framework Agreement in terms of monetary value.

For the year ended December 31, 2021, our game co-operation with the Represented Tencent Group under the Game Co-operation Framework Agreement involved 80 games and the actual transaction amounts thereunder were approximately RMB20.1 million.

Partially-exempt Continuing Connected Transactions

The Group has entered into the following partially-exempt continuing connected transaction during the Reporting Period.

Report of the Board of Directors

Game Events Copyrights Licensing Framework Agreement

On August 25, 2021, Beijing Dajia (as licensee, and for itself and on behalf of other members of the Group) entered into the game events copyrights licensing framework agreement (the “**Game Events Copyrights Licensing Framework Agreement**”) with Tencent Computer (as licensor) (for itself and on behalf of the Represented Tencent Group (i.e. the group members of Tencent, excluding China Literature Limited and its subsidiaries, and TME Group and its subsidiaries)), pursuant to which the Represented Tencent Group will grant the Group a license to use the game events copyrights of the Represented Tencent Group (including the game events copyrights owned by or legally authorized to the Represented Tencent Group) on the Internet live streaming and short video platforms operated by the Group. The Group will in return pay license fees to the Represented Tencent Group.

Pursuant to the Game Events Copyrights Licensing Framework Agreement, the license fees payable by the Group to the Represented Tencent Group will be determined after arm’s length negotiation between the parties after taking into account factors including the procurement demands of the Group for game events copyrights, the number of game events copyrights owned by the Represented Tencent Group, as well as the market performance and popularity of such game events.

The term of the Game Events Copyrights Licensing Framework Agreement will commence on August 25, 2021 and end on December 31, 2023, subject to renewal upon the mutual agreement of both parties and in compliance with the Listing Rules. Separate underlying agreements will be entered into which will set out the precise scope of services, service fees calculation, method of payment and other details of the service arrangement in the manner provided in the Game Events Copyrights Licensing Framework Agreement. For further details, please refer to the announcement of the Company dated August 25, 2021.

The annual cap for the year ended December 31, 2021 is approximately RMB200.0 million, while the actual transaction amount for the year ended December 31, 2021 were approximately RMB102.7 million.

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors have reviewed the continuing connected transactions outlined above, and confirmed that such continuing connected transactions had been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Report of the Board of Directors

The Auditor has performed the relevant procedures regarding the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 (Revised) “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this annual report in accordance with Rule 14A.56 of the Listing Rules.

The Auditor has confirmed in a letter to the Board with a copy to the Stock Exchange that, with respect to the aforesaid continuing connected transactions entered into during the Reporting Period:

- (a) nothing has come to the Auditor’s attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to the Auditor’s attention that causes the Auditor to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (c) nothing has come to the Auditor’s attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) nothing has come to the Auditor’s attention that causes the Auditor to believe that such continuing connected transactions have exceeded the annual caps as set by the Company.

Save as disclosed in this annual report, during the Reporting Period, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Reporting Period.

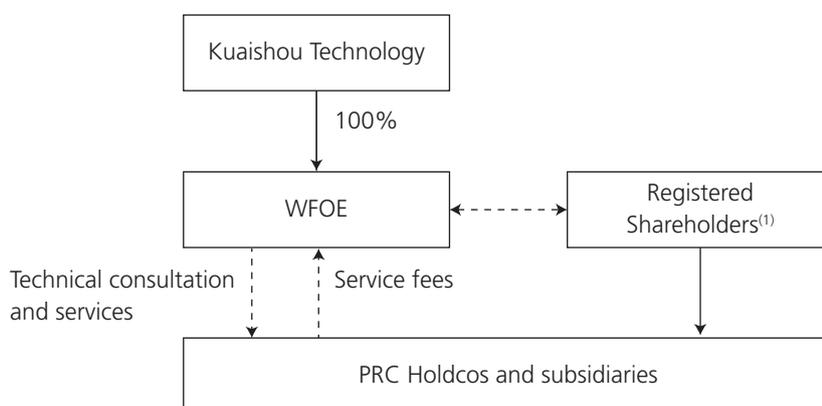
Report of the Board of Directors

CONTRACTUAL ARRANGEMENTS

Reasons for Adopting the Contractual Arrangements

Because foreign investment in certain areas of the industry in which the Group currently operates is subject to restrictions under current PRC laws and regulations outlined above, the Company has determined that it was not viable for the Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, the Company has decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by the Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and the PRC Holdcos and the registered shareholders of the PRC Holdcos (the “Registered Shareholders”), on the other hand. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of the Group’s operations, the Group has implemented the Contractual Arrangements with regards to our Consolidated Affiliated Entities.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to WFOE and the Company as stipulated under the Contractual Arrangements as of December 31, 2021:



Notes:

- (1) As of December 31, 2021, Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely (i) Hangzhou Youqu, (ii) Huayi Huilong, (iii) Beijing One Smile, (iv) Beijing Mufei, (v) Beijing Jiawen (this company was deregistered on December 10, 2021), (vi) Beijing Hanyu, (vii) Beijing Murong, (viii) Guizhou Fankuai, (ix) Beijing Zhongbo Keyuan, (x) Sichuan Fuyuan Chun (this company was deregistered on July 16, 2021), (xi) Huankuai Technology, (xii) Guizhou Fanxin Lingzhi, (xiii) Huai’an Shuangxin, (xiv) Beijing Qingque, (xv) Yunshitai Beijing; (xvi) Shandong Yixiang; and (xvii) Shandong Tiankai. Among these Registered Shareholders, (i) HU Changjuan is a Registered Shareholders of Beijing One Smile. HU Changjuan is a representative of Baidu, Inc. Baidu Inc. is a Pre-IPO Investor of the Company; (ii) SU Hua is the Company’s co-founder, a Controlling Shareholder and an executive Director and holds the Shares of the Company through Reach Best; (iii) CHENG Yixiao is the Company’s co-founder, a Controlling Shareholder and an executive Director and holds the Shares of the Company through Ke Yong; (iv) YIN Xin is the director of Beijing Kuaishou and holds the Shares of the Company through Fortune One; (v) YANG Yuanxi is the director of Beijing Kuaishou Ads and holds the Shares of the Company through Jovial Star; and (vi) the information of other Registered Shareholders of the PRC Holdcos is set forth below.

Report of the Board of Directors

- (2) The details of the shareholding structure of the PRC Holdcos as of the Latest Practicable Date are set out below:
- (i) Hangzhou Youqu is owned by SU Hua as to 90% and PENG Xiaochun (a former employee of the Group) as to 10%.
 - (ii) Huayi Huilong is owned by YANG Yuanxi as to 90% and PENG Xiaochun (a former employee of the Group) as to 10%.
 - (iii) Beijing One Smile is owned by SU Hua as to 32.32%, YANG Yuanxi as to 29.24%, CHENG Yixiao as to 25.86%, YIN Xin as to 7.40% and HU Changjuan as to 5.18%. On June 25, 2021, 23.70% of the total registered share capital of Beijing One Smile was transferred from another then Registered Shareholder of Beijing One Smile to Mr. YANG Yuanxi (the “**Proposed Transfer 1**”). Upon completion of the Proposed Transfer 1, the holding of Mr. YANG Yuanxi in the total registered share capital of Beijing One Smile increased from approximately 5.54% to 29.24%.
 - (iv) Beijing Mufei is 100% owned by SHI Jin (an employee of the Group). On January 4, 2022, Mr. ZHANG Xiaodong transferred the entire equity interest in Beijing Mufei to Ms. SHI Jin (the “**Proposed Transfer 2**”). Before the Proposed Transfer 2, Mr. ZHANG Xiaodong was holding the entire equity interest in Beijing Mufei. Upon completion of the Proposed Transfer 2, Mr. ZHANG Xiaodong ceased to be a Registered Shareholder of Beijing Mufei, and Ms. SHI Jin become the Registered Shareholder holding the entire equity interest in Beijing Mufei.
 - (v) Beijing Jiawen was previously 100% owned by LI Wendi (an employee of the Group). Beijing Jiawen was deregistered on December 10, 2021.
 - (vi) Beijing Hanyu is owned as to 50% and 50% by TAO Shengru and LU Yuan, both of whom are employees of the Group.
 - (vii) Beijing Murong is 100% owned by CHEN Qu (an employee of the Group).
 - (viii) Guizhou Fankuai is owned by JIA Hongyi (an employee of the Group and a joint company secretary of the Company) as to 95% and ZHENG Nan (an employee of the Group) as to 5%. On December 3, 2021, Ms. WANG Lu transferred 5.0% of the total registered share capital of Guizhou Fankuai to Ms. ZHENG Nan (the “**Proposed Transfer 3**”). Before the Proposed Transfer 3, Ms. WANG Lu was holding 5.0% of the total registered share capital of Guizhou Fankuai. Upon completion of the Proposed Transfer 3, Ms. WANG Lu ceased to be a Registered Shareholder of Guizhou Fankuai, and Ms. ZHENG Nan become the Registered Shareholder holding 5.0% of the total registered share capital of Guizhou Fankuai.
 - (ix) Beijing Zhongbo Keyuan is owned by LU Yuan to 90% and TAO Shengru as to 10%, both of whom are employees of the Group.
 - (x) Sichuan Fuyuan Chun was previously owned by TAO Shengru as to 55% and LU Yuan as to 45%, both of whom are employees of the Group. Sichuan Fuyuan Chun was deregistered on July 16, 2021.
 - (xi) Huankuai Technology is 100% owned by LU Hao, the brother-in-law of SU Hua.

Report of the Board of Directors

- (xii) Guizhou Fanxin Lingzhi is owned by JIA Hongyi (an employee of the Group and a joint company secretary of the Company) as to 95% and PENG Xiaochun (a former employee of the Group) as to 5%.
 - (xiii) Huai'an Shuangxin is owned as to 50% and 50% by JIAO Xiang and WANG Lvbing, both of whom are employees of the Group.
 - (xiv) Beijing Qingque is owned as to 50% and 50% by JIA Hongyi (an employee of the Group and a joint company secretary of the Company) and YIN Xin.
 - (xv) Yunshitai Beijing is owned by CHEN Man (an independent third party of the Group) as to 97.5% and LI Jingchen (an independent third party of the Group) as to 2.5%.
 - (xvi) Shandong Yixiang is owned as to 50% and 50% by SUN Junyi and JIAO Xiang, both of whom are employees of the Group.
 - (xvii) Shandong Tiankai is owned as to 50% and 50% by SUN Junyi and JIAO Xiang, both of whom are employees of the Group.
- (3) “—>” denotes direct legal and beneficial ownership in the equity interest.
- (4) “- ->” denotes contractual relationship.
- (5) “- -” denotes the control by WFOE over the Registered Shareholders and the PRC Holdcos through (i) powers of attorney to exercise all shareholders' rights in the PRC Holdcos, (ii) exclusive options to acquire all or part of the equity interests in the PRC Holdcos and (iii) equity pledges over the equity interests in the PRC Holdcos.

Our Consolidated Affiliated Entities are primarily engaged in the businesses of short video and live streaming, online games and online advertising facilitation business. The Consolidated Affiliated Entities contributed a significant portion of our Group's financial positions and results of operations. The revenue of our Consolidated Affiliated Entities amounted to RMB47.6 billion for the year ended December 31, 2021, representing approximately 58.7% of the total revenue of our Group. As of December 31, 2021, the total assets of our Consolidated Affiliated Entities amounted to RMB13.6 billion, representing approximately 14.7% of the total assets of our Group.

Save as disclosed above, there were no material change in the Contractual Arrangements and/or the circumstances under which they were adopted since the Listing Date and up to December 31, 2021, and none of the Contractual Arrangements had been unwound because none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. We had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

Report of the Board of Directors

Summary of the Contractual Arrangements

A brief description of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs, the PRC Holdcos and the relevant Registered Shareholders is set out as follows:

Exclusive Technical Consultation and Service Agreements

Pursuant to the exclusive technical consultation and service agreements (the “**Exclusive Technical Consultation and Service Agreements**”), in exchange for service fees, the PRC Holdcos have agreed to engage WFOE as their respective exclusive provider of the following technical consultation and services:

- (1) the research and development of technologies required by the PRC Holdcos’ businesses, including the development, design and production of database software for business information, user interface software and other related technologies, and to grant them for the PRC Holdcos’ use;
- (2) the application and implementation of technologies relating to the operation of the PRC Holdcos’ businesses, including but not limited to system design, system installation and debugging and system trial runs;
- (3) the daily maintenance, monitoring, debugging and troubleshooting for the PRC Holdcos’ computers and network software equipment (including information databases), including the timely entering users’ information into the database, or timely updating the database, regularly updating the user interface and providing other related technical services according to other business information provided by the PRC Holdcos’ at any time;
- (4) providing consultation services for the procurement of required equipment, software and hardware for the PRC Holdcos’ network operations, including but not limited to utility software, applications and selection of technology platforms, system installation and testing, and advise on their complementary hardware facilities, equipment models and their respective performances;
- (5) providing suitable training and technical support and assistance to employees of the PRC Holdcos, including but not limited to customer service and technological training, introduction to the installation and operation of systems and equipment, resolving problems that may arise during the installation and operation of systems and equipment, providing consultation and suggestions on online editing platforms and software, helping the PRC Holdcos collect and compile all kinds of information;
- (6) providing technical consultations and solutions to technical questions raised by the PRC Holdcos in relation to network equipment, technical products and software; and
- (7) other relevant services and consultation as required by the PRC Holdcos’ businesses.

Report of the Board of Directors

The service fees shall consist of 100% of the total consolidated profit of the Consolidated Affiliated Entities, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes, other statutory contributions, and any reasonable operating profits calculated based on the application of PRC tax law principles and tax practices. Notwithstanding the foregoing, the WFOE may adjust the scope and amount of service fees in accordance with PRC tax law principles and tax practices, and with reference to the working capital needs of the PRC Holdcos, and the PRC Holdcos will accept any such adjustment. The WFOE will calculate the service fees on a monthly basis and issue a corresponding invoice to the PRC Holdcos. Notwithstanding the payment arrangements in the Exclusive Technical Consultation and Service Agreements, WFOE may adjust the payment time and method, and the PRC Holdcos will accept any such adjustment.

In addition, absent the prior written consent of WFOE, during the term of the Exclusive Technical Consultation and Service Agreements, with respect to the services subject to the Exclusive Technical Consultation and Service Agreements, the PRC Holdcos shall not accept the same or any similar consultation or services provided by any third party. The Exclusive Technical Consultation and Service Agreements also provide that WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Holdcos during the performance of the Exclusive Technical Consultation and Service Agreements.

Exclusive Option Agreements

Pursuant to the exclusive option agreements (the “**Exclusive Option Agreements**”), WFOE has the exclusive and irrevocable right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders of the PRC Holdcos all or any part of their equity interests in the PRC Holdcos and from the PRC Holdcos all or any part of the assets of the PRC Holdcos at any time in WFOE’s absolute discretion in accordance with the provisions of the Exclusive Option Agreements and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the Registered Shareholders of the PRC Holdcos shall be RMB1 or the lowest price as permitted by the applicable PRC laws. The consideration in relation to purchasing assets from the PRC Holdcos shall be the lowest price as permitted under the applicable PRC laws.

Equity Pledge Agreements

Pursuant to the equity pledge agreements (the “**Equity Pledge Agreements**”), the Registered Shareholders of the PRC Holdcos agreed to pledge all their respective equity interests in the PRC Holdcos that they own, including any interest or dividend paid for the shares, to WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), WFOE shall have the right to exercise all such rights as a secured party under the Equity Pledge Agreements and any applicable PRC law, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders of the PRC Holdcos.

All the Equity Pledge Agreements in relation to the PRC Holdcos had been properly registered with competent authorities.

Report of the Board of Directors

Shareholder Voting Rights Proxy Agreements

Under the shareholder voting rights proxy agreements (the “**Proxy Agreements**”), the Registered Shareholders of the PRC Holdcos irrevocably appointed WFOE and its designated persons (including but not limited to the directors of the holding companies of WFOE and their successors and the liquidators replacing such directors or successors) as their exclusive agent to exercise on their behalf, any and all rights that they have in respect of their equity interests in the PRC Holdcos.

Confirmation from the Registered Shareholders

Each of the Registered Shareholders has confirmed to the effect that (i) his/her interests do not fall within the scope of communal properties, and his/her spouse does not have the right to claim any interests in the respective PRC Holdcos (together with any other interests therein) or exert influence on the day-to-day management and voting matters of the respective PRC Holdcos; and (ii) in the event of his/her death, disappearance, incapacity, divorce, marriage or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective PRC Holdcos, his/her successors (including his/her spouse) will not take any actions that would affect his/her obligations under the Contractual Arrangements.

Spouse Undertakings

The spouse of the relevant Registered Shareholders, where applicable, has signed amended and restated undertakings to the effect that (i) he/she has no right to or control over such interests of the respective registered shareholder and will not have any claim on such interests; (ii) confirms that the respective spouse may further amend or terminate the Contractual Arrangements without the need for authorization or consent by him/her; (iii) the respective spouse’s interests in the PRC Holdcos (together with any interests therein) do not fall within the scope of communal properties; and (iv) if he/she is transferred any shares held by their spouse for any reason, he/she will be bound by the Contractual Arrangements and will observe obligations as a shareholder of the PRC Holdcos, and will sign all necessary documents and to take all necessary actions to ensure the Contractual Arrangements are properly performed.

Report of the Board of Directors

PRC Foreign Investment Law

Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**PRC Foreign Investment Law**” or “**FIL**”) became effective on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》). The FIL constitutes the legal foundation for foreign investment in the PRC. The FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, China adopts a system of national treatment plus a “negative list” with respect to foreign investment administration. The negative list will be issued by, amended or released upon approval by the State Council, from time to time. The current negative list, namely, the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)》(2021年版)) (the “**2021 Negative List**”), sets out the industries in which foreign investments are prohibited or restricted. Generally, foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions and requirements stipulated in the 2021 Negative List for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the 2021 Negative List shall be treated equally. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1, 2020. The Implementation Regulations provide that foreign investments in prohibited sectors on the negative list are not allowed, while foreign investments in restricted sectors on the negative list shall comply with special administrative measures in respect of shareholding, senior management personnel and other matters stipulated under the negative list.

The FIL defines the foreign investment as the investment activities directly or indirectly conducted by foreign investors in the PRC, and sets forth the specific situations that should be regarded as foreign investment. Furthermore, the FIL stipulates that foreign investment includes the investment made in the PRC by foreign investors through any other means under the laws, administrative regulations and provisions stipulated by the State Council. Haiwen & Partners, our PRC legal advisor confirmed that the FIL does not specify contractual arrangements as a form of foreign investment. In that regard, if there is no other promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of contractual arrangements, the FIL will not have a material impact on the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected.

Risks Relating to the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, including:

- (1) If the PRC government determines that the agreements establishing the structure for operating our online businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Company’s interest in our Consolidated Affiliated Entities.
- (2) Substantial uncertainties exist with respect to whether the control of PRC onshore VIEs by foreign investors via contractual arrangements will be recognized as “foreign investment” and how it may impact the viability of our current corporate structure and operations.

Report of the Board of Directors

- (3) The Group relies on the Contractual Arrangements for its operations in China, which may not be as effective in providing operational control as direct ownership. The PRC Holdcos and/or their Registered Shareholders may fail to perform their obligations under our Contractual Arrangements, which may result in us resorting to litigation to enforce the Group's rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation.
- (4) As some of the Contractual Arrangements may not have fully detailed the parties' rights and obligations, the remedies for a breach of these arrangements may not be guaranteed.
- (5) The Group may not be able to conduct its operations without the services provided by certain of its Consolidated Affiliated Entities.
- (6) The Company may lose the ability to use and enjoy assets held by the Consolidated Affiliated Entities that are material to our business operations if the Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- (7) The Registered Shareholders of the PRC Holdcos may have conflicts of interest with the Group, which may materially and adversely affect the Group's business.
- (8) The Group conducts its business operations in China through the Consolidated Affiliated Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws and regulations.
- (9) The Contractual Arrangements between Beijing Dajia and the PRC Holdcos may be subject to scrutiny by the PRC tax authorities and may subject the Group to increased income tax due to the different income tax rates applicable to Beijing Dajia and our PRC Holdcos. A finding that the Group owes additional taxes could negatively affect the Group's financial condition and the value of the Shareholders' investment.
- (10) If the Company exercises the option to acquire equity ownership and assets of the Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.
- (11) A transfer of shares in some of the Consolidated Affiliated Entities may trigger tax liability.

Further details of these risks are set out in "Risk Factors — Risks Related to our Corporate Structure" in the Prospectus.

Actions Taken by the Group to Mitigate the Risks relating to the Contractual Arrangements

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and its compliance with the Contractual Arrangements:

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

Report of the Board of Directors

- (2) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) the Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports; and
- (4) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under certain Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, including Mr. SU Hua and Mr. CHENG Yixiao, are connected persons of the Group.

In respect of these Contractual Arrangements constituting connected transactions of the Company under the Listing Rules, the Stock Exchange has granted to the Company, a waiver from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Rules 14A.04 and 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Class B Shares are listed on the Stock Exchange, subject, however, to the following conditions:

- (1) no change to the Contractual Arrangements (including with respect to any fees payable to Beijing Dajia thereunder) will be made without the approval of our independent non-executive Directors;
- (2) save as described in paragraph (4) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of the Company will, however, continue to be applicable;
- (3) the Contractual Arrangements shall continue to enable the Group to receive the economic benefits derived by the Consolidated Affiliated Entities;
- (4) the Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expedience, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and
- (5) the Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

Report of the Board of Directors

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors have reviewed the Contractual Arrangements outlined above, and confirmed that:

- (1) the transactions under the Contractual Arrangements carried out during the year ended December 31, 2021 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- (2) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2021; and
- (3) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the year ended December 31, 2021 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The Auditor has carried out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants annually on the transactions carried out pursuant to the Contractual Arrangements.

The Auditor has confirmed in a letter to the Board with a copy to the Stock Exchange that, with respect to Contractual Arrangements:

- (1) nothing has come to their attention that causes the Auditor to believe that the disclosed transactions under the Contractual Arrangements have not been approved by the Board;
- (2) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and
- (3) nothing has come to their attention that causes the Auditor to believe that there were dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of their equity interests which were not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in Note 35 to the Consolidated Financial Statements in this annual report constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and are in compliance with the disclosure requirements under Chapter 14A of the Listing Rules and disclosed in this annual report.

Report of the Board of Directors

AUDITOR AND AUDIT COMMITTEE'S REVIEW

Auditor

PricewaterhouseCoopers was appointed as the Auditor during the Reporting Period and there had been no change in auditor of the Company in the past three years. The accompanying financial statements prepared in accordance with IFRS have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming 2022 AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the 2022 AGM.

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules (with effect from the Listing Date) and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of three members, namely Mr. HUANG Sidney Xuande, Mr. WANG Huiwen and Mr. MA Yin. The chairman of the Audit Committee is Mr. HUANG Sidney Xuande, who is an independent non-executive Director with the appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee, after the discussion with the Auditor, has reviewed the Company's audited consolidated financial statements for the year ended December 31, 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 annual results for the year ended December 31, 2021 have been prepared in accordance with IFRS.

On behalf of the Board

Mr. SU Hua

Chairman

Hong Kong, March 29, 2022

Corporate Governance Report

The Board of Directors of the Company has hereby submitted its Corporate Governance Report for the Reporting Period to the Shareholders.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining and promoting stringent corporate governance standards.

The Company aims to achieve high standards of corporate governance which are crucial to the Company's development and safeguard the interests of the Shareholders. The principles of the Company's corporate governance are to promote effective internal control measures and to enhance the transparency and accountability of the Board of Directors to all Shareholders.

The Company was incorporated in the Cayman Islands on February 11, 2014 with limited liability. The Company's Class B Shares have been listed on the Main Board of the Stock Exchange since February 5, 2021. Throughout the period from the Listing Date and up to December 31, 2021, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code save for the deviation from code provision C.2.1, which has been duly complied since October 29, 2021 and is explained in the relevant paragraphs of this Corporate Governance Report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all Directors confirmed that they have complied with the provisions of the Model Code during the period from the Listing Date and up to December 31, 2021.

The Company has also established written guidelines for securities transactions by employees who are likely to be in possession of inside information of the Company (the "**Guidelines for Securities Dealings by Relevant Employees**") on terms no less exacting than the Model Code. No incident of non-compliance with the Guidelines for Securities Dealings by Relevant Employees by the employees has been noted by the Company.

Corporate Governance Report

BOARD OF DIRECTORS

Board Composition

The Board currently comprises the following Directors:

Executive Directors

Mr. SU Hua (宿華) (*Chairman of the Board*)

Mr. CHENG Yixiao (程一笑) (*Chief Executive Officer*)

Non-executive Directors

Mr. LI Zhaohui (李朝暉)

Mr. ZHANG Fei (張斐)

Dr. SHEN Dou (沈抖)

Mr. LIN Frank (林欣禾) (*alias LIN Frank Hurst*)

Independent Non-executive Directors

Mr. WANG Huiwen (王慧文)

Mr. HUANG Sidney Xuande (黃宣德)

Mr. MA Yin (馬寅)

The biographical information of the Directors is set out in the section headed “Report of the Board of Directors — Biographical Details and Other Information of the Directors” of this annual report. To the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationship(s)) among the members of the Board or between the chairman of the Board and the chief executive officer of the Company.

During the period from the Listing Date and up to the Latest Practicable Date, the Board has met the requirements of the Listing Rules regarding the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications, or accounting, or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Report

Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, directing and supervising the Company's affairs and acting in the best interests of the Company and its Shareholders.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound risk management and internal control systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have full and timely access to all the information of the Company, and may upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company. The Directors have disclosed to the Company details of other offices held by them.

The Board reserves for its discretion on all major matters relating to policy matters, strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the chief executive officer and management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Chairman and Chief Executive Officer

The code provision C.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 and an executive Director 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 C.2.1 of the Corporate Governance Code.

Corporate Governance Report

Appointment and Re-election of Directors

According to the Articles of Association, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors. All retiring Directors shall be eligible for re-election.

Each Director (including the non-executive Directors and independent non-executive Directors) is engaged for a term of three years. They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant. The newly appointed Directors were also provided with a detailed induction to the Group's businesses by senior management.

Pursuant to code provision C.1.4 of the Corporate Governance Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors.

Corporate Governance Report

The training received by the Directors throughout the Reporting Period is summarized below:

Name of Director	Participated in continuous professional development ⁽¹⁾
<i>Executive Directors</i>	
Mr. SU Hua	√
Mr. CHENG Yixiao	√
<i>Non-executive Directors</i>	
Mr. LI Zhaohui	√
Mr. ZHANG Fei	√
Dr. SHEN Dou	√
Mr. LIN Frank	√
<i>Independent Non-executive Directors</i>	
Mr. WANG Huiwen	√
Mr. HUANG Sidney Xuande	√
Mr. MA Yin	√

Note:

(1) attended training/seminar/conference arranged by the Company or other external parties or read relevant materials

Board Activities

The Company adopts the practice of holding Board meetings regularly, at least four times a year and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board meetings and Board committees meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board committees members at least three days before such meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the company secretary of the Company with copies circulated to all Directors for information and records.

The matters considered by the Board and Board committees and the decisions reached are recorded in sufficient details in the minutes of the Board meetings and Board committees meetings. Such details include, but are not limited to, any concerns raised by the Directors. The draft minutes of each Board meeting and Board committees meeting are sent to the relevant Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

Corporate Governance Report

During the period from the Listing Date and up to December 31, 2021, the Board convened five Board meetings, four Audit Committee meetings, two Corporate Governance Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting and one annual general meeting. The attendance records of each Director at the above meetings are set out in the table below:

Name of Director	Attendance/Number of Meetings					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Corporate Governance Committee	General Meeting of Shareholders
Mr. SU Hua	5/5	–	–	1/1	–	1/1
Mr. CHENG Yixiao	5/5	–	1/1	–	–	1/1
Mr. LI Zhaohui	5/5	–	–	1/1	–	1/1
Mr. ZHANG Fei	5/5	–	1/1	–	–	1/1
Dr. SHEN Dou	5/5	–	–	–	–	1/1
Mr. LIN Frank	5/5	–	–	–	–	1/1
Mr. WANG Huiwen	5/5	4/4	1/1	1/1	2/2	1/1
Mr. HUANG Sidney Xuande	5/5	4/4	1/1	1/1	2/2	1/1
Mr. MA Yin	5/5	4/4	1/1	1/1	1/2	1/1

In addition, Mr. SU Hua, the chairman of the Board, held a meeting with the independent non-executive Directors without the presence of other Directors during the period from the Listing Date and up to December 31, 2021.

BOARD COMMITTEES

The Board has established four Board committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees are established with specific terms of reference which deal clearly with their authority and duties, and are posted on the Company's website and the Stock Exchange's website.

Corporate Governance Report

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, the risk management and internal control systems of the Group, to review connected transactions and to advise the Board. The Audit Committee comprises three independent non-executive Directors, namely, Mr. HUANG Sidney Xuande, Mr. WANG Huiwen and Mr. MA Yin. The chairman of the Audit Committee is Mr. HUANG Sidney Xuande, who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules.

None of the members of the Audit Committee is a former partner of the Company's existing Auditor, PricewaterhouseCoopers.

During the period from the Listing Date and up to December 31, 2021, the Audit Committee has held four meetings, in which the Audit Committee has performed the following major tasks:

- reviewed the audited annual results and annual report of the Group for the year ended December 31, 2020;
- reviewed the 2021 interim results announcement and interim report of the Group;
- reviewed the Company's quarterly results announcements for the first quarter ended March 31, 2021 and the third quarter ended September 30, 2021, respectively;
- reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, financial reporting and internal audit function;
- reviewed the continuing connected transactions of the Group;
- reviewed the risk management and internal control systems of the Group;
- discussed and made recommendations on the re-appointment of the Auditor; and
- reviewed the Auditor's independence and terms of engagement for the year ended December 31, 2020.

The Auditor was invited to attend the Audit Committee meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. The Audit Committee also met with the Auditor without the presence of management. The Audit Committee was satisfied with the independence and engagement of the Auditor. As such, the Audit Committee has recommended the re-appointment of the Auditor.

Corporate Governance Report

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with Rule 8A.27 of the Listing Rules and the Corporate Governance Code. The primary duties of the Nomination Committee are to review the Board composition, to make recommendations to the Board regarding the rotation and appointment of Directors and Board succession, and to assess the independence of independent non-executive Directors. The Nomination Committee comprises one executive Director, one non-executive Director and three independent non-executive Directors, namely, Mr. CHENG Yixiao, Mr. ZHANG Fei, Mr. WANG Huiwen, Mr. HUANG Sidney Xuande and Mr. MA Yin. Mr. WANG Huiwen is the chairman of the Nomination Committee.

During the period from the Listing Date and up to December 31, 2021, the Nomination Committee has held one meeting, in which the Nomination Committee has performed the following major tasks:

- reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group;
- recommended the re-election of the retiring Directors at the forthcoming annual general meeting;
- assessed the independence of all the independent non-executive Directors; and
- reviewed the Board diversity policy.

Board Diversity Policy

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) to enhance the effectiveness of our Board and to maintain a high standard of corporate governance. The Company recognizes and embraces the benefits of having a diverse Board. Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director of the Company, the Nomination Committee will consider a range of diversity perspectives with reference to the Company’s business model and specific needs, including but not limited to gender, age, language, cultural and educational background, professional qualifications, skills, knowledge, industry and regional experience and/or length of service.

The Nomination Committee is responsible for reviewing the diversity of the Board. It will from time to time review the Board Diversity Policy, develop and review measurable objectives for implementing the policy, and monitor the progress on achieving these measurable objectives in order to ensure that the policy remains effective.

Corporate Governance Report

The Company will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices. The Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that the Company will have a pipeline of female senior management and potential successors to the Board. The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. The Company is of the view that such strategy will offer chances for the Board to identify capable female employees to be nominated as a member of the Board in the future with an aim to providing the Board with a pipeline of female candidates to achieve gender diversity in the Board in the long run. The Nomination Committee will use its best endeavors and on suitable basis, within three years after the Listing, to identify and recommend at least one female candidate to our Board for its consideration on appointment of a Director with the goal to have at least one female Director in our Board, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidate based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interests of the Company and its Shareholders as a whole when considering the appointment. The Company believes that such merit-based selection process with reference to the diversity policy and the nature of our business will be in the best interests of the Company and its Shareholders as a whole.

Nomination Procedures

The Company also has nomination procedures for election of Directors. Such procedures, devising the criteria and procedures of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors of the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

The Nomination Committee and the Board may nominate candidates for directorship. In assessing the suitability and the potential contribution to the Board of a proposed candidate, the Nomination Committee may make reference to certain selection criteria, such as reputation for integrity, professional qualifications and skills, accomplishment and experience in the internet and technology markets, commitment and relevant contribution. The Nomination Committee shall report its findings and make recommendations to the Board on the appointment of appropriate candidate for directorship for decision and succession planning. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

Corporate Governance Report

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management, to establish a formal and transparent procedure for developing policy to review the terms of incentive schemes and directors' service contracts, and to recommend the remuneration packages for all Directors and senior management. The Remuneration Committee comprises one executive Director, one non-executive Director and three independent non-executive Directors, namely, Mr. SU Hua, Mr. LI Zhaohui, Mr. WANG Huiwen, Mr. HUANG Sidney Xuande and Mr. MA Yin. Mr. HUANG Sidney Xuande is the chairman of the Remuneration Committee.

During the period from the Listing Date and up to December 31, 2021, the Remuneration Committee has held one meeting, in which the Remuneration Committee has performed the following major task:

- reviewed the remuneration policy and the remuneration packages of the Directors and senior management of the Company.

Pursuant to code provision E.1.5 of the Corporate Governance Code, the annual remuneration (including share-based compensation) of the members of senior management, including those members of senior management who are also the executive Directors, by band for the year ended December 31, 2021 is set out below:

Annual Remuneration	Number of individuals
HK\$0 to HK\$20,000,000	3
> HK\$20,000,000	1

Further details of the remuneration of Directors for the year ended December 31, 2021 are set out in Note 10(b) to the Consolidated Financial Statements in this annual report.

Corporate Governance Committee

The Company has established the Corporate Governance Committee with written terms of reference in compliance with Rule 8A.30 of the Listing Rules and the Corporate Governance Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all Shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company. The Corporate Governance Committee comprises three independent non-executive Directors, namely, Mr. WANG Huiwen, Mr. HUANG Sidney Xuande and Mr. MA Yin. Mr. WANG Huiwen is the chairman of the Corporate Governance Committee.

Corporate Governance Report

During the period from the Listing Date and up to December 31, 2021, the Corporate Governance Committee has held two meetings, in which the Corporate Governance Committee has performed the following major tasks:

- reviewed the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report;
- reviewed the written confirmation provided by the WVR Beneficiaries that they have been members of the Company's Board of Directors throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the relevant financial year; and they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year;
- reviewed and monitored the management of conflicts of interests between the Company, its subsidiaries or Consolidated Affiliated Entities and/or the Shareholders on one hand and any WVR Beneficiaries on the other;
- reviewed and monitored all risks related to the weighted voting rights structure;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- made a recommendation to the Board as to the appointment or removal of the compliance advisor;
- reviewed the Company's compliance with the ESG Reporting Guide and disclosure in the 2020 Environmental, Social and Governance Report; and
- reviewed work performance and work plan of ESG team and the Company's ESG strategy, and provided guidance and supervision to the ESG team.

In particular, the Corporate Governance Committee has confirmed to the Board that it is of the view that the Company has adopted sufficient corporate governance measures to manage the potential conflict of interest between the Group and the WVR Beneficiaries in order to ensure that the operations and management of the Company are in the interests of the Shareholders as a whole. These measures include the Corporate Governance Committee ensuring that (i) any connected transactions are disclosed and dealt with in accordance with the requirements of the Listing Rules, (ii) any Directors who have a conflict of interest abstain from voting on the relevant board resolution, and (iii) the compliance advisor is consulted on any matters related to transactions involving the WVR Beneficiaries or a potential conflict of interest between the Group and the WVR Beneficiaries. The Corporate Governance Committee recommended the Board to continue the implementation of these measures and to periodically review their efficacy towards these objectives.

Having reviewed the remuneration and terms of engagement of the compliance advisor, the Corporate Governance Committee confirmed to the Board that it was not aware of any factors that would require it to consider either the removal of the current compliance advisor or the appointment of a new compliance advisor. As a result, the Corporate Governance Committee recommended that the Board retain the services of the compliance advisor of the Company.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and they can only provide reasonable, but not absolute, assurance against material misstatements or losses.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risk of failure to achieve the Company's strategic objectives, as well as establishing and maintaining effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management team to oversee the design, implementation and monitoring of the risk management and internal control systems.

The management considers it is important to establish and continue to improve its risk management and internal control systems, and has strengthened internal control, internal audit, compliance and forensic functions of the Company during the Reporting Period. The Company's risk management and internal control systems have been developed with the following principles, features and processes:

Organization Principles

To ensure that the risk management and internal control systems are effective, the Company, under the supervision and guidance of the Board and factoring the actual needs of the Company, has adopted the "Three Lines of Defense" model as an official organizational structure for risk management and internal control.

The First Line of Defense — Management and Operation

The first line of defense is mainly implemented by the business departments of the Company which are responsible for the day-to-day operations, and they are responsible for designing and implementing control measures to address the risks.

The Second Line of Defense — Risk Management, Internal Control and Other Functions

The second line of defense is mainly implemented by, among others, the internal control team, finance department, legal department, IT infrastructure department, efficiency engineering department and other departments with similar functions. This line of defense is responsible for formulating policies related to management of operations, finance, compliance and litigation, information security and internal controls of the Company, and for planning and establishing an integrated risk control system. For ensuring effective implementation of such systems, this line of defense also assists and supervises the first line of defense in the establishment and improvement of risk management and internal control systems.

Corporate Governance Report

The Third Line of Defense — Internal Audit and Forensic

The third line of defense is mainly implemented by the internal audit and forensic teams, which hold a high degree of independence. The internal audit team provides an evaluation on the effectiveness of the Company's risk management and internal control systems, and monitors management's continuous improvement over these areas. The forensic team is responsible for receiving whistle-blowing reports and investigating alleged fraudulent incidents.

Risk Management Process

The Company has established a risk management system (including the "Three Lines of Defense" internal monitoring model as detailed above) which sets out the roles and responsibilities of each relevant party as well as the relevant risk management policies and processes.

All business and functional departments of the Company are responsible for conducting internal control assessment regularly to identify risks that may potentially impact the business of the Group.

The internal audit department is responsible for performing independent review of the effectiveness and adequacy of the risk management and internal control systems. The internal audit department examined key issues in relation to the accounting practices and all material controls and provided its findings to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management, has reviewed the report from the management and findings from the internal audit, and reviewed the risk management and internal control systems, including the financial, operational and compliance controls. The annual review also covered areas on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Board considered the risk management and internal control systems of the Company during the Reporting Period were effective and adequate.

Proper internal control procedures and guidelines are in place to guard against mishandling of inside information which may constitute insider dealing or breach of any other statutory obligations. Access to inside information is at all times confined to relevant personnel (i.e. Company's Directors, senior management and relevant employees) and on "as needed" basis until proper disclosure or dissemination of inside information in accordance with applicable laws and regulations. Company's Directors, senior management and relevant employees in possession of potential inside information and/or inside information are required to take reasonable measures to ensure that proper safeguards are in place to preserve strict confidentiality of inside information and to ensure that its recipients recognize their obligations to maintain the information confidential.

Corporate Governance Report

Significant Risks of the Company

During the Reporting Period, through its risk management process, the Company identified below significant risks of the Company, and measures have been designed and implemented by the management accordingly.

Below is a summary of the significant risks of the Company along with the applicable response strategies. With the growth of the Company's business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

Market Competition and Innovation Risk

The Company faces intense competition from other internet companies in China in several major aspects of its business, particularly in live streaming, online marketing services, e-commerce and other sectors. Some of the Company's competitors may have longer operating histories and greater financial, technical and marketing resources than it does or have an advantage in attracting and retaining users and business partners. In addition, the Company's competitors may have larger user bases or more established brand names than it does and therefore would be able to more effectively leverage their user bases and brand names to provide live streaming, online marketing services, e-commerce and other products and services.

The management of the Company closely monitors the market competition, and shares relevant information and their insights and judgments on the market competition in real time.

The Company continues to (i) enrich and improve the quality and diversity of its content offerings on its platform in order to attract and retain a broad user base, (ii) improve the experience of its users and business partners through improved functionalities and services, (iii) further expand user reach and enhance user engagement through online and offline marketing and promotional activities, and (iv) develop and expand its product and service offerings to fulfill evolving user needs that naturally arise from its ecosystem.

Meanwhile, the Company has been committed to strengthening its research and development and technological capabilities, including to invest in technologies to strengthen its technological capabilities in areas such as AI and big data and continuously upgrade and scale its IT infrastructure, including data centers and cloud computing bandwidth, to support its growing ecosystem as well as product and service offerings.

Information Security and Privacy Risk

Protection of users' personal data and other privacy-related information is critical to the Company's business. Any loss or leakage of sensitive user information could have a significant negative impact on affected users and the Company's reputation, and even lead to potential legal action against the Company.

Corporate Governance Report

The information security committee, headed by the Company's chief technology officer, is responsible for devising information security strategies and decision-making regarding major information security issues. The Company has also set up a data security team which works closely with its legal department to jointly establish and enforce procedures regarding the management of data security. The Company's dedicated privacy protection team is formed by the security group of its IT infrastructure department and other departments including legal, government relations, and public relations departments, and analyzes industry trends, designs privacy protection protocols, conducts privacy trainings, assists in the formulation of feasible compliance work assessments and provides relevant risk control suggestions.

The Company has implemented a data security management protocol that sets out policies for data-related operations within the Company, including the collection, transmission, storage, sharing, destruction, backup and recovery of data. Its data security policies include mechanisms for user privacy protection, data classification, monitoring, emergency response and management of third-parties.

Meanwhile, the Company has developed its internal policies and procedures with the goal of meeting industry standards and good practice.

Compliance Risk

Given that the internet business is highly regulated in China, intensified government regulation of the short video, live streaming and e-commerce industries in China could restrict the Company's ability to maintain or increase its user base or the user traffic to its platform. As the short video, live streaming and e-commerce sectors in China are still evolving rapidly, new laws and regulations may be adopted from time to time to address new issues that come to the regulatory authorities' attention and additional licenses and permits other than those the Company currently has may be required.

The Company has several professional departments and teams that work closely with management of business groups and identify changes in any relevant laws and regulations, so as to take appropriate actions or measures to ensure the Company is in compliance with applicable laws and regulations.

Fraud Risk

In light of the rapid development of the internet industry, fraud cases have occurred frequently outside and within the industry and have caused harm to the internet industry as a whole. Fraudulent activities engaged by business partners, employees or third parties may exert a negative impact on the operations, finance and reputation of the Company.

Corporate Governance Report

The Company consistently adheres to its fundamental value of integrity, combats fraud and has zero tolerance for it. The Company has established effective internal control systems and continuously optimizes such systems to identify and mitigate fraud risk. The Company conducts comprehensive and thorough investigation on any potential fraudulent conduct. Any fraudulent conduct will be dealt with strictly in accordance with the relevant rules and regulations of the Company. Cases involving breaches of national laws and regulations will be immediately transferred to judicial departments. Meanwhile, the Company combats the illegal internet industry together with the police force and promotes the establishment of the Trust and Integrity Enterprise Alliance together with other members of the internet industry to combat internet fraudulent behaviors, and to build a healthy, orderly and civilized internet ecosystem through technological cooperation and information sharing.

Human Resources Risk

The internet industry is highly dependent on the basic qualities of its employees; therefore, gradually improving core personnel capabilities to catch up with the Company's rapid development is essential to the strategic development of the Company.

Human capital has always been the Company's core asset. The Company has formulated and implemented a series of measures to provide continuous professional development for its employees, in order to facilitate business development and to maintain sustainable competitiveness. Such measures include: (i) improving recruitment standards and attracting better talents to join the Company, raising employees' qualities; (ii) increasing investment in order to establish a training system that encapsulates the promotion of culture, general competency, professional expertise and leadership and to provide targeted trainings for employees; and (iii) supporting and facilitating the leadership role of its management, stimulating its employees' full potential and promoting personal development among its employees.

Meanwhile, the Company adheres to the value of integrity, and has carried out measures such as implementing the employees' code of conduct, providing anti-bribery and anti-corruption trainings, implementing a whistleblower mechanism, conducting investigations and punishment on any acts of bribery and corruption, to ensure that its employees adhere to its fundamental values.

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2021.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board necessary explanation and information to enable the Board to make an informed assessment of the financial information and position of the Company, which are put forward to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the Auditor about their reporting responsibilities on the Company's consolidated financial statements for the year ended December 31, 2021 is set out under the section headed "Independent Auditor's Report" of this annual report.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Group for the year ended December 31, 2021 is analyzed below. The remuneration for the audit services includes the service fees in connection with audit and reviews of the Group. The non-audit services conducted by the Auditor mainly include professional services on tax advisory and other consultation services.

Type of services provided by the Auditor	Amount (RMB'000)
Audit services	30,000
Non-audit services	23,126
Total	53,126

Corporate Governance Report

JOINT COMPANY SECRETARIES

Mr. JIA Hongyi, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

Ms. SO Ka Man of Tricor Services Limited, an external service provider, has been engaged by the Company as the other joint company secretary to assist Mr. JIA Hongyi to discharge his duties as the joint company secretary of the Company. The primary contact person at the Company is Mr. JIA Hongyi.

For the year ended December 31, 2021, Mr. JIA Hongyi and Ms. SO Ka Man took not less than 15 hours of relevant professional training, respectively, in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables the Shareholders and investors to make the best investment decisions.

The general meetings of the Company provide an opportunity for communication between the Directors, senior management and the Shareholders. The chairman of the Board as well as chairmen of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee, in their absence, other members of the respective committees, are available to answer questions at general meetings. The chairman of the meeting will provide the detailed procedures for conducting a poll and answer any questions from the Shareholders on voting by poll. The annual general meeting shall be called by not less than 21 days' notice to Shareholders in writing and any extraordinary general meeting shall be called by not less than 14 days' notice to Shareholders in writing.

The Company will publish in a timely manner both English and Chinese versions of (i) any corporate communication (as defined in the Listing Rules) of the Company that requires Shareholders' attention or action, and (ii) announcements relating to matters to be disclosed under the Listing Rules (including but not limited to those involving inside information, corporate actions and corporate transactions).

Corporate Governance Report

The Company maintains a website at ir.kuaishou.com as a communication platform with the Shareholders and investors, where information on the Company's announcements, financial information and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company, for the attention of the Board of Directors, as follows:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: ir@kuaishou.com/kuaishou@tpg-ir.com

The Company continues to enhance communications and relationships with the Shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from the Shareholders and investors are dealt with in an informative and timely manner.

The Company ensures that the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, maintains the most up-to-date information relating to the Shares at all times so that it can respond effectively to the Shareholders' enquiries.

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that the Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

In relation to the dividend policy of the Company, please refer to "Report of the Board of Directors — Business and Company-related Information — Dividend Policy and Final Dividends" in this annual report for details.

SHAREHOLDERS' RIGHTS

To safeguard the Shareholders' interests and rights, separate resolutions are proposed at the Shareholders' meetings on each substantial issue, including the election of individual Directors, for the Shareholders' consideration and voting. All resolutions put forward at the Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.kuaishou.com) and the Stock Exchange (www.hkexnews.hk) after each Shareholders' meeting.

Pursuant to the Articles of the Company, extraordinary general meetings shall be convened on the written requisition of any one or more Shareholders holding, as of the date of deposit of the requisition, in aggregate shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. A written requisition shall be deposited at the principal office of the Company in Hong Kong to the Board or the joint company secretaries for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Corporate Governance Report

For the avoidance of doubt, the Shareholders must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's principal place of business in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

There is no provision allowing the Shareholders to move new resolutions at general meetings under the Companies Act. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company (www.kuaishou.com).

AMENDMENT TO CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the Shareholders passed on January 18, 2021, the amended and restated Memorandum and Articles of Association of the Company was adopted with effect from the Listing Date, and no changes have been made thereto during the Reporting Period.

The Articles of the Company is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kuaishou.com).

Independent Auditor's Report

To the Shareholders of Kuaishou Technology

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kuaishou Technology (the “**Company**”) and its subsidiaries including structured entities (collectively, the “**Group**”) set out on pages 111 to 207, which comprise:

- the consolidated balance sheet as at December 31, 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“**ISAs**”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“**IESBA Code**”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition of online marketing services and live streaming;
- Fair value determination of investments in unlisted entities classified as “financial assets at fair value through profit or loss”; and
- Recognition of deferred tax assets.

Independent Auditor's Report

Key Audit Matter

How our audit addressed the Key Audit Matter

Revenue recognition of online marketing services and live streaming

Refer to notes 2.19 and 6 to the consolidated financial statements.

Revenues from online marketing services and live streaming for the year ended December 31, 2021 amounted to approximately RMB42.7 billion and RMB31.0 billion respectively, the aggregate of which represented approximately 91% of the total revenues of the Group.

Revenues from online marketing services derive primarily from the provision of advertising services and Kuaishou fans headline services in the Group's platform (the "**platform**"). The revenue is recognized over the display period or upon the time when the related services were delivered by the Group.

Revenues from live streaming derive from sales of virtual items to users of the Group's platform which can be consumed on the platform. The revenue is recognized when the consumable virtual items are consumed.

We focused on this area as significant efforts were spent on auditing the revenue recognized from online marketing services and live streaming due to the magnitude of the revenue amount and the significant volume of revenue transactions generated from the information technology systems in which the virtual items was sold and consumed and online marketing services were delivered (collectively the "**IT Systems**").

We performed the following procedures to address the key audit matter:

- Evaluated the appropriateness of the revenue recognition policies as adopted by the management;
- Understood and evaluated the key internal controls in relation to recognition of revenue from online marketing services and live streaming;
- Understood and tested the general control environment of the IT Systems;
- Tested the key automated controls of the IT Systems, including checking the top-ups for purchase of virtual items (the "**Top-Ups**"), the consumption of virtual items by the users of the platform, the delivery of online marketing services in accordance with the pre-set system logics;
- By using computer-assisted audit techniques, tested the mathematic accuracy and the completeness of the system generated reports that summarized the key inputs for the calculation of revenue;
- Compared the total amount of cash collections recorded in the general ledger against the cash collection amounts as recorded in the IT Systems for the amounts of Top-Ups received from customers. We also tested, on a sample basis, the amount and the timing of cash collections by checking to the supporting documents for the related cash receipts; and
- Performed data analysis on users' and live streamers' behaviours in the platform.

Based on the procedures performed, we considered that the revenues from online marketing services and live streaming were supported by the available evidence.

Independent Auditor's Report

Key Audit Matter

Fair value determination of investments in unlisted entities classified as "financial assets at fair value through profit or loss"

Refer to notes 2.9, 3.3 and 20 to the consolidated financial statements.

The fair value of investments in unlisted entities classified as "financial assets at fair value through profit or loss" as at December 31, 2021 amounted to approximately RMB2.8 billion. These financial assets were measured based on unobservable inputs and are classified as "level 3 financial instruments"

As these entities are unlisted and not traded in an active market, management determined the fair values of these unlisted entities by using applicable valuation techniques with the assistance from an independent external valuer.

The fair value determination required significant management's judgments and estimates, the use of unobservable inputs.

We focused on this area since the determination of fair values for these investments is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the fair values for these unlisted entities are considered significant due to the complexity of valuation techniques and significant management assumptions and estimates adopted, such as expected volatility, discount for lack of marketability and risk-free rate, as well as the probability weight among the timing of the liquidation, redemption or IPO event scenarios, and the selection of data used in the valuation, which are subjective.

How our audit addressed the Key Audit Matter

We performed the following procedures to address the key audit matter:

- Assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity and subjectivity;
- Obtained an understanding on the management's internal control process for determining the fair value of investments in unlisted entities;
- Examined, on a sample basis, the relevant legal documents and investment agreements, and assessed the implications of the key terms as set out in these documents/agreements to the valuation of the respective investments;
- Assessed the competence, capabilities and objectivity of the independent external valuer engaged by the Group;
- Involved our internal valuation expert in assessing and challenging the appropriateness of the valuation techniques used and the reasonableness of the significant assumptions and estimates applied (including expected volatility, discount for lack of marketability and risk-free rate, as well as the probability weight among the timing of the liquidation, redemption or IPO event scenario) by comparing with those as adopted by comparable companies in the industry and other external market data;

Independent Auditor's Report

Key Audit Matter

How our audit addressed the Key Audit Matter

Recognition of deferred tax assets

Refer to notes 2.16 and 31 to the consolidated financial statements.

As at December 31, 2021, the Group had deferred tax assets amounting to approximately RMB5.4 billion. In addition, the unrecognized deferred tax assets for tax losses as at December 31, 2021 amounted to approximately RMB3.0 billion.

Deferred tax assets are recognised only if it is probable that future taxable profits will be available to utilise the deductible temporary differences and tax losses.

- Considered whether the management's judgements made in selecting the valuation techniques, significant assumptions and data for the valuation would give rise to indicators of possible management bias; and
- Checked the accuracy of selected data used in the fair value determination to supporting documents on a sample basis.

Based on the procedures performed, we considered that the risk assessment of the fair value determination of investments in unlisted entities remained appropriate and the valuation techniques, significant assumptions and data used by management in the assessment of the fair value of the investments in unlisted entities were supported by the available evidence.

We performed the following procedures to address the key audit matter:

- Obtained an understanding of the management's internal control and assessment process of recognition of deferred tax assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias;
- Obtained management's calculation sheets of deferred tax assets and tested the accuracy of the calculation sheets;
- Tested and agreed available deductible tax losses, including the respective expiry periods, to tax returns of the relevant subsidiaries on a sample basis;

Independent Auditor's Report

Key Audit Matter

We focused on this area because the estimation of future taxable profits is subject to high degree of estimation uncertainty. The recognition of deferred tax assets involves significant judgement and estimates by management as to the likelihood and the period of its realization which is dependent on a number of factors, including whether there will be sufficient future taxable profits and appropriate taxable temporary differences.

How our audit addressed the Key Audit Matter

- Evaluated the reasonableness of key assumptions and estimates used by management in estimating future taxable profits, by considering (a) the Group's current and past performances, (b) the consistency with industry and third party data, and (c) whether these assumptions and related estimates were consistent with evidence obtained in other areas of the audit;
- Involved our tax specialists in evaluating the tax situation and the adequacy of management's key assumptions; and
- Evaluated the reasonableness of the deferred tax assets by comparing the estimated future taxable profits to deductible temporary differences and tax losses as at December 31, 2021.

Based on the above procedures performed, we considered that the risk assessment of the recognition of deferred tax assets remained appropriate and the significant assumptions and data used by management in the assessment in relation to the recognition of deferred tax assets were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the Corporate information, Chairman's statement, Financial summary and operation highlights, Management discussion and analysis, Report of the board of directors, Corporate governance report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Environmental, social and governance report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

When we read the Environmental, social and governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2022

Consolidated Income Statement

	Note	Year ended December 31,	
		2021 RMB'000	2020 RMB'000
Revenues	6	81,081,513	58,776,097
Cost of revenues	9	(47,051,808)	(34,961,460)
Gross profit		34,029,705	23,814,637
Selling and marketing expenses	9	(44,175,898)	(26,614,746)
Administrative expenses	9	(3,400,316)	(1,676,745)
Research and development expenses	9	(14,956,247)	(6,547,578)
Other income	7	1,026,742	527,996
Other (losses)/gains, net	8	(225,251)	176,483
Operating loss		(27,701,265)	(10,319,953)
Finance expense, net	11	(38,536)	(35,288)
Fair value changes of convertible redeemable preferred shares	32	(51,275,797)	(106,845,549)
Share of losses of investments accounted for using the equity method	19	(86,658)	—
Loss before income tax		(79,102,256)	(117,200,790)
Income tax benefits	13	1,025,155	565,548
Loss for the year		(78,077,101)	(116,635,242)
Attributable to:			
— Equity holders of the Company		(78,073,643)	(116,635,242)
— Non-controlling interests		(3,458)	—
		(78,077,101)	(116,635,242)
Loss per share for the loss attributable to the equity holders of the Company (expressed in RMB per share)	14		
Basic loss per share		(20.37)	(125.25)
Diluted loss per share		(20.37)	(125.25)

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Loss

	Note	Year ended December 31,	
		2021 RMB'000	2020 RMB'000
Loss for the year		(78,077,101)	(116,635,242)
Other comprehensive 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	32	—	2,404
Currency translation differences		282,560	9,816,967
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		740,239	819,897
Other comprehensive income for the year, net of taxes		1,022,799	10,639,268
Total comprehensive loss for the year		(77,054,302)	(105,995,974)
Attributable to:			
— Equity holders of the Company		(77,050,839)	(105,995,974)
— Non-controlling interests		(3,463)	—
		(77,054,302)	(105,995,974)

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

		As of December 31,	
	Note	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	11,050,654	7,206,100
Right-of-use assets	16	12,561,745	5,199,712
Intangible assets	17	1,171,754	1,247,788
Investments accounted for using the equity method	19	1,411,141	—
Financial assets at fair value through profit or loss	20	3,300,623	3,843,315
Deferred tax assets	31	5,405,224	2,313,301
Long-term time deposits	23	4,000,000	500,000
Other non-current assets		603,367	308,982
		39,504,508	20,619,198
Current assets			
Trade receivables	21	4,450,092	2,428,039
Prepayments, other receivables and other current assets	22	3,278,318	2,285,420
Financial assets at fair value through profit or loss	20	8,842,203	3,690,448
Short-term time deposits	23	3,825,420	2,729,095
Restricted cash	23	2,415	3,698
Cash and cash equivalents	23	32,612,419	20,391,545
		53,010,867	31,528,245
Total assets		92,515,375	52,147,443

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

		As of December 31,	
		2021	2020
		RMB'000	RMB'000
	Note		
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	24	142	30
Share premium	24	274,407,796	—
Other reserves	25	20,853,674	12,011,644
Accumulated losses		(250,172,236)	(172,061,513)
		45,089,376	(160,049,839)
Non-controlling interests		6,595	—
Total equity		45,095,971	(160,049,839)
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	10,079,847	3,608,041
Deferred tax liabilities	31	28,477	31,601
Convertible redeemable preferred shares	32	—	185,372,816
Other non-current liabilities		55,560	—
		10,163,884	189,012,458
Current liabilities			
Accounts payables	28	20,021,082	11,544,297
Other payables and accruals	29	9,123,367	5,763,226
Advances from customers	30	3,502,642	3,290,098
Income tax liabilities		1,079,591	487,843
Lease liabilities	16	3,528,838	2,099,360
		37,255,520	23,184,824
Total liabilities		47,419,404	212,197,282
Total equity and liabilities		92,515,375	52,147,443

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 111 to 207 were approved by the Board of Directors on March 29, 2022 and were signed on its behalf:

SU Hua
Director

CHENG Yixiao
Director

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital	Share premium	Other reserves	Accumulated losses	Subtotal		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at January 1, 2021		30	—	12,011,644	(172,061,513)	(160,049,839)	—	(160,049,839)
Loss for the year		—	—	—	(78,073,643)	(78,073,643)	(3,458)	(78,077,101)
Other comprehensive income								
Currency translation differences	25	—	—	1,022,804	—	1,022,804	(5)	1,022,799
Total comprehensive loss for the year		—	—	1,022,804	(78,073,643)	(77,050,839)	(3,463)	(77,054,302)
Transactions with owners in their capacity as owners								
Share-based compensation	25	—	—	7,830,249	—	7,830,249	—	7,830,249
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	24	14	39,220,652	—	—	39,220,666	—	39,220,666
Conversion of convertible redeemable preferred shares to ordinary shares	24	84	235,084,462	—	—	235,084,546	—	235,084,546
Shares issued upon initial public offering from Share Incentive Plan	24	12	65,300	(46,105)	—	19,207	—	19,207
Exercise of share options and vesting of restricted share units ("RSU")	24	2	37,382	—	—	37,384	—	37,384
Appropriations to statutory reserves	25	—	—	37,080	(37,080)	—	—	—
Non-controlling interests arising from business combination		—	—	—	—	—	7,050	7,050
Transfer of equity interests of a subsidiary to non-controlling interests	25	—	—	(1,998)	—	(1,998)	3,008	1,010
Total transactions with owners in their capacity as owners		112	274,407,796	7,819,226	(37,080)	282,190,054	10,058	282,200,112
Balance at December 31, 2021		142	274,407,796	20,853,674	(250,172,236)	45,089,376	6,595	45,095,971

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company			Total RMB'000
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	
Balance at January 1, 2020		30	(321,281)	(55,407,785)	(55,729,036)
Loss for the year		—	—	(116,635,242)	(116,635,242)
Other comprehensive loss					
Fair value change on convertible redeemable preferred shares due to own credit risk	25	—	2,404	—	2,404
Currency translation differences	25	—	10,636,864	—	10,636,864
Total comprehensive loss for the year		—	10,639,268	(116,635,242)	(105,995,974)
Transactions with owners in their capacity as owners					
Share-based compensation	25	—	1,796,902	—	1,796,902
Appropriations to statutory reserves	25	—	18,486	(18,486)	—
Re-designation of ordinary shares to preferred shares	25	—	(121,731)	—	(121,731)
Total transactions with owners in their capacity as owners		—	1,693,657	(18,486)	1,675,171
Balance at December 31, 2020		<u>30</u>	<u>12,011,644</u>	<u>(172,061,513)</u>	<u>(160,049,839)</u>

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended December 31,	
		2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	33	(4,022,554)	3,118,678
Income tax paid		(1,496,737)	(830,038)
Net cash (used in)/generated from operating activities		(5,519,291)	2,288,640
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(7,764,297)	(5,908,461)
Proceeds from disposal of property, equipment and intangible assets		6,572	1,339
Purchase of investments in non-current financial assets at fair value through profit or loss		(1,012,866)	(1,974,777)
Proceeds from disposal of investments in non-current financial assets at fair value through profit or loss		20,734	14,800
Purchase of investments in current financial assets at fair value through profit or loss		(72,416,030)	(46,682,467)
Proceeds from disposal of investments in current financial assets at fair value through profit or loss		67,405,649	52,082,645
Loans to third parties		(16,933)	(25,000)
Repayment of loan by a third party		32,355	—
Purchase of time deposits with initial terms over three months		(12,888,996)	(15,175,113)
Proceeds from maturity of time deposits with initial terms over three months		8,217,416	12,752,087
Interest income received		54,513	47,482
Acquisition of subsidiaries, net of cash acquired		261	—
Dividends received		287	—
Net cash used in investing activities		(18,361,335)	(4,867,465)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares relating to the initial public offering		39,222,601	—
Proceeds from issuance of convertible redeemable preferred shares		—	20,956,542
Proceeds from borrowings		—	300,000
Repayment of borrowings		—	(300,000)
Payments for principal elements of lease and related interest		(2,747,937)	(1,646,246)
Proceeds from exercise of share options and RSU vesting		25,523	—
Finance expenses paid		—	(20,176)
Net cash generated from financing activities		36,500,187	19,290,120
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	23(a)	12,619,561	16,711,295
Effects of exchange rate changes on cash and cash equivalents		20,391,545	3,996,236
		(398,687)	(315,986)
Cash and cash equivalents at the end of the year	23(a)	32,612,419	20,391,545

The notes on pages 118 to 207 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Kuaishou Technology (the “**Company**”) was incorporated in the Cayman Islands on February 11, 2014 as an exempted company with limited liability. The registered office is at PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The Company completed the listing on the Main Board of The Stock Exchange of Hong Kong Limited on February 5, 2021 (“**IPO**”).

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “**Group**”), provides online marketing services, live streaming services and other services to its customers.

Mr. Su Hua and Mr. Cheng Yixiao are the ultimate controlling shareholders of the Company as of the date of approval of the consolidated financial statements.

The consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies applied in the preparation of the consolidated financial statements. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) and interpretations issued by International Accounting Standards Board (“**IASB**”) and disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Change in accounting policy and disclosures

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

The following new and amended standards are mandatory for the first time for the Group's financial year beginning on January 1, 2021 and are applicable for the Group:

- Interest Rate Benchmark Reform Phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-related Rent Concessions — Amendments to IFRS 16

The adoption of the above new and amended standards did not have any significant financial impact on these consolidated financial statements.

(b) *New standards and interpretations not yet adopted*

Certain new accounting standards, amendments and interpretations have been issued but are not yet effective for the year beginning on January 1, 2021 and have not been early adopted by the Group during the year ended December 31, 2021. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual years beginning on or after
Classification of Liabilities as Current or Non-current — Amendments to IAS 1	January 1, 2023
Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2	January 1, 2023
Definition of Accounting Estimates — Amendments to IAS 8	January 1, 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12	January 1, 2023
IFRS 17 Insurance Contracts	January 1, 2023
Reference to the Conceptual Framework — Amendments to IFRS 3	January 1, 2022
Property, Plant and Equipment — Proceeds before Intended Use — Amendments to IAS 16	January 1, 2022
Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37	January 1, 2022
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture — Amendments to IFRS 10 and IAS 28	To be determined

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

In order to comply with the People's Republic of China ("PRC") laws and regulations which prohibit or restrict foreign ownership of companies involved in provision of internet content and other restricted businesses, the Group operates its website and other restricted businesses in the PRC through certain PRC operating entities, whose equity interests are held by certain management members of the Group ("**Nominee Shareholders**"). The Group signed contractual arrangements with the PRC operating entities ("**Contractual Arrangements**"). The Contractual Arrangements include exclusive technical consultation and service agreements, exclusive option agreements, equity pledge agreements and powers of attorney, which enable the Group to:

- govern the financial and operating policies of the PRC operating entities;
- exercise equity holder voting rights of the PRC operating entities;
- receive substantially all of the economic interest returns generated by the PRC operating entities in consideration for the technical support, consulting and other services provided exclusively by the WFOE, at the WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in the PRC operating entities at any time and from time to time, at the minimum consideration permitted by the relevant law in China at the time of transfer; and
- obtain a pledge over all of its equity interests from its respective Nominee Shareholders as collateral for all of the PRC entities' payments due to the Group to secure performance of entities' obligation under the Contractual Arrangements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Subsidiaries controlled through Contractual Arrangements (Continued)

Accordingly, the Group has rights to control these entities. As a result, they are presented as entities controlled by the Group.

2.2.2 Business combination

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 the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- 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. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, 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 recognised in profit or loss.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.3 Company's separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. The Group's investments in associates in the form of convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit and loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculated the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other (losses)/gains, net" in the consolidated income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (Continued)

Gain or losses on dilution of equity interest in the associate is recognised in the consolidated income statement. If the ownership interest in the associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Group.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The functional currency of the Company and certain of its overseas subsidiaries is USD. The Company’s primary subsidiaries and structured entities are incorporated in the PRC and for these subsidiaries and structured entities, the RMB is the functional currency. The Group’s presentation currency is RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement on a net basis within “other (losses)/gains, net”.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gains or losses. For example, translation differences on non-monetary assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in consolidated income statement as part of the “other (losses)/gains, net”.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment (Continued)

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:

- Buildings 19 years
- 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.

A 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 recognised within "other (losses)/gains, net" in the consolidated income statement.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the aggregate purchase consideration transferred, 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 amortised but it 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 (if any).

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 the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(b) Trademarks and domain names, licenses and copyrights, software

Separately acquired trademarks, domain names, internet audio/video program transmission licenses, operating licenses, copyrights and software are initially recognised and measured at historical cost. The assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortization and impairment losses (if any).

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For details, refer to Note 2.7(d).

(c) Other intangible assets

Other intangible assets mainly include customer relationships and non-compete agreements. They are initially recognised and measured at estimated fair value of intangible assets acquired through business combinations.

(d) Research and development

Research expenditures are recognised as an expense as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(e) Amortization methods and periods

Length of estimated useful life is determined to be the shorter of the period of contractual rights or estimated period during which such intangible assets can bring economic benefits to the Group.

The Group amortizes intangible assets with a finite useful life using the straight-line method over the following periods:

Licenses and copyrights	2–10 years	Shorter of contractual license and copyrights period or the estimated period during which such intangible assets can bring economic benefits
Trademarks and domain name	2–10 years	The period of effective registration during which such trademark and domain name can bring economic benefits
Software	2–7 years	Shorter of the period of contractual rights or estimated period during which such software can bring economic benefits
Others	3–4 years	Shorter of the period of contractual rights or estimated period during which such assets can bring economic benefits

2.8 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, investments accounted for using the equity method 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 recognised 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at fair value (either through other comprehensive income (“OCI”) or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are immediately expensed.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investments and other financial assets (Continued)

(c) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (losses)/gains, net together with foreign exchange gains and losses.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains, net.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other (losses)/gains, net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at FVPL are recognised in other (losses)/gains, net in the consolidated income statement as applicable.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investments and other financial assets (Continued)

(d) Impairment

The Group has two types of financial assets that are subject to IFRS 9's new expected credit losses (the "ECL") model (Note 3.1 (b)):

- Trade receivables; and
- Other receivables (including loan receivables).

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. While cash and cash equivalents, restricted cash and time deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Trade receivables

Trade receivables are amounts due from customers 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.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortized cost using the effective interest method, less loss allowance. See Note 21 for further information about the Group's accounting for trade receivables, Note 22 for further information about other receivables and Note 2.9(d) for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Cash and cash equivalents and restricted cash

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, time deposits with initial terms within three months, deposits held at call with banks and cash held at third party payment platform that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash that is restricted from withdrawal, from use or from being pledged as security is reported separately on the face of the consolidated balance sheet, and is not included in the total cash and cash equivalents in the consolidated statement of cash flows.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds. Convertible redeemable preferred shares are classified as liabilities (Note 32).

2.14 Accounts and other payables

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

2.15 Convertible redeemable preferred shares (“Preferred Shares”)

Preferred Shares issued by the Company are redeemable at the option of the holder upon occurrence of certain events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company. For details, refer to Note 32 (b).

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss. Fair value changes relating to market risk are recognised in profit or loss, while the component of fair value changes relating to the Company’s own credit risk is recognised in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but could be transferred to accumulated losses when realized.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares’ holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries and structured entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax assets is realized or the deferred tax liabilities is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax are recognised in profit or loss, except to the extent that they relate to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations, which are included in other payables and accruals in the consolidated balance sheet.

(b) Pension obligations

The Group has a defined contribution plan in which the Group pays fixed contributions to publicly administered pension insurance plans on a mandatory basis. Contributions to these plans are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

2.18 Share-based compensation

The Group has operated the Pre-IPO ESOP Plan, the Post-IPO Share Option Scheme and the Post-IPO RSU Scheme (together, the "**Share Incentive Plan**"), under which the Group receives services from employees, directors and other eligible persons as consideration for equity instruments (including share options and RSUs) of the Company. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense in the consolidated income statement.

2.18.1 Share options

For share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Share-based compensation (Continued)

2.18.2 RSUs

For RSUs, the total amount to be expensed is determined by reference to the fair value of the Company's shares at the grant date.

The total expense is recognised 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, the Company revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

2.19 Revenue recognition

The Group derives revenue from online marketing services, sales of virtual items on its live streaming platform and other services. The Group recognises revenue when or as the control of the promised goods or services is transferred to a customer, net of value-added taxes ("VAT"), rebates and certain sales incentives. If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised 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, the Group allocates transaction price to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources

(a) Online marketing services

The Group offers diversified online marketing solutions including advertising services, Kuaishou fans headline services and other marketing services to customers. The Group provides 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 recognised based on the price charged to customers, net of rebates provided to customers.

To fulfill contracts with certain customers, the Group enters into cooperation agreements with third party platforms and places the advertisements of the Group's customers displayed on third party platforms. For below services mentioned, the Group is the principal for fulfilling these marketing service contracts as it has obtained controls over third party platform services through cooperation contracts and, in some cases, integrated with other services before they are transferred to the Group's customers. The Group is also primarily responsible for fulfilling these marketing services as it is the only party that the Group's customers entered agreements with. As such, the Group recognises revenues from contracts with customers on a gross basis and records charges from third party platforms as cost of revenues.

Advertising services

(i) Performance-based advertising services

The Group provides performance-based advertising services which allow advertising customers to place links on the Group's mobile platforms and third parties' internet properties. Performance-based advertising services are primarily presented and delivered in the way of short video with clickable thumbnails together with other recommended short videos or displayed between other short videos at varying frequency. Revenue from performance-based advertising services is recognised when relevant specific performance measures are fulfilled.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(a) *Online marketing services (Continued)*

Advertising services (Continued)

(ii) Display-based advertising services

Displayed 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 recognised ratably over the period that the advertising is displayed. Generally, the terms of these display-based advertisements are short term.

Kuaishou fans headline services

The Group also provides Kuaishou fans headline services where the customers pay for exposure of their short video or live show to a targeted number of viewers for a specified period of time on Kuaishou's App. The Group has determined that each exposure to a target viewer represents one performance obligation. Revenue from each performance obligation is recognised when the short video or live show is exposed.

(b) *Live streaming*

The Group operates and maintains mobile platforms whereby users can enjoy live stream performances provided by the live streamers (the "**streamers**") and interact with the streamers on a real-time basis for free. The Group operates a virtual item system, under which viewers can purchase virtual items and present them as gifts to streamers to show their support and appreciation. The Group generates revenues from the sales of virtual items on the platform, and viewers are the Group's customers. The virtual items are produced and delivered by the Group. Sales of virtual items are recognized as revenues when the virtual items are gifted by viewers to streamers as the Group has 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.

In order to attract streamers to the platforms, the Group shares revenues with the streamers in accordance with the agreements between the Group and streamers.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Live streaming (Continued)

The Group has evaluated and concluded that it is the principal for the sales of the virtual items on the platforms. The Group produces and controls virtual items before they are transferred to customers. The prices of virtual items are set by the Group. Therefore, revenue from the sales of virtual items is recorded on a gross basis and the revenue sharing paid to streamers based on the predetermined percentage in the agreements is recognised as "cost of revenues" in the consolidated income statement.

(c) Other services

Other services revenues primarily include revenues from E-commerce business, online games and other value-added services. For the E-commerce business, the Group allows merchants to promote and sell goods on its platform and charges commissions on the sales of goods completed through its platform based on agreed commission rates. The Group does not take controls of goods sold through its platform. Commission revenues related to E-commerce business are recognised at a point in time when sale transaction of goods is completed. For online games and other value-added services, revenues are recognized when the Group satisfied the performance obligations under the service contracts.

2.19.2 Incentives and coupons

In order to promote its platform and attract more users, the Group at its own discretion provides various types of incentives offered to users in the form of cash incentives, red packets, coupons, etc.. Evaluations of the varying features of different incentive programs are made to determine whether incentives offered represent consideration payable to customers. Such evaluations include the consideration of whether the users would be considered as customers of the Group.

The incentives are awarded to users upon their completion of certain tasks. The incentives are recorded as reduction of revenue if there is no distinct service identified and the incentives are related to past, current or future revenues, such as reward to customers, and coupons to be used in future transactions, etc.. Incentives for distinct services received from the users such as inviting friends to download or log into Kuaishou's platforms, publishing or watching short videos which have advertising contents, etc., are recorded as selling and marketing expenses.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (Continued)

2.19.3 Contract balances

When either party to a customer contract has performed, the Group presents the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment. Contract balances include trade receivables and advances from customers.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due.

Payment terms and conditions vary by contract and service type. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

2.19.4 Practical expedients and exemptions

The Group has elected to use the practical expedient to not disclose the remaining performance obligations for contracts that have durations of one year or less, as substantially all of the Group's contracts have duration of one year or less.

The revenue standard requires the Group to recognise an asset for the incremental costs of obtaining a contract with a customer if the benefit of those costs is expected to be longer than one year. The Group has determined that sales commission for sales personnel meet the definition of incremental costs of obtaining a contract. However, the Group applies a practical expedient to expense the costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less.

2.19.5 Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group has applied the practical expedient of not to adjust any of the transaction prices for the time value of money.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Loss per share

Basic loss per share is calculated by dividing:

- (a) the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares; and
- (b) by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- (a) the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- (b) the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.21 Leases

The Group, as a lessee, leases internet data centers, office buildings and land. Lease contracts other than land are typically made for fixed periods of several months to six 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 the Group.

Contracts may contain both lease and non-lease components. The 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.

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Leases (Continued)

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use assets are depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise of lease of certain office spaces.

2.22 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Finance income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 8 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 11 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognised assets and liabilities denominated in a currency other than the functional currency of the Group's subsidiaries. The Group manages its foreign exchange risk by minimizing non-functional currency transactions.

For the year ended December 31, 2021, most transactions of the Group were settled in RMB and USD. Management considers that the business is not exposed to significant foreign exchange risk as the Group has no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of the Group's entities.

The Group has not engaged in hedging activities designed or intended to manage foreign exchange rate risk during the year ended December 31, 2021. However, the Group will continue to monitor foreign exchange risk from time to time based on its business development requirements to best preserve the Group's cash value, and may enter into forward foreign exchange contracts or engage in other hedging activities when necessary.

(ii) Interest rate risk

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

If the interest rate of cash and cash equivalents, and time deposits had been 50 basis points higher/lower, the loss before income tax for the year ended December 31, 2021 would have been lower/higher RMB202.2 million (2020 : RMB118.1 million). The impact of interest rate change on borrowings and loan receivables is not material.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is 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 and others. The Group is generally not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The sensitivity analysis is performed by management, see Note 3.3 for details.

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents, time deposits, restricted cash, trade receivables and other receivables. The carrying amount of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

Trade and other receivables are managed on a group basis. The finance team is responsible for managing and analysing the credit risk for each new customer/debtor before standard credit payment terms are offered. The Group assesses the credit quality of its customers and other debtors by taking into account various factors including their financial position, past operational and financial 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.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

Trade receivables

The Group applies 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.

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Products (“GDP”) of the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowances of trade receivables as of December 31, 2021 and 2020 were determined as follows:

	As of December 31,	
	2021	2020
	RMB	RMB
	<i>in thousands, except for percentages</i>	
Expected loss rate	0.58%	0.66%
Gross carrying amount	4,476,135	2,444,121
Loss allowance provision	26,043	16,082

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of severe financial difficulty.

Impairment losses on trade receivables are presented as “administrative expenses” within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other 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. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

On that basis, the loss allowances of other receivables as of December 31, 2021 and 2020 were determined as follows:

	As of December 31,	
	2021	2020
	RMB	RMB
	<i>in thousands, except for percentages</i>	
Expected loss rate	4.72%	6.08%
Gross carrying amount	790,236	323,610
Loss allowance provision	37,269	19,680

(c) Liquidity risk

The Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products and others or to retain adequate financing arrangements to meet the Group's liquidity requirements.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining 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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at December 31, 2021					
Accounts payables	20,021,082	—	—	—	20,021,082
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	5,381,932	—	—	—	5,381,932
Lease liabilities	3,622,472	3,595,784	7,736,338	182,236	15,136,830
Total	29,025,486	3,595,784	7,736,338	182,236	40,539,844
As at December 31, 2020					
Accounts payables	11,544,297	—	—	—	11,544,297
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	3,396,986	—	—	—	3,396,986
Lease liabilities	2,318,824	1,940,543	1,876,541	—	6,135,908
Convertible redeemable preferred shares	—	185,372,816	—	—	185,372,816
Total	17,260,107	187,313,359	1,876,541	—	206,450,007

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- (1) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (2) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- (3) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investments in listed entities	176,903	—	—	176,903
— Investments in unlisted entities	—	—	2,844,187	2,844,187
— Wealth management products and others	—	382,495	8,739,241	9,121,736
	<u>176,903</u>	<u>382,495</u>	<u>11,583,428</u>	<u>12,142,826</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investments in listed entities	82,646	—	—	82,646
— Investments in unlisted entities	—	—	3,843,315	3,843,315
— Wealth management products and others	—	—	3,607,802	3,607,802
	<u>82,646</u>	<u>—</u>	<u>7,451,117</u>	<u>7,533,763</u>
Liabilities				
Convertible redeemable preferred shares	—	—	185,372,816	185,372,816

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

Level 2 instruments of the Group's assets were perpetual bonds measured at fair value through profit or loss in wealth management products and others.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets and liabilities mainly include Preferred Shares (Note 32), investments measured at fair value through profit or loss in unlisted entities (Note 20) and investments in wealth management products and others (excluding investments in perpetual bonds) (Note 20). As these level 3 instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The changes in level 3 instruments of Preferred Shares for the years ended December 31, 2021 and 2020 are presented in the Note 32.

The following table presents the changes in level 3 items of financial assets at fair value through profit or loss for the years ended December 31, 2021 and 2020.

	Financial assets at fair value through profit or loss RMB'000
At January 1, 2021	7,451,117
Additions	73,183,406
Disposal	(67,426,383)
Change in fair value through profit or loss*	1,295,915
Transfer to investments accounted for using the equity method (Note 19)	(2,470,647)
Deemed disposal due to business combination	(6,959)
Transfer from level 3 to level 1	(349,714)
Currency translation differences	(93,307)
	<hr/>
At December 31, 2021	11,583,428
	<hr/>
* Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the year	357,026

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

	Financial assets at fair value through profit or loss RMB'000
At January 1, 2020	11,083,340
Additions	48,608,316
Disposal	(51,991,411)
Change in fair value through profit or loss*	216,802
Currency translation differences	(465,930)
At December 31, 2020	<u>7,451,117</u>
* Includes unrealised losses recognised in profit or loss attributable to balances held at the end of the year	(83,714)

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair Values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31,			As of December 31,		
	2021 RMB'000	2020 RMB'000		2021	2020	
Investments in unlisted entities	2,844,187	3,843,315	Expected volatility	40%–87%	46%–72%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	5%–25%	9%–32%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.13%–2.7%	0.17%–2.96%	The higher the risk-free rate, the lower the fair value
Wealth management products and others	8,739,241	3,607,802	Expected rate of return	0.92%–4.82%	2.35%–3.60%	The higher the expected rate of return, the higher the fair value

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. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due. The fair values are determined based on the expected cash flows and discounted by using the expected return (based on management judgment) and are within level 3 of the fair value hierarchy. From the perspective of cash management and risk control, the Group diversifies its investment portfolios and mainly purchases low-risk products from reputable financial institutions and prefers those products with high-liquidity.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The following table presents the lower/(higher) of the loss before income tax for the years ended December 31, 2021 and 2020 if the fair values of financial assets at fair value through profit or loss held by the Group had been 10% higher/lower.

% changes of fair values of financial assets at fair value through profit or loss	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
10% higher	1,214,283	753,376
10% lower	(1,214,283)	(753,376)

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2021 and 2020, except that one investment was transferred out of level 3 of fair value hierarchy to level 1 classification due to the conversion to ordinary shares upon the initial public offering of the investee company in 2021.

The carrying amounts of the Group's other financial assets measured at amortized costs including cash and cash equivalents, restricted cash, short-term time deposits, trade receivables, other receivables and other current assets and the Group's financial liabilities, including accounts payables, other payables and accruals, approximate their fair values due to their short maturities.

Notes to the Consolidated Financial Statements

4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which will seldom equal the actual results. Management needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

4.1 Recognition of share-based compensation expenses

The Group set up the Share Incentive Plan and granted options and RSUs to employees, directors, and other eligible persons. The fair value of the options is determined by the binomial option pricing model at the grant date, and is expected to be expensed over the respective vesting periods. 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 (Note 27).

4.2 Estimation of the fair value of financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions including credit risk, volatility and liquidity risks associated with the instruments at the end of each reporting period, which are subject to uncertainty and might materially differ from the actual results. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

Upon the listing on February 5, 2021, all the outstanding Preferred Shares of the Company have been converted into ordinary shares.

4.3 Credit loss allowances for trade receivables, other receivables and other assets

Upon the adoption of IFRS 9, the expected credit loss of trade receivables, other receivables and other assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to calculate the loss allowances, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

Notes to the Consolidated Financial Statements

4 CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 Recoverability of non-financial assets

The Group tests whether goodwill has suffered any impairment on an annual basis, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets including property and equipment, investments accounted for using the equity method, right-of-use assets and intangible assets other than the goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The assets are allocated to each of CGUs, or groups of CGUs. The recoverable amount of CGUs has been determined based on the higher amount of fair value less disposal cost model and value-in-use model. Under the fair value less disposal cost model, the management makes estimates based on quoted prices of active markets based on observable inputs. Under the value-in-use model, calculations require the use of assumptions and use cash flow projections based on financial forecast with an estimation of terminal value.

4.5 Current and deferred income taxes

The Group is 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 asset in relation to (i) temporary differences (including but not limited to provisions and changes in fair values of financial asset); and (ii) unused tax losses had been recognised in the consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profit or taxable temporary differences will be available in the future. The outcome of their actual utilisation may be different from management's estimation.

4.6 Revenue recognition

Determining whether the Group is acting as a principal or as an agent when a third-party is involved in the provision of certain services to its customers requires judgement and consideration of all relevant facts and circumstances. In evaluation of the Group's role as a principal or agent, the Group considers factors to determine whether the Group controls the specified goods or services before they transferred to the customer include, but are not limited to the following: (a) who is primarily responsible for fulfilling the contract, (b) who is subject to inventory risk, and (c) who has discretion in establishing prices. Refer to Note 2.19 for details.

Notes to the Consolidated Financial Statements

4 CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

4.7 Useful lives and depreciation of property and equipment

The Group's management determines the estimated useful lives and related depreciation for the Group's property and equipment based on the asset's expected utility to the Group. The asset management policy of the Group may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its physical life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the Group with similar assets.

4.8 Useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives and related amortization for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortization charges where useful lives are different from that of previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

5 SEGMENT INFORMATION

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Group. As a result of this evaluation, the CODM considers that the Group's operations are operated and managed as a single segment. Accordingly, no segment information is presented.

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

As of December 31, 2021 and 2020, substantially all of the non-current assets other than financial instruments, investments accounted for using the equity method and deferred tax assets of the Group were located in the PRC.

Notes to the Consolidated Financial Statements

6 REVENUES

The breakdown of revenues during the years ended December 31, 2021 and 2020 is as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Online marketing services	42,665,483	21,854,539
Live streaming	30,995,152	33,209,115
Other services	7,420,878	3,712,443
	81,081,513	58,776,097

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

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Revenue recognized at a point in time	73,996,005	53,158,177
Revenue recognized over time	7,085,508	5,617,920
	81,081,513	58,776,097

There is no concentration risk as no revenue from a single customer was more than 10% of the Group's total revenues for the years ended December 31, 2021 and 2020.

7 OTHER INCOME

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Government grants and value-added tax subsidies	990,839	527,996
Others	35,903	—
	1,026,742	527,996

Notes to the Consolidated Financial Statements

8 OTHER (LOSSES)/GAINS, NET

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Net (losses)/gains on disposal of property and equipment, intangible assets and right-of-use assets	(43,373)	90
Net fair value gains/(losses) on financial assets at fair value through profit or loss		
— Investments in listed and unlisted entities	802,747	(84,989)
— Wealth management products and others	242,978	357,733
Net foreign exchange (losses)/gains	(90,773)	35,884
Impairment provision for investments (Note 19)	(922,033)	—
Others	(214,797)	(132,235)
	(225,251)	176,483

9 EXPENSES BY NATURE

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Revenue sharing costs and related taxes	24,792,937	20,519,492
Employee benefit expenses	21,870,107	9,616,960
Promotion and advertising expenses	41,216,431	25,491,328
Bandwidth expenses and server custody costs	7,638,475	5,735,392
Depreciation of property and equipment	3,985,910	3,077,674
Depreciation of right-of-use assets	2,735,442	1,656,457
Amortization of intangible assets	163,665	128,861
Outsourcing and other labor costs	1,498,304	583,084
Payment processing cost	1,602,030	1,004,480
Auditor's remuneration		
— Audit services	30,000	32,524
— Non-audit services	23,126	3,641
Other professional fees	284,508	164,047
Tax surcharges	378,263	377,097
Credit loss allowances on financial assets	27,550	12,424
Others (Note a)	3,337,521	1,397,068
	109,584,269	69,800,529

Note a: Others mainly comprise content-related costs, office facilities fees, travelling and communication fees.

Notes to the Consolidated Financial Statements

10 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Wages, salaries and bonuses	11,440,494	6,582,641
Share-based compensation expenses	7,830,249	1,840,886
Pension costs — defined contribution plans (Note a)	832,389	299,883
Other social security costs, housing benefits and other employee benefits	1,766,975	893,550
	21,870,107	9,616,960

Note a: Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(a) Five highest paid individuals

None of the five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2021 and 2020 were directors of the Group. The emoluments payable to these individuals for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Wages and salaries	25,645	23,604
Bonuses	18,680	14,968
Share-based compensation expenses	505,054	137,475
Pension costs — defined contribution plans	180	190
Other social security costs, housing benefits and other employee benefits	283	291
	549,842	176,528

Notes to the Consolidated Financial Statements

10 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2021	2020
HK\$29,500,001 to HK\$30,000,000	—	1
HK\$31,500,001 to HK\$32,000,000	—	1
HK\$35,000,001 to HK\$35,500,000	—	1
HK\$50,000,001 to HK\$50,500,000	—	1
HK\$51,000,001 to HK\$51,500,000	—	1
HK\$110,000,001 to HK\$110,500,000	1	—
HK\$114,500,001 to HK\$115,000,000	1	—
HK\$123,000,001 to HK\$123,500,000	1	—
HK\$128,000,001 to HK\$128,500,000	1	—
HK\$185,000,001 to HK\$185,500,000	1	—
	5	5

All of these individuals have not received any emolument from the Group as an inducement to join or leave the Group, and have not received any compensation for loss of office for the years ended December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

10 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of directors

The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2021:

Name	Fees RMB'000	Wages and salaries RMB'000	Bonuses RMB'000	Share-based compensation expenses RMB'000	Pension costs-defined contribution plans RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Chairman</i>							
SU Hua	—	2,671	3,250	—	53	77	6,051
<i>Executive Director</i>							
CHENG Yixiao	—	2,473	3,250	—	53	77	5,853
<i>Non-Executive Directors</i>							
LI Zhaohui	—	—	—	—	—	—	—
ZHANG Fei	—	—	—	—	—	—	—
SHEN Dou	—	—	—	—	—	—	—
LIN Frank	—	—	—	—	—	—	—
<i>Independent non-executive Directors</i>							
WANG Huiwen	377	—	—	—	—	—	377
HUANG Xuande	377	—	—	—	—	—	377
MA Yin	377	—	—	—	—	—	377
Total	1,131	5,144	6,500	—	106	154	13,035

Notes to the Consolidated Financial Statements

10 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

For the year ended December 31, 2020:

Name	Fees RMB'000	Wages and salaries RMB'000	Bonuses RMB'000	Share-based compensation expenses RMB'000	Pension costs — defined contribution plans RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Chairman</i>							
SU Hua	—	2,235	3,578	—	41	73	5,927
<i>Executive director</i>							
CHENG Yixiao	—	2,234	3,544	—	41	73	5,892
<i>Non-Executive directors</i>							
LI Zhaohui	—	—	—	—	—	—	—
ZHANG Fei	—	—	—	—	—	—	—
SHEN Dou	—	—	—	—	—	—	—
LIN Frank	—	—	—	—	—	—	—
Total	—	4,469	7,122	—	82	146	11,819

(i) Benefits and interests of directors

Except for directors disclosed above, there is no other benefits and interests offered to the other directors.

(ii) Directors' retirement and termination benefits

No director's retirement and termination benefit subsisted at the end of the year or at any time during the years ended December 31, 2021 and 2020.

(iii) Consideration provided to or receivable by third parties for making available directors' services

No consideration provided to or receivable by third parties for making available director's services subsisted at the end of the year or at any time during the years ended December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

10 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

(iv) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors was subsisted at the end of the year or at any time during the years ended December 31, 2021 and 2020.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of the year or at any time during the years ended December 31, 2021 and 2020.

(vi) Inducement to join the Group and compensation for loss of office

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office for the years ended December 31, 2021 and 2020.

11 FINANCE EXPENSE, NET

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Finance income:		
Interest income from bank deposits	520,833	210,064
Others	2,975	—
	<u>523,808</u>	<u>210,064</u>
Finance expense:		
Interest expense from lease liabilities	(562,344)	(225,084)
Others	—	(20,268)
	<u>(562,344)</u>	<u>(245,352)</u>
Finance expense, net	<u>(38,536)</u>	<u>(35,288)</u>

Notes to the Consolidated Financial Statements

12 SUBSIDIARIES

The Company's major subsidiaries (including controlled and structured entities) during the years ended December 31, 2021 and 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of operation.

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held As of December 31,		Principal activities
				2021	2020	
Subsidiaries						
Directly held:						
Fortune Ever Global Limited	Hong Kong, limited liability company	March 25, 2014	HKD10,000	100%	100%	Investment holding and investment
Cosmic Blue Investments Limited	British Virgin Islands, limited liability company	March 16, 2017	—	100%	100%	Investment holding and investment
Indirectly held:						
Joyo Technology PTE. LTD.	Singapore, limited liability company	August 3, 2016	USD1	100%	100%	Development of software, provision of programming and advertising services
Beijing Dajia Internet Information Technology Co., Ltd.*	Beijing, China, limited liability company	July 2, 2014	RMB31,172,273,241	100%	100%	Development of software, hardware and network technology
Beijing Kuaishou Ads Co., Ltd.	Beijing, China, limited liability company	September 23, 2016	RMB60,000	100%	100%	Provision of online marketing and other services
Chengdu Magnetic Engine Media Co., Ltd.	Sichuan, China, limited liability company	September 25, 2020	—	100%	100%	Provision of online marketing services

Notes to the Consolidated Financial Statements

12 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held As of December 31,		Principal activities
				2021	2020	
Structured entities (Note a)						
Beijing Kuaishou Technology Co., Ltd.	Beijing, China, limited liability company	March 20, 2015	RMB10,000,000	100%	100%	Provision of live-streaming and online marketing services
Yooeee Xingji (Beijing) Technology Co., Ltd.	Beijing, China, limited liability company	November 3, 2006	RMB25,600,000	100%	100%	Provision of technology development, promotion and other services
Huai'an Kangxiangfu Culture Communication Co., Ltd.	Jiangsu, China, limited liability company	January 9, 2017	—	100%	100%	Provision of internet information services
Beijing Chenzhong Technology Co., Ltd.	Beijing, China, limited liability company	July 6, 2017	RMB2,015,000	100%	100%	Provision of online marketing and other services
Guizhou Fankuai Culture Communication Co., Ltd.	Guizhou, China, limited liability company	March 5, 2019	—	100%	100%	Provision of multimedia information technology services
Chengdu Kuaigou Technology Co., Ltd.	Sichuan, China, limited liability company	October 31, 2019	—	100%	100%	Provision of e-commerce and other services
Beijing Shunjie Zhongheng Technology Co., Ltd.	Beijing, China, limited liability company	July 5, 2021	—	100%	—	Provision of technology development and other services

* Registered as wholly foreign-owned enterprise under PRC law.

Note a: As described in Note 2.2, the Company does not have direct or indirect legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with these structured entities and their registered owners, the Company and its other legally owned subsidiaries have rights to exercise power over these structured entities, receive variable returns from their involvement in these structured entities, and have the ability to affect those returns through their power over these structured entities. As a result, they are presented as structured entities of the Company.

Notes to the Consolidated Financial Statements

13 INCOME TAX

(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 of 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 year ended December 31, 2021 (2020: Nil).

(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 year ended December 31, 2021 based on the existing legislation, interpretation and practices in respect thereof (2020: 25%).

Beijing Dajia Internet Information Technology Co., Ltd. (“**Beijing Dajia**”) was accredited as High and New Technology Enterprises 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.

Notes to the Consolidated Financial Statements

13 INCOME TAX (CONTINUED)

(d) PRC Enterprise Income Tax (Continued)

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 year.

(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 years ended December 31, 2021 and 2020 are analysed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current income tax	(2,072,167)	(893,467)
Deferred income tax (Note 31)	3,097,322	1,459,015
Income tax benefits	1,025,155	565,548

Notes to the Consolidated Financial Statements

13 INCOME TAX (CONTINUED)

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Loss before income tax	(79,102,256)	(117,200,790)
Tax calculated at statutory income tax rate of 25% in mainland China	19,775,564	29,300,198
Tax effects of:		
— Effect of different tax rates in other jurisdictions	(13,579,537)	(26,936,304)
— Effect of preferential income tax rates of certain subsidiaries	(886,815)	(1,040,720)
— Tax losses and temporary deductible timing differences for which no deferred tax assets was recognised	(3,864,390)	(705,414)
— Expenses not deductible for income tax purposes	(803,684)	(433,735)
— Utilization of previously unrecognised deductible tax losses and temporary differences	43,898	35,780
— Super deduction for research and development expenses	332,278	210,513
— Income not subject to tax	7,841	29,097
— Reversal of income tax expenses of prior year (Note a)	—	106,133
	1,025,155	565,548

Note a: Due to the changes in the applicable tax rate for Beijing Dajia as mentioned in Note 13(d), a reversal was made in the second quarter of 2020 for the current income tax expense of RMB106.1 million as accrued in 2019 (refer to Note 13(d) for details).

Notes to the Consolidated Financial Statements

14 LOSS PER SHARE

(a) Basic loss per share

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

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Net loss attributable to equity holders of the Company	(78,073,643)	(116,635,242)
Weighted average number of ordinary shares in issue (thousand shares)	3,833,009	931,245
Basic loss per share (expressed in RMB per share)	(20.37)	(125.25)

(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 years ended December 31, 2021 and 2020, the Company had three categories of potential ordinary shares: Preferred Shares, share options and RSUs. As the Company incurred losses for the years ended December 31, 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 years ended December 31, 2021 and 2020 were the same as basic loss per share of the respective years.

Notes to the Consolidated Financial Statements

15 PROPERTY AND EQUIPMENT

The detailed information of property and equipment during the years ended December 31, 2021 and 2020 is as below:

	Buildings RMB'000	Servers, computers and equipment RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2021						
Cost	—	12,315,894	29,566	253,481	25,173	12,624,114
Accumulated depreciation	—	(5,311,475)	(10,199)	(96,340)	—	(5,418,014)
Net book amount	—	7,004,419	19,367	157,141	25,173	7,206,100
Year ended December 31, 2021						
Opening net book amount	—	7,004,419	19,367	157,141	25,173	7,206,100
Currency translation differences	—	(4,537)	(10)	(564)	—	(5,111)
Additions	2,541,793	4,576,165	36,424	103,445	636,205	7,894,032
Transfer from construction in progress to leasehold improvements	—	—	—	141,666	(141,666)	—
Disposal	—	(5,176)	(125)	(609)	(52,671)	(58,581)
Depreciation charge	—	(3,827,465)	(11,295)	(147,150)	—	(3,985,910)
Business combination	—	24	1	99	—	124
Closing net book amount	2,541,793	7,743,430	44,362	254,028	467,041	11,050,654
At December 31, 2021						
Cost	2,541,793	16,851,672	65,172	488,604	467,041	20,414,282
Accumulated depreciation	—	(9,108,242)	(20,810)	(234,576)	—	(9,363,628)
Net book amount	2,541,793	7,743,430	44,362	254,028	467,041	11,050,654

Notes to the Consolidated Financial Statements

15 PROPERTY AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Servers, computers and equipment RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2020						
Cost	—	8,401,480	15,945	122,734	34,029	8,574,188
Accumulated depreciation	—	(2,312,079)	(4,972)	(24,832)	—	(2,341,883)
Net book amount	—	6,089,401	10,973	97,902	34,029	6,232,305
Year ended December 31, 2020						
Opening net book amount	—	6,089,401	10,973	97,902	34,029	6,232,305
Currency translation differences	—	(792)	(15)	—	—	(807)
Additions	—	3,916,919	14,394	32,973	88,918	4,053,204
Transfer from construction in progress to leasehold improvements	—	—	—	97,774	(97,774)	—
Disposal	—	(691)	(237)	—	—	(928)
Depreciation charge	—	(3,000,418)	(5,748)	(71,508)	—	(3,077,674)
Closing net book amount	—	7,004,419	19,367	157,141	25,173	7,206,100
At December 31, 2020						
Cost	—	12,315,894	29,566	253,481	25,173	12,624,114
Accumulated depreciation	—	(5,311,475)	(10,199)	(96,340)	—	(5,418,014)
Net book amount	—	7,004,419	19,367	157,141	25,173	7,206,100

Notes to the Consolidated Financial Statements

15 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Cost of revenues	3,790,217	2,980,192
Selling and marketing expenses	21,347	7,413
Administrative expenses	61,178	40,839
Research and development expenses	113,168	49,230
	3,985,910	3,077,674

16 LEASE

(a) Items recognised in the consolidated balance sheet

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Right-of-use assets		
Internet data centers	10,101,628	4,435,397
Office buildings	2,431,689	764,315
Land use rights	28,428	—
	12,561,745	5,199,712

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Lease liabilities		
Current	3,528,838	2,099,360
Non-current	10,079,847	3,608,041
	13,608,685	5,707,401

Additions to the right-of-use assets for the year ended December 31, 2021 was RMB10.4 billion (2020: RMB2.5 billion).

Notes to the Consolidated Financial Statements

16 LEASE (CONTINUED)

(b) Items recognised in the consolidated income statement and consolidated statement of cash flows

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets		
— Internet data centers	2,220,689	1,434,374
— Office buildings	514,262	222,083
— Land use rights	491	—
Interest expense (included in finance expense, net)	562,344	225,084
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses)	118,065	67,755
	3,415,851	1,949,296

The total cash outflows in financing activities for leases during the years ended December 31, 2021 and 2020 are as below:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Principal elements of lease payments	2,185,593	1,421,162
Related interest paid	562,344	225,084
	2,747,937	1,646,246

Notes to the Consolidated Financial Statements

17 INTANGIBLE ASSETS

The detailed information of intangible assets during the years ended December 31, 2021 and 2020 is as below:

	Goodwill (Note a) RMB'000	Licenses and copyrights RMB'000	Trademarks and domain name RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021						
Cost	836,972	535,043	6,515	88,150	8,670	1,475,350
Accumulated amortization and impairment	—	(178,089)	(3,368)	(39,593)	(6,512)	(227,562)
Net book amount	836,972	356,954	3,147	48,557	2,158	1,247,788
Year ended December 31, 2021						
Opening net book amount	836,972	356,954	3,147	48,557	2,158	1,247,788
Additions	—	57,513	225	19,284	—	77,022
Disposals	—	(1,963)	—	—	—	(1,963)
Impairment charge	—	(4,499)	—	—	—	(4,499)
Amortization charge	—	(138,601)	(2,018)	(20,967)	(2,079)	(163,665)
Currency translation differences	—	(14)	—	—	—	(14)
Business combination	7,985	—	3,100	4,300	1,700	17,085
Closing net book amount	844,957	269,390	4,454	51,174	1,779	1,171,754
At December 31, 2021						
Cost	844,957	589,432	9,840	111,734	10,370	1,566,333
Accumulated amortization and impairment	—	(320,042)	(5,386)	(60,560)	(8,591)	(394,579)
Net book amount	844,957	269,390	4,454	51,174	1,779	1,171,754
At January 1, 2020						
Cost	836,972	301,966	3,543	68,573	8,670	1,219,724
Accumulated amortization	—	(71,222)	(1,671)	(22,787)	(3,736)	(99,416)
Net book amount	836,972	230,744	1,872	45,786	4,934	1,120,308
Year ended December 31, 2020						
Opening net book amount	836,972	230,744	1,872	45,786	4,934	1,120,308
Additions	—	234,113	2,972	19,577	—	256,662
Disposals	—	(321)	—	—	—	(321)
Amortization charge	—	(107,582)	(1,697)	(16,806)	(2,776)	(128,861)
Closing net book amount	836,972	356,954	3,147	48,557	2,158	1,247,788
At December 31, 2020						
Cost	836,972	535,043	6,515	88,150	8,670	1,475,350
Accumulated amortization	—	(178,089)	(3,368)	(39,593)	(6,512)	(227,562)
Net book amount	836,972	356,954	3,147	48,557	2,158	1,247,788

Notes to the Consolidated Financial Statements

17 INTANGIBLE ASSETS (CONTINUED)

Note a: For the purpose of impairment test of goodwill, goodwill is allocated to groups of CGUs. Such groups of CGUs represent the lowest level within the Group for which the goodwill is monitored for internal management purpose. The Group has only one CGU according to its business operation during the years ended December 31, 2021 and 2020. Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2021 and 2020 according to IAS 36 "Impairment of assets". The Group conducted the annual impairment test on goodwill for its CGU by comparing its recoverable amount to its carrying amount as on December 31, 2021. The recoverable amount of the CGU is determined based on the higher amount of value-in-use calculations and fair value less costs of disposal.

On December 31, 2021, the Group completed goodwill impairment test on its CGU. The fair value less disposal cost model was adopted to calculate the recoverable amount, which was determined by observable inputs in active capital market. As the recoverable amount was higher than the carrying amount, no impairment for the CGU was recorded.

Amortization expenses have been charged to the consolidated income statement as follow:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Cost of revenues	124,036	92,909
Selling and marketing expenses	275	—
Administrative expenses	28,997	25,867
Research and development expenses	10,357	10,085
	<u>163,665</u>	<u>128,861</u>

Notes to the Consolidated Financial Statements

18 FINANCIAL INSTRUMENTS BY CATEGORY

The detailed information of financial instruments by category as of December 31, 2021 and 2020 is as below:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Assets as per consolidated balance sheet		
Financial assets measured at fair value through profit or loss:		
— Investments in listed entities	176,903	82,646
— Investments in unlisted entities	2,844,187	3,843,315
— Wealth management products and others	9,121,736	3,607,802
Financial assets measured at amortized costs:		
— Trade receivables	4,450,092	2,428,039
— Prepayments, other receivables and other current assets (excluding prepaid promotion and advertising fees, recoverable VAT and other tax prepayments, rental prepayments, prepaid content cost and license fee and other prepayments)	524,831	165,811
— Other non-current assets	228,136	138,119
— Time deposits	7,825,420	3,229,095
— Restricted cash	2,415	3,698
— Cash and cash equivalents	32,612,419	20,391,545
Total	57,786,139	33,890,070

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Liabilities as per consolidated balance sheet		
Financial liabilities measured at fair value through profit or loss:		
— Convertible redeemable preferred shares	—	185,372,816
Financial liabilities measured at amortized cost:		
— Accounts payables	20,021,082	11,544,297
— Other payables and accruals (excluding employee benefit payables, and other taxes payable)	5,381,932	3,396,986
— Lease liabilities	13,608,685	5,707,401
Total	39,011,699	206,021,500

Notes to the Consolidated Financial Statements

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Investments in an associate accounted for using the equity method		
— Listed entity	<u>1,411,141</u>	<u>—</u>
		Year ended December 31, 2021 RMB'000
At the beginning of the year		—
Addition		2,470,647
Share of loss		(86,658)
Exchange loss		(50,815)
Impairment provision		(922,033)
At the end of the year		<u>1,411,141</u>

For the year ended December 31 2021, an investment (the “**Investment**”) previously accounted as financial assets at fair value through profit or loss underwent initial public offering on the New York Stock Exchange, following which the investment was converted into investments accounted for using the equity method due to (i) the conversion of the Group’s investment in its preferred shares into ordinary shares upon its initial public offering, (ii) the Group exercises significant influence over the Investment through the board representation.

The Group performed impairment testing on the Investment with impairment indicators, including but not limited to market capitalization, financial position and business performance. The recoverable amount of the Investment is determined with reference to the higher of fair value less cost of disposal and value in use. In respect of the amount using value in use, significant estimates on assumptions, such as the forecast of the Investment’s future performance and the discount rate are made. In respect of amount based on fair value less cost of disposal, it was calculated by observable prices in the active market, which is level 1 in the valuation methods. Since the recoverable amount determined by its fair value less cost of disposal amounted to RMB1,411.1 million is lower than the carrying amount, the Group has recognized RMB922.0 million impairment provision of the Investment.

Notes to the Consolidated Financial Statements

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Non-current assets		
Investments in unlisted entities	2,844,187	3,843,315
Investments in listed entity		
— United States listed	146,165	—
Wealth management products and others	310,271	—
	<u>3,300,623</u>	<u>3,843,315</u>
Current assets		
Investments in listed entity		
— Hong Kong listed	30,738	82,646
Wealth management products and others	8,811,465	3,607,802
	<u>8,842,203</u>	<u>3,690,448</u>
Total	<u><u>12,142,826</u></u>	<u><u>7,533,763</u></u>

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

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
At the beginning of the year	7,533,763	11,160,542
Additions	73,569,288	48,657,244
Disposal	(67,426,383)	(52,084,645)
Transfer to investments accounted for using the equity method (Note 19)	(2,470,647)	—
Change in fair value through profit or loss	1,045,725	272,744
Deemed disposal due to business combination	(6,959)	—
Currency translation differences	(101,961)	(472,122)
At the end of the year	<u><u>12,142,826</u></u>	<u><u>7,533,763</u></u>

Notes to the Consolidated Financial Statements

21 TRADE RECEIVABLES

The detailed information of trade receivables during the years ended December 31, 2021 and 2020 is as below:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Trade receivables from contracts with customers	4,476,135	2,444,121
Less: credit loss allowances	(26,043)	(16,082)
	<u>4,450,092</u>	<u>2,428,039</u>

The Group generally grants a credit period of 90 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Up to 3 months	4,358,887	2,339,276
3 to 6 months	117,248	104,845
	<u>4,476,135</u>	<u>2,444,121</u>

Movements on the Group's allowance for credit loss of trade receivables are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
At the beginning of the year	(16,082)	(4,774)
Additional provision	(9,961)	(11,308)
At the end of the year	<u>(26,043)</u>	<u>(16,082)</u>

Notes to the Consolidated Financial Statements

22 PREPAYMENTS, OTHER RECEIVABLES AND OTHER CURRENT ASSETS

The detailed information of prepayments, other receivables and other current assets as of December 31, 2021 and 2020 is as below:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Recoverable VAT and other tax prepayments	1,347,416	1,574,753
Prepaid content cost and license fee	660,407	50,028
Prepaid promotion and advertising fees	591,975	416,436
Receivables from third parties	179,515	7,104
Deposit	177,095	82,060
Interest receivable	118,313	34,253
Rental prepayments	55,905	24,192
Loan receivables	16,933	32,625
Others	154,557	83,649
	3,302,116	2,305,100
Less: credit loss allowances	(23,798)	(19,680)
	3,278,318	2,285,420

23 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Cash at bank and in hand	27,511,859	20,391,545
Time deposits with initial terms within three months	5,100,560	—
	32,612,419	20,391,545

Notes to the Consolidated Financial Statements

23 CASH AND BANK BALANCES (CONTINUED)

(a) Cash and cash equivalents (Continued)

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
RMB	15,441,937	8,710,497
USD	15,377,699	11,657,970
HKD	1,761,064	7
Others	31,719	23,071
	32,612,419	20,391,545

The weighted average effective interest rates on time deposits of the Group with initial terms within three months as of December 31, 2021 was 0.57% per annum (2020: Nil).

(b) Restricted cash

Restricted cash are denominated in the following currencies:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
RMB	—	1,214
USD	2,415	2,484
	2,415	3,698

Notes to the Consolidated Financial Statements

23 CASH AND BANK BALANCES (CONTINUED)

(c) Time deposits

	As of December 31,	
	2021 RMB'000	2020 RMB'000
RMB	4,000,000	610,000
USD	3,825,420	2,619,095
	7,825,420	3,229,095

The interest rates on time deposits of the Group with initial terms over three months as of December 31, 2021 were in the range of 0.78% to 3.85% per annum (2020: 0.57% to 4.18%).

24 SHARE CAPITAL

Authorized:

	Number of ordinary shares '000	Nominal value of ordinary shares USD'000	Number of Preferred Shares '000	Nominal value of Preferred Shares USD'000
At January 1, 2020	7,443,544	40	1,990,418	10
Issuance of Series F-1 and F-2 Preferred Shares	(455,300)	(2)	455,300	2
Re-designation of ordinary shares to Preferred Shares	(3,439)	—	3,439	—
At December 31, 2020	6,984,805	38	2,449,157	12
Conversion of Preferred Shares to ordinary shares	2,449,157	12	(2,449,157)	(12)
At December 31, 2021	9,433,962	50	—	—

Notes to the Consolidated Financial Statements

24 SHARE CAPITAL (CONTINUED)

Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
At January 1, 2021	930,672	5	30	—
Issuance relating to initial public offering (Note a)	415,956	2	14	39,220,652
Conversion of Preferred Shares to ordinary shares (Note 32)	2,449,157	12	84	235,084,462
Shares issued upon initial public offering from Share Incentive Plan	341,694	2	12	65,300
Exercise of share options and vesting of RSU	67,789	—	2	37,382
At December 31, 2021	4,205,268	21	142	274,407,796
	Number of ordinary shares '000	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	
At January 1, 2020	934,111	5	30	
Re-designation of ordinary shares to Preferred Shares	(3,439)	—	—	
At December 31, 2020	930,672	5	30	

Note a: In February 2021, the Company completed its IPO of 365,218,600 shares at HK\$115 per share on the Main Board of The Stock Exchange of Hong Kong Limited and the underwriters of the Global Offering fully exercised the over-allotment option of an aggregate of 54,782,700 shares, among which 50,737,300 shares were newly allotted and issued by the Company. The issuance of ordinary shares relating to IPO, net of underwriting commissions and other issuance costs amounting to RMB681.8 million, led to an increase of share capital and share premium by RMB14.0 thousand and RMB39,220.7 million, respectively.

Notes to the Consolidated Financial Statements

25 OTHER RESERVES

The following table shows a breakdown of the balance sheet line item “other reserves” and the movements in these reserves during the years.

	Capital reserve <i>RMB'000</i>	Share-based compensation <i>RMB'000</i>	Currency translation differences (Note a) <i>RMB'000</i>	Statutory surplus reserve (Note b) <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2021	(315,966)	3,707,965	8,509,584	202,971	(92,910)	12,011,644
Share-based compensation	—	7,830,249	—	—	—	7,830,249
Shares issued upon initial public offering from Share Incentive Plan	(46,105)	—	—	—	—	(46,105)
Currency translation differences	—	—	1,022,804	—	—	1,022,804
Appropriations to statutory reserves	—	—	—	37,080	—	37,080
Transfer of equity interests of a subsidiary to non-controlling interests	(1,998)	—	—	—	—	(1,998)
At December 31, 2021	(364,069)	11,538,214	9,532,388	240,051	(92,910)	20,853,674
At January 1, 2020	(194,235)	1,911,063	(2,127,280)	184,485	(95,314)	(321,281)
Share-based compensation	—	1,796,902	—	—	—	1,796,902
Currency translation differences	—	—	10,636,864	—	—	10,636,864
Fair value change on convertible redeemable preferred shares due to own credit risk	—	—	—	—	2,404	2,404
Re-designation of ordinary shares to Preferred Shares (Note 24)	(121,731)	—	—	—	—	(121,731)
Appropriations to statutory reserves	—	—	—	18,486	—	18,486
At December 31, 2020	(315,966)	3,707,965	8,509,584	202,971	(92,910)	12,011,644

Notes to the Consolidated Financial Statements

25 OTHER RESERVES (CONTINUED)

Note a: Currency translation differences represent the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the reporting currency of RMB for the financial statements of the Group.

Note b: In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and the discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to the discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both the statutory surplus reserve fund and discretionary reserve fund can be capitalised as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly foreign-owned subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the reserve fund can be used to offset accumulated deficit or to increase capital.

26 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2021 (2020: Nil).

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION

On December 22, 2014, the board of directors of the Company approved the establishment of Pre-IPO ESOP Plan with the purpose of attracting, motivating, retaining and rewarding certain employees, directors and other eligible persons. Pre-IPO ESOP Plan is valid and effective for 10 years from the approval of the board of directors. The maximum number of shares that may be issued under Pre-IPO ESOP Plan shall be 312,661,648 of ordinary shares. In February 2015, the shareholders of the Company authorized the increase of ordinary shares reserved for issuance under Pre-IPO ESOP Plan to 509,616,655 ordinary shares. In February 2018, the shareholders of the Company authorized the increase of ordinary shares reserved for issuance under Pre-IPO ESOP Plan to 711,946,697 ordinary shares. Pre-IPO ESOP Plan permits the awards of options.

The Post-IPO Share Option Scheme and RSU Scheme was approved and adopted by all the then Shareholders of the Company on January 18, 2021 to recognize and reward eligible persons for their contribution to the Group, to attract best available personnel, and to provide additional incentives to them. The Post-IPO Share Option Scheme and RSU Scheme commenced on February 5, 2021. Post-IPO Share Option Scheme will be expired on the tenth anniversary of the commencement date. Subject to any early termination as may be determined by the Board and Shareholders pursuant to the Post-IPO RSU Scheme, the Post-IPO RSU Scheme shall be valid and effective for the period of ten years commencing on the date of adoption.

Pre-IPO ESOP Plan

Share options granted to employees

The majority of share options have graded vesting terms, and will be vested from the grant date over 4 years on the condition that employees remain in service without any performance requirements. For granted share options with vesting schedule as 4 years, 25% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next thirty-six months.

The options may be exercised at any time after the IPO of the Company provided the options have vested and subject to the terms of the award agreement. The options are exercisable for a maximum period of 10 years after the date of grant.

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION (CONTINUED)

Pre-IPO ESOP Plan (Continued)

Share options granted to employees (Continued)

Movements in the number of share options granted and their related weighted average exercise prices (taking into account the effect of share split) are as follows (all share options are presented as after share split):

	Number of share options	Weighted average exercise price per share option USD
Outstanding as of January 1, 2021	204,769,081	0.16
Granted during the year	58,271,509	8.34
Forfeited during the year	(15,669,192)	2.36
Exercised during the year	(66,621,188)	0.09
Outstanding as of December 31, 2021	180,750,210	2.63
Exercisable as of December 31, 2021	68,553,626	0.13

	Number of share options	Weighted average exercise price per share option USD
Outstanding as of January 1, 2020	202,362,776	0.16
Granted during the year	106,041,023	0.11
Forfeited during the year	(14,443,772)	0.48
Net exercise of share options	(89,190,946)	0.04
Outstanding as of December 31, 2020	204,769,081	0.16
Exercisable as of December 31, 2020	—	—

The weighted-average remaining contract life for outstanding share options was 7.80 years as of December 31, 2021 (2020: 7.99 years). The weighted average price of the shares at the time these options were exercised was HKD86.60 per share during the year ended December 31, 2021.

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION (CONTINUED)

Pre-IPO ESOP Plan (Continued)

Fair value of share options

Before the Listing Date, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as the discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31,	
	2021	2020
Fair value per share (USD)	14.83	4.52–11.09
Exercise price (USD)	0.04–16.66	0.04–4.97
Risk-free interest rates	0.81%–0.82%	0.65%–1.92%
Dividend yield	0.00%	0.00%
Expected volatility	58.10%–58.20%	57.05%–58.77%
Expected terms	10 years	10 years

The weighted-average fair value of granted share options was US\$10.81 per share for the year ended December 31, 2021 (2020: US\$9.11).

Post-IPO Share Option Scheme

Between the Listing Date and December 31, 2021, no share options had been granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme since its adoption and there is no outstanding share option under the Post-IPO Share Option Scheme.

Notes to the Consolidated Financial Statements

27 SHARE-BASED COMPENSATION (CONTINUED)

Post-IPO RSU Scheme

RSUs granted to employees

Movements in the number of RSUs granted to the Company's employees under the Post-IPO RSU Scheme and the respective weighted-average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU USD
Outstanding as of January 1, 2021	—	—
Granted during the year	94,610,922	20.08
Forfeited during the year	(6,435,090)	24.39
Vested during the year	(1,169,325)	45.87
Outstanding as of December 31, 2021	87,006,507	19.41

The fair value of each RSU was determined by reference to the market price of the Company's shares at the respective grant date.

The share-based compensation expenses of RMB7.8 billion and RMB1.8 billion were recognised in the consolidated income statement for the years ended December 31, 2021 and 2020, respectively.

28 ACCOUNTS PAYABLES

Accounts payables and their aging analysis based on invoice date are as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Up to 3 months	16,173,978	8,745,012
3 to 6 months	2,347,408	1,816,541
6 months to 1 year	1,145,454	898,262
Over 1 year	354,242	84,482
	<u>20,021,082</u>	<u>11,544,297</u>

Notes to the Consolidated Financial Statements

29 OTHER PAYABLES AND ACCRUALS

The breakdown of other payables and accruals are as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Refundable deposits from customers	3,251,069	1,638,586
Employee benefit payables	2,993,926	1,916,142
Collection on behalf of others	1,873,310	1,671,334
Other taxes payable	747,509	450,098
Others	257,553	87,066
	9,123,367	5,763,226

30 ADVANCES FROM CUSTOMERS

The breakdown of advances from customers are as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Advances from live streaming customers	1,683,750	1,699,624
Advances from online marketing services customers	1,795,887	1,571,975
Others	23,005	18,499
	3,502,642	3,290,098

The above mentioned advances from customers represented the contract liability in connection with the advances for the purchase of virtual items and advanced cash receipt for services including online marketing services and others. Revenue recognized from the advances from customers balance as of January 1, 2021 in the year of 2021 was RMB2.3 billion (2020 : RMB1.4 billion was recognized from the advances from customers balance as of January 1, 2020).

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX

The analysis of deferred tax assets and liabilities before offsetting, the offsetting amount, as well as the deferred tax assets and liabilities after offsetting are as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Deferred tax assets:		
To be recovered after 12 months	3,076,056	409,439
To be recovered within 12 months	2,364,813	1,932,632
	<u>5,440,869</u>	<u>2,342,071</u>
Deferred tax liabilities:		
To be recovered after 12 months	58,991	55,370
To be recovered within 12 months	5,131	5,001
	<u>64,122</u>	<u>60,371</u>
Offsetting amounts	35,645	28,770
Deferred tax assets after offsetting	<u>5,405,224</u>	<u>2,313,301</u>
Deferred tax liabilities after offsetting	<u>28,477</u>	<u>31,601</u>

The amounts of the deferred tax assets before offsetting the taxes are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
At the beginning of the year	2,342,071	877,231
Credited to the consolidated income statement	3,098,798	1,464,840
At the end of the year	<u>5,440,869</u>	<u>2,342,071</u>

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX (CONTINUED)

The amounts of the deferred tax liabilities before offsetting the taxes are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
At the beginning of the year	60,371	54,546
Business combination	2,275	—
Debited to the consolidated income statement	1,476	5,825
At the end of the year	64,122	60,371

Deferred tax assets:

	Accrued liabilities and provisions RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	1,926,170	334,951	48,413	6,462	26,075	2,342,071
Credited to consolidated income statement	2,063,078	961,191	11,454	6,404	56,671	3,098,798
At December 31, 2021	3,989,248	1,296,142	59,867	12,866	82,746	5,440,869
At January 1, 2020	818,096	—	44,222	3,024	11,889	877,231
Credited to consolidated income statement	1,108,074	334,951	4,191	3,438	14,186	1,464,840
At December 31, 2020	1,926,170	334,951	48,413	6,462	26,075	2,342,071

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX (CONTINUED)

The unrecognized deferred tax assets for tax losses as of December 31, 2021 and 2020 are as the table below:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Deductible cumulative tax losses		
— To be carried forward indefinitely	14,095,524	3,914,287
— To be expired within following years*	3,191,005	954,195
	<u>17,286,529</u>	<u>4,868,482</u>
Unrecognized deferred tax assets:	<u>3,009,670</u>	<u>914,867</u>

Note*: As of December 31, 2021, the deductible cumulative tax losses will expire within 15 years (2020: 10 years).

Deferred tax liabilities:

	Fair value changes of financial assets RMB'000	Business combination RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	27,713	31,602	1,056	60,371
Business combination	—	2,275	—	2,275
Debited/(credited) to consolidated income statement	6,593	(5,400)	283	1,476
At December 31, 2021	<u>34,306</u>	<u>28,477</u>	<u>1,339</u>	<u>64,122</u>
At January 1, 2020	17,018	36,907	621	54,546
Debited/(credited) to consolidated income statement	10,695	(5,305)	435	5,825
At December 31, 2020	<u>27,713</u>	<u>31,602</u>	<u>1,056</u>	<u>60,371</u>

Notes to the Consolidated Financial Statements

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares to investors, namely, series A Preferred Shares, series B Preferred Shares, series B-1 Preferred Shares, series C Preferred Shares, series C-1 Preferred Shares, series D Preferred Shares, series D-1 Preferred Shares, series E Preferred Shares, series E-1 Preferred Shares, series F-1 Preferred Shares and series F-2 Preferred Shares.

The details of the issuance are set out in the table below (after taking into consideration of share split):

	Date of Issuance	Purchase Price (US\$/Share)	Number of Shares	Total consideration	
				USD'000	RMB'000
Series A Preferred Shares	June 20, 2014	0.00370	356,224,601	1,318	8,209
Series B Preferred Shares	July 22, 2014	0.04210	474,997,455	19,750	122,633
Series B-1 Preferred Shares	April 1, 2015	0.31170	6,416,275	2,000	12,395
Series C Preferred Shares	February 13, 2015	0.38963	282,319,024	110,000	688,238
Series C-1 Preferred Shares	July 9, 2015	0.46808	42,728,141	20,000	124,184
Series D Preferred Shares	January 21, 2016	0.69061	186,068,877	128,500	846,085
Series D-1 Preferred Shares	March 15, 2017	0.85945	407,236,905	350,000	2,419,863
Series E Preferred Shares	March 29, 2018	4.99699	200,120,473	1,000,000	6,300,116
Series E-1 Preferred Shares	September 30, 2019	5.24684	34,306,363	180,000	1,273,032
Series F-1 Preferred Shares	February 11, 2020	5.73742	104,576,622	600,000	4,191,055
Series F-2 Preferred Shares	February 11, 2020	6.84299	354,162,343	2,400,000	16,765,487
			<u>2,449,157,079</u>	<u>4,811,568</u>	<u>32,751,297</u>

All Preferred Shares were automatically converted into ordinary shares upon the IPO on February 5, 2021.

The key terms of the Preferred Shares are summarised as follows:

(a) Dividends rights

Prior to Series D Preferred Shares, each holder of Preferred Shares shall be entitled to receive from the Company, out of funds legally available, non-cumulative dividends per Preferred Share held by such holder accrued at the rate of six percent (6%), further modified as eight percent (8%) of the applicable original issue price per annum for Series D and other senior series Preferred Shares (as adjusted for any stock dividends, combinations or splits with respect to such shares), when and if declared by the board, prior and in preference to holders of all other current or future class or series of Shares of the Company, including the ordinary shares. The dividends should be paid in the following order: Series F-2 preferred shareholders and Series F-1 preferred shareholders, Series E-1 preferred shareholders, Series E preferred shareholders, Series D-1 preferred shareholders, Series D preferred shareholders, Series C-1 preferred shareholders, Series C preferred shareholders, Series B-1 preferred shareholders, Series B preferred shareholders, Series A preferred shareholders, ordinary shareholders.

Notes to the Consolidated Financial Statements

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

(b) Conversion feature

The Preferred Shares shall be converted into ordinary shares at the option of holders at any time after the considerations of each series of Preferred Shares were fully-paid, or automatically converted into ordinary shares at the then effective applicable conversion price upon the closing of the Qualified Initial Public Offering (the “**QIPO**”). In the event of the automatic conversion of the Preferred Shares, the person(s) entitled to receive the ordinary shares issuable upon such conversion of Preferred Shares shall not be deemed to have converted such Preferred Shares until immediately prior to the closing of such transaction.

QIPO means a firm underwritten public offering of the shares or other securities of the Company pursuant to a registration statement that is filed with and declared effective by the competent Governmental Authority in accordance with relevant securities Laws of the United States or Hong Kong or any other jurisdiction on an internationally recognised stock exchange in (i) the United States or Hong Kong or (ii) any other jurisdiction as approved by the board of directors, with the total pre-money market capitalization of the Company not less than certain amount and gross proceeds to the Company in excess of certain amount (prior to underwriting discounts, commissions and expenses).

(c) Redemption feature

For Series F-1 and F-2 preferred shareholders, at any time and from time to time after the earliest of (i) forty-eight months from the Series F-1 and Series F-2 Preferred Shares (collectively as “**Series F Preferred Shares**”) issuance date, (ii) any restructuring of the Company, (iii) the Company or founders of the Group breach the agreements made with preferred shareholders, (iv) main business of the Group conducted in the PRC being indefinitely shut down by any PRC Governmental Authority, or material license, permit or government approvals of the Group have been revoked, and (v) any holder of any other class of shares elects to exercise its redemption right, each holder of the Series F Preferred Shares issued and then outstanding may require the Company to redeem all, or any, of the issued and then outstanding Series F Preferred Shares held by such requesting holder(s). The redemption commencement date for Series F-1 and F-2 Preferred Shares is February 11, 2024.

Notes to the Consolidated Financial Statements

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

(c) Redemption feature (Continued)

For other series of Preferred Shares, the redemption terms are similar, except for the respective redemption commencement dates as set out below:

		Redemption Commencement date
Series C-1, C, B-1, B, A Preference Shares	Seventy-two months from the Series C Preferred Shares issuance date	February 13, 2021
Series D Preference Shares	Sixty months from the Series D Preferred Shares issuance date	January 21, 2021
Series D-1 Preference Shares	Forty-eight months from the Series D-1 Preferred Shares issuance date	March 15, 2021
Series E Preference Shares	Forty-eight months from the Series E Preferred Shares issuance date	March 29, 2022
Series E-1 Preference Shares	Forty-eight months from the Series E-1 Preferred Shares issuance date	September 30, 2023

The redemption price shall be paid by the Company to the preferred shareholders in amount equal to the greater of (i) and (ii) below: (i) one hundred percent (100%) of the original issue price on each Preferred Share, plus a simple eight percent (8%) per annum interest of the original issue price on each Preferred Share accrued during the period from the issuance date of each Preferred Share until the date on which the redemption price is paid in full, and any accrued but unpaid dividends thereon; (ii) the fair market value of such Preferred Share, the valuation of which shall be determined through an independent appraisal performed by an appraiser approved by the board of directors. In October 2020 all preferred shareholders agreed to modify the redemption commencement date to April 30 2022.

Notes to the Consolidated Financial Statements

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

(d) Liquidation preferences

Upon the occurrence of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the assets of the Company legally available for distribution shall be distributed among the holders of the issued and outstanding shares (on an as-converted basis) in the following order and manner:

Each holder of Preferred Shares shall be entitled to receive for each Preferred Share held, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of previous Preferred Shares and ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equal to one hundred percent (100%) of the applicable preferred issue price, plus all accrued or declared but unpaid dividends on such Preferred Share. If the assets and funds available for distribution shall be insufficient to permit the payment to such holders of the full preferred preference amount, the liquidation preference amount will be paid to the preferred shareholders in the following order: first to holders of Series F-1 and Series F-2 Preferred Shares, second to holders of Series E-1 Preferred Shares, third to holders of Series E Preferred Shares, fourth to Series D-1 Preferred Shares, fifth to Series D Preferred Shares, sixth to Series C-1 Preferred Shares, seventh to Series C Preferred Shares, eighth to Series B-1 Preferred Shares, ninth to Series B Preferred Shares and lastly to holders of Series A Preferred Shares.

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statement.

Notes to the Consolidated Financial Statements

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

The movements of the Preferred Shares are set out as below:

	<i>RMB'000</i>
At January 1, 2021	185,372,816
Change 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 December 31, 2021	—
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 (Note 25)	163,809
Change in fair value	106,843,145
— Includes: change in fair value due to own credit risk	(2,404)
Currency translation differences	<u>(12,034,843)</u>
At December 31, 2020	<u>185,372,816</u>
Total unrealized gains and change in fair value for the year included in “Fair value changes of convertible redeemable preferred shares”	<u><u>106,845,549</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.

Changes in fair value of Preferred Shares were recorded in “fair value changes of convertible redeemable preferred shares” in the consolidated income statement, and the fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are recorded in other comprehensive loss.

Notes to the Consolidated Financial Statements

33 CASH FLOW INFORMATION

(a) Cash (used in)/generated from operations

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Loss before income tax	(79,102,256)	(117,200,790)
Adjustments for:		
Depreciation of property and equipment	3,985,910	3,077,674
Depreciation of right-of-use assets	2,735,442	1,656,457
Amortization of intangible assets	163,665	128,861
Credit loss allowances on financial assets	27,550	12,424
Impairment provision for investments	922,033	—
Impairment charge on intangible assets	4,499	—
Share-based compensation expenses	7,830,249	1,840,886
Net losses/(gains) on disposal of property, equipment, intangible assets and right-of-use assets	43,373	(90)
Fair value change of convertible redeemable preferred shares	51,275,797	106,845,549
Net fair value gains on financial assets at fair value through profit or loss	(1,045,725)	(272,744)
Share of losses of investments accounted for using the equity method	86,658	—
Dividends received	(287)	—
Finance expense, net	428,581	168,511
Net foreign exchange losses/(gains)	90,773	(35,884)
Changes in working capital:		
— Increase in trade receivables	(2,032,014)	(1,331,907)
— Increase in prepayments, other receivables and other current assets	(907,220)	(236,807)
— Decrease/(increase) in restricted cash	1,366	(2,471)
— Increase in accounts payables	7,964,398	3,972,861
— Increase in advances from customers	125,216	1,760,490
— Increase in other payables and accruals	3,376,942	2,735,658
— Increase in other non-current liabilities	2,496	—
Cash (used in)/generated from operations	(4,022,554)	3,118,678

Notes to the Consolidated Financial Statements

33 CASH FLOW INFORMATION (CONTINUED)

(b) Non-cash investing and financing activities

Non-cash transactions are about the changes in accounts payable related to property, equipment and intangible assets addition described in Note 15 and Note 17, the addition of right-of-use assets and lease liabilities described in Note 16, the share-based compensation described in Note 27 and the conversion of convertible redeemable preferred shares described in Note 32. Excluding these, there were no other material non-cash investing and financing transactions for the years ended December 31, 2021 and 2020.

(c) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities		
	Convertible redeemable preferred shares RMB'000	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2021	185,372,816	5,707,401	191,080,217
Financing cash flows			
— Payments for principal elements of lease and related interest	—	(2,747,937)	(2,747,937)
Other changes			
— Conversion into ordinary shares	(235,084,546)	—	(235,084,546)
— Fair value changes of convertible redeemable preferred shares	51,275,797	—	51,275,797
— Foreign exchange adjustments	(1,564,067)	—	(1,564,067)
— Increase in lease liabilities from entering into new leases	—	10,405,676	10,405,676
— Lease modification	—	(318,799)	(318,799)
— Interest on lease liabilities	—	562,344	562,344
Liabilities from financing activities as of December 31, 2021	—	13,608,685	13,608,685

Notes to the Consolidated Financial Statements

33 CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities generated from financing activities (Continued)

	Liabilities from financing activities			
	Convertible redeemable preferred shares RMB'000	Lease liabilities RMB'000	Borrowings RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2020	69,444,163	4,625,032	—	74,069,195
Financing cash flows				
— Proceeds from issuance of convertible redeemable preferred shares	20,956,542	—	—	20,956,542
— Payments for principal elements of lease and related interest	—	(1,646,246)	—	(1,646,246)
— Proceeds from borrowings	—	—	300,000	300,000
— Repayment of borrowings	—	—	(300,000)	(300,000)
Other changes				
— Re-designation of Series F Preferred Shares from Ordinary Shares	163,809	—	—	163,809
— Fair value changes of convertible redeemable preferred shares	106,843,145	—	—	106,843,145
— Foreign exchange adjustments	(12,034,843)	—	—	(12,034,843)
— Increase in lease liabilities from entering into new leases	—	2,503,531	—	2,503,531
— Interest on lease liabilities	—	225,084	—	225,084
Liabilities from financing activities as of December 31, 2020	185,372,816	5,707,401	—	191,080,217

Notes to the Consolidated Financial Statements

34 COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As of December 31,	
	2021 RMB'000	2020 RMB'000
Intangible assets	41,448	8,220
Property and equipment	420,156	345,618
Investments	326,779	53,887
	788,383	407,725

35 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 key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions with the Group during the years ended December 31, 2021 and 2020, and/or balances with the Group as of December 31, 2021 and 2020, respectively.

Company	Relationship
Tencent Holdings Limited and its subsidiaries	One of the Company's shareholders
Hangzhou Mockuai Technology Co., Ltd. and its subsidiaries	Investee of the Group
Zhihu Technology Limited and its subsidiaries	Investee of the Group
SHAREit Technology Holdings Inc. and its subsidiaries	Investee of the Group

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
(i) Sales of services		
Investees of the Group	204,720	266,201
One of the Company's shareholders	88,047	342,636
	<u>292,767</u>	<u>608,837</u>

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
(ii) Purchases of services		
Investees of the Group	34,921	7,516
One of the Company's shareholders	5,238,205	2,801,903
	<u>5,273,126</u>	<u>2,809,419</u>

(c) Balances with related parties

	As of December 31,	
	2021 RMB'000	2020 RMB'000
(i) Prepayments and other receivables from related parties		
One of the Company's shareholders	273,999	100,694
	<u>273,999</u>	<u>100,694</u>

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties (Continued)

	As of December 31,	
	2021 RMB'000	2020 RMB'000
(ii) Trade receivables from related parties		
Investees of the Group	3,109	36,574
One of the Company's shareholders	13,188	16,465
	<u>16,297</u>	<u>53,039</u>
	As of December 31,	
	2021 RMB'000	2020 RMB'000
(iii) Accounts payables to related parties		
Investees of the Group	9,606	3,339
One of the Company's shareholders	1,791,286	592,989
	<u>1,800,892</u>	<u>596,328</u>
	As of December 31,	
	2021 RMB'000	2020 RMB'000
(iv) Advances from related parties		
Investee of the Group	9,173	34,464
One of the Company's shareholders	9,009	61
	<u>18,182</u>	<u>34,525</u>

All the balances with related parties above were business operation related and were considered as trade in nature during the years ended December 31, 2021 and 2020. All the balances with the related parties above were unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel compensation

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Wages and salaries	12,302	11,492
Bonuses	11,525	14,109
Share-based compensation expenses	17,486	40,022
Pension costs — defined contribution plans	210	133
Other social security costs, housing benefits and other employee benefits	308	284
	<u>41,831</u>	<u>66,040</u>

36 CONTINGENCIES

As of December 31, 2021 and 2020, the Group did not have any material contingent liabilities.

37 SUBSEQUENT EVENTS

There was no material subsequent events during the period from December 31, 2021 to the approval date of these consolidated financial statements by the Board on March 29, 2022.

Notes to the Consolidated Financial Statements

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	Note	As of December 31,	
		2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		11,538,221	3,707,973
		<u>11,538,221</u>	<u>3,707,973</u>
Current assets			
Prepayments, other receivables and other current assets		63,830,123	17,688,067
Financial assets at fair value through profit or loss		—	1,998,104
Short-term time deposits		—	1,304,980
Cash and cash equivalents		6,158,772	10,651,587
		<u>69,988,895</u>	<u>31,642,738</u>
Total assets		<u>81,527,116</u>	<u>35,350,711</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	24	142	30
Share premium	24	274,407,796	—
Other reserves	38(b)	19,380,954	11,314,250
Accumulated losses		(212,278,843)	(161,389,396)
Total equity		<u>81,510,049</u>	<u>(150,075,116)</u>
LIABILITIES			
Non-current liabilities			
Convertible redeemable preferred shares	32	—	185,372,816
		<u>—</u>	<u>185,372,816</u>
Current liabilities			
Accounts payables		11,894	28,451
Other payables and accruals		5,173	24,560
		<u>17,067</u>	<u>53,011</u>
Total liabilities		<u>17,067</u>	<u>185,425,827</u>
Total equity and liabilities		<u>81,527,116</u>	<u>35,350,711</u>

Notes to the Consolidated Financial Statements

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Other reserve movement of the Company

	Capital reserve <i>RMB'000</i>	Share-based compensation <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2021	(315,966)	3,707,965	8,015,161	(92,910)	11,314,250
Share-based compensation	—	7,830,249	—	—	7,830,249
Shares issued upon initial public offering from Share Incentive Plan	(46,105)	—	—	—	(46,105)
Currency translation differences	—	—	282,560	—	282,560
At December 31, 2021	(362,071)	11,538,214	8,297,721	(92,910)	19,380,954
At January 1, 2020	(194,235)	1,911,063	(1,801,806)	(95,314)	(180,292)
Share-based compensation	—	1,796,902	—	—	1,796,902
Currency translation differences	—	—	9,816,967	—	9,816,967
Fair value change on convertible redeemable preferred shares due to own credit risk	—	—	—	2,404	2,404
Re-designation of ordinary shares to Preferred Shares (Note 24)	(121,731)	—	—	—	(121,731)
At December 31, 2020	(315,966)	3,707,965	8,015,161	(92,910)	11,314,250

Definitions

In this annual report, unless the context otherwise requires the following expressions have the following meanings.

“AI”	artificial intelligence
“AGM”	the 2022 annual general meeting of the Company to be held on Friday, June 17, 2022 at 3:00 p.m. or any adjournment thereof
“Articles” or “Articles of Association”	the articles of association of the Company adopted on January 18, 2021, which has become effective on the Listing Date, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“ARPPU”	average revenue per paying user, calculated as revenue in a given period divided by the number of paying users during that period
“Audit Committee”	the audit committee of the Board
“Auditor”	PricewaterhouseCoopers, the external auditor of the Company
“Beijing Hanyu”	Beijing Hanyu Internet Technology Co., Ltd. (北京瀚宇互聯科技有限公司), a limited liability company incorporated under the laws of the PRC on December 12, 2017 and our Consolidated Affiliated Entity
“Beijing Jiawen”	Beijing Jiawen Technology Co., Ltd. (北京嘉文科技有限公司), a limited liability company incorporated under the laws of the PRC on May 6, 2020 and our Consolidated Affiliated Entity. Beijing Jiawen was deregistered on December 10, 2021
“Beijing Kuaishou”	Beijing Kuaishou Technology Co., Ltd. (北京快手科技有限公司), a limited liability company incorporated under the laws of the PRC on March 20, 2015 and our Consolidated Affiliated Entity
“Beijing Kuaishou Ads”	Beijing Kuaishou Ads Co., Ltd. (北京快手廣告有限公司), a limited liability company incorporated under the laws of the PRC on September 23, 2016 and an indirect wholly-owned subsidiary of the Company
“Beijing Mufei”	Beijing Mufei Technology Co., Ltd. (北京慕飛科技有限公司), a limited liability company incorporated under the laws of the PRC on November 7, 2019 and our Consolidated Affiliated Entity
“Beijing Murong”	Beijing Murong Technology Co., Ltd. (北京沐榕科技有限責任公司), a limited liability company incorporated under the laws of the PRC on May 8, 2019 and our Consolidated Affiliated Entity

“Beijing One Smile”	Beijing One Smile Technology and Development Co., Ltd. (北京一笑科技發展有限公司), a limited liability company incorporated under the laws of the PRC on November 29, 2011 and our Consolidated Affiliated Entity
“Beijing Qingque”	Beijing Qingque Technology Co., Ltd. (北京輕雀科技有限公司), a limited liability company incorporated under the laws of the PRC on August 5, 2020 and our Consolidated Affiliated Entity
“Beijing Zhongbo Keyuan”	Beijing Zhongbo Keyuan Technology Co., Ltd. (北京中博科遠科技有限公司), a limited liability company incorporated under the laws of the PRC on June 20, 2017 and our Consolidated Affiliated Entity
“Board” or “Board of Directors”	our board of Directors
“BVI”	the British Virgin Islands
“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 Act”	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance” or “Hong Kong 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”, “we” or “us”	Kuaishou Technology (快手科技), an exempted company incorporated in the Cayman Islands with limited liability on February 11, 2014
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it in the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries

Definitions

“Contractual Arrangements”	the series of contractual arrangements entered into between WFOE, PRC Holdcos and the Registered Shareholders (as applicable)
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. SU Hua, Mr. CHENG Yixiao, Reach Best and Ke Yong
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Corporate Governance Committee”	the corporate governance committee of the Board
“COVID-19”	coronavirus disease 2019
“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 our Company
“ESG Reporting Guide”	the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules
“Fortune One”	Fortune One Ventures Limited, a limited liability company incorporated under the laws of the BVI which is controlled by Mr. YIN Xin
“Global Offering”	the global offering of the Class B Shares
“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”	our Company, our subsidiaries and our Consolidated Affiliated Entities, or where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the subsidiaries as if they were the subsidiaries of our Company at the time
“Guizhou Fankuai”	Guizhou Fankuai Culture Communication Co., Ltd. (貴州省梵快文化傳播有限公司), a limited liability company incorporated under the laws of the PRC on March 5, 2019 and our Consolidated Affiliated Entity

“Guizhou Fanxin Lingzhi”	Guizhou Fanxin Lingzhi Information Technology Co., Ltd. (貴州省梵心靈指信息技術有限公司), a limited liability company incorporated under the laws of the PRC on March 5, 2019 and our Consolidated Affiliated Entity
“Hangzhou Youqu”	Hangzhou Youqu Network Co., Ltd. (杭州遊趣網絡有限公司), a limited liability company incorporated under the laws of the PRC on July 7, 2008 and our Consolidated Affiliated Entity
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huai’an Shuangxin”	Huai’an Shuangxin Culture Communication Co., Ltd. (淮安雙馨文化傳播有限公司), a limited liability company incorporated under the laws of the PRC on August 7, 2020 and our Consolidated Affiliated Entity
“Huankuai Technology”	Beijing Huankuai Technology Co., Ltd. (北京歡快科技有限公司), a limited liability company incorporated under the laws of the PRC on January 17, 2018 and our Consolidated Affiliated Entity
“Huayi Huilong”	Beijing Huayi Huilong Network Technology Co., Ltd. (北京華藝匯龍網絡科技有限公司), a limited liability company incorporated under the laws of the PRC on November 6, 2006 and our Consolidated Affiliated Entity
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the IASB
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Group or our connected persons
“Jovial Star”	Jovial Star Global Limited, a limited liability company incorporated under the laws of the BVI which is controlled by Mr. YANG Yuanxi

Definitions

“Ke Yong”	Ke Yong Limited, a limited liability company incorporated under the laws of the BVI which is controlled by Mr. CHENG Yixiao
“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, <i>GIF Kuaishou</i> (launched in 2011)
“Latest Practicable Date”	April 13, 2022, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report
“Listing”	the listing of our Class B Shares on the Main Board of the Stock Exchange
“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” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), adopted on January 18, 2021, which has become effective on 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

Definitions

“MPUs”	monthly paying users, which refers to the number of user accounts that purchase a particular service at least once in a given month
“Nomination Committee”	the nomination committee of the Board
“paying user”	a user account that purchases a particular service at least once during a given period
“Post-IPO RSU Scheme”	the post-IPO restricted share unit scheme adopted by our Company on January 18, 2021
“Post-IPO Share Option Scheme”	the post-IPO share option scheme adopted by our Company on January 18, 2021
“PRC” or “China”	the People’s Republic of China, but for the purposes of this annual report only (unless otherwise indicated) excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Holdcos”	(i) Hangzhou Youqu, (ii) Huayi Huilong, (iii) Beijing One Smile, (iv) Beijing Mufei, (v) Beijing Jiawen (this company was deregistered on December 10, 2021), (vi) Beijing Hanyu, (vii) Beijing Murong, (viii) Guizhou Fankuai, (ix) Beijing Zhongbo Keyuan, (x) Sichuan Fuyuan Chun (this company was deregistered on July 16, 2021), (xi) Huankuai Technology, (xii) Guizhou Fanxin Lingzhi, (xiii) Huai’an Shuangxin, (xiv) Beijing Qingque, (xv) Yunshitai Beijing, (xvi) Shandong Yixiang, and (xvii) Shandong Tiankai
“Pre-IPO ESOP”	the pre-IPO employee incentive scheme adopted by the Company dated February 6, 2018 as amended from time to time
“Prospectus”	the prospectus of the Company dated January 26, 2021
“Reach Best”	Reach Best Developments Limited, a limited liability company incorporated under the laws of the BVI which is controlled by Mr. SU Hua
“Remuneration Committee”	the remuneration committee of the Board
“repeat purchase rate”	the percentage of purchasing users in a given month that also make a purchase in the following month
“Reporting Period”	the year ended December 31, 2021

Definitions

“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of our 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 our auditors, and (iv) the voluntary liquidation or winding-up of our Company
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shandong Tiankai”	Shandong Tiankai Culture Communication Co., Ltd. (山東天開文化傳播有限公司), a limited liability company incorporated under the laws of the PRC on April 25, 2021 and our Consolidated Affiliated Entity
“Shandong Yixiang”	Shandong Yixiang Culture Communication Co., Ltd. (山東翼想文化傳播有限公司), a limited liability company incorporated under the laws of the PRC on February 20, 2021 and our Consolidated Affiliated Entity
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	the Class A Shares and Class B Shares in the capital of our Company, as the context so requires
“Sichuan Fuyuan Chun”	Sichuan Fuyuan Chun Culture Communication Co., Ltd. (四川福源春文化傳播有限公司), a limited liability company incorporated under the laws of the PRC on October 17, 2018 and our Consolidated Affiliated Entity. Sichuan Fuyuan Chun was deregistered on July 16, 2021
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Tencent”	Tencent Holdings Limited (HKEx Stock Code: 700), or Tencent Holdings Limited and/or its subsidiaries, as the case may be

Definitions

“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“VIE” or “VIEs”	variable interest entity or variable interest entities
“WFOE” or “Beijing Dajia”	Beijing Dajia Internet Information Technology Co., Ltd. (北京達佳互聯信息技術有限公司), a limited liability company incorporated under the laws of the PRC on July 2, 2014 and our indirect wholly-owned subsidiary
“WVR” or “weighted voting right”	has the meaning ascribed to it in the Listing Rules
“WVR Beneficiaries”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. SU Hua and Mr. CHENG Yixiao, being the holders of the Class A Shares, entitling each to weighted voting rights
“Yunshitai Beijing”	Yunshitai (Beijing) Network Technology Co., Ltd. (雲什泰(北京)網絡科技有限公), a limited liability company incorporated under the laws of the PRC on May 27, 2016 and our Consolidated Affiliated Entity
“%”	per cent

Definitions

Notes:

1. In this annual report, the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “controlling shareholder” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.
2. Certain amounts and percentage figures included in this annual report have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.
3. Unless otherwise indicated, DAUs and MAUs refer to Kuaishou App’s DAUs and MAUs respectively.
4. This annual report is printed in both Chinese and English languages. Should there be any discrepancy between the English language and the Chinese language, the English language shall prevail.
5. Certain statements included in this annual report, 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 annual report. 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 annual report 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 annual report or those that might reflect the occurrence of unanticipated events.



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