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Kuaishou Technology 快手科技

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)
(Stock Code: 1024)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2021

The Board of Directors of Kuaishou Technology (快手科技) is pleased to announce the unaudited consolidated results of the Company for the three months ended March 31, 2021. These interim results have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and reviewed by PricewaterhouseCoopers, the independent auditor of the Company (the “Auditor”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board. These interim results have also been reviewed by the Audit Committee.

KEY HIGHLIGHTS

Financial Summary

	Unaudited				Year-over-year change
	Three Months Ended March 31,				
	2021		2020		
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
	<i>(RMB thousands, except for percentages)</i>				
Revenues	17,019,450	100.0	12,458,132	100.0	36.6%
Gross profit	6,987,795	41.1	4,258,449	34.2	64.1%
Operating loss	(7,292,142)	(42.8)	(5,025,798)	(40.3)	45.1%
Loss before income tax	(58,585,154)	(344.2)	(30,918,057)	(248.2)	89.5%
Loss for the period	(57,751,051)	(339.3)	(30,491,949)	(244.8)	89.4%

Unaudited
Three Months Ended March 31,
2021 **2020**

Amount	As a percentage of revenues	Amount	As a percentage of revenues	Year-over- year change
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(RMB thousands, except for percentages)

Non-IFRS Measures:

Adjusted net loss ⁽¹⁾	(4,918,042)	(28.9)	(4,344,803)	(34.9)	13.2%
Adjusted EBITDA ⁽²⁾	(4,196,625)	(24.7)	(3,718,411)	(29.8)	12.9%

Notes:

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

Operating Metrics

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

	Three Months Ended March 31,	
	2021	2020
Average DAUs <i>(in millions)</i>	295.3	253.2
Average MAUs <i>(in millions)</i>	519.8	495.0
Average daily time spent per DAU <i>(in minutes)</i>	99.3	85.2
Average online marketing services revenue per DAU <i>(in RMB)</i>	29.0	12.9
Total e-commerce GMV ⁽¹⁾ <i>(in RMB millions)</i>	118,559.4	37,077.5

Note:

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

BUSINESS REVIEW AND OUTLOOK

At Kuaishou, we believe strongly that one shall have peace of mind when he possesses a piece of land, and one possesses a piece of land when he has peace of mind (有恆產者有恆心，有恆心者有恆產). Starting in the first quarter of 2021, we have put greater emphasis on improving the value of our content creator's private domain, the place on our platform where all content and products of a creator can be found and where creators build and nurture their followings. The social trust cultivated in content creators' private domains, encourages active content creation, in-depth interactions and strong network effects. It is on these types of social trust-based interactions, that the ongoing success of Kuaishou's unique, warm and trustworthy online content community and social platform is built. We are encouraged to see an increasing number of premium content creators and that their works are seen, liked, and understood by our users. At the same time, more social trust has been strengthened between users and content creators in our ecosystem. As of March 31, 2021, we had over 11 billion pairs of mutual follows cumulatively, defined as two users that follow each other, on Kuaishou App.

Through more innovative and comprehensive content offerings and content operation formats, we have successfully made further developments in the depth and breadth of our content library and expansion of content consumption scenes on our platform. Additionally, by leveraging our strong social trust and abundant content, along with our enhanced technological capabilities, we have been able to introduce more high-quality as well as customized products and services to better address the evolving, sophisticated needs of our users. These efforts have been highly effective, evidenced by better-than-expected growth of our user base and user engagement in the first quarter of 2021, many of our key operating metrics hit all-time highs. In the first quarter of 2021, our average DAUs on our apps and mini programs in China reached 379.2 million, representing a year-over-year increase of 26.4% and a quarter-over-quarter increase of 20.0%. Average DAUs and average MAUs on Kuaishou App for the first quarter of 2021 reached 295.3 million and 519.8 million respectively, while average daily time spent per DAU further expanded to 99.3 minutes in the first quarter of 2021, representing a year-over-year increase of 16.5% and a quarter-over-quarter increase of 10.5%.

The increased diversification of our offerings led to enhanced user engagements and continued development and prosperity of our ecosystem. In addition, our support to the growth of premium content and private domain traffic has empowered our unique content and trust-based business model. We achieved total revenues of RMB17.0 billion for the first quarter of 2021, representing a year-over-year increase of 36.6%. Despite the first quarter of a year is traditionally known as the low season in the advertising industry, our revenues from online marketing services grew by 161.5% year-over-year to RMB8.6 billion in the first quarter of 2021, contributing over 50% of our total revenues for the first time. Revenues from other services including e-commerce showed explosive growth, reaching RMB1.2 billion, a rapid year-over-year increase of 589.1%. Total e-commerce GMV was equally impressive at RMB118.6 billion, representing a year-over-year increase of 219.8%. Our gross margin improved to 41.1% in the first quarter of 2021 from 34.2% in the same quarter of 2020, benefiting from a more favorable revenue mix.

Content

In the first quarter of 2021, we continued to integrate our public domain and private domain to effectively allocate more exposure to high-quality content creators, helping them grow their fan bases, and further solidifying the virtuous cycle of content creation and content consumption on our platform. We also enhanced our *Kuaishou Search* (快手搜索) functionality to reward high-quality content with greater exposure. In the first quarter of 2021, over 250 million users on Kuaishou App used *Kuaishou Search* on average every month. We plan to invest more resources to develop *Kuaishou Search*, because it is a complementary to content distribution and discovery, which not only enables content creators to better understand and provide refined solutions to their user's inquiries, but also drives efficiency in converting random traffic into sticky followers. In the first quarter of 2021, we added over 10 million new content creators to our platform every month on average. In the twelve months ended March 31, 2021, we helped nearly 24 million users earn money in certain form on Kuaishou App.

In the meantime, we have made continuous efforts in content format initiatives as well as content quality improvements. For content format, we enhanced our investment in *Kuaishou Playlet* (快手短劇) and launched *Project Astral* (星芒計劃) in December 2020, in order to attract and incentivize semi-professional content creators to produce high-quality short plays covering a broad range of topics. To date, we have attracted over 60,000 content creators under *Kuaishou Playlet*, and among these, over 8,000 of them have gained followings of over 100,000 fans each. In March 2021, we attracted an average of more than 200 million users watching short plays on *Kuaishou Playlet* every day. Furthermore, we also established partnerships with leading online literature platforms to obtain copyrights of some premium literatures to encourage content creators to produce short plays.

Every day since 2020, tens of millions of videos were uploaded to our platform on average, from which, we have observed an increasing demand for more diversified and refined contents from various communities. In light of this, vertical expansion and refined operation became our focus on content front in the first quarter of 2021. We continued putting efforts into expanding our content library to cover more categories and verticals, such as local services and sports. Aside from the traditional local services information such as restaurants and bars, our content conveys local services that may require more significant decisions from users, such as travel, real estate and vehicle purchases, all of which benefit from our trust-based content community and social platform. There are many talented users with professional skills and knowledge in our vibrant content community. By leveraging our rich private domain traffic on our broad platform, they are able to showcase their expertise by providing solutions to better serve user needs through short video and live streaming. By the end of the first quarter of 2021, there were over 15 segments under our local services channel, where transactions were completed on a closed-loop basis on our platform. This further demonstrates a commercialized content ecosystem, with participation of users, merchants and content creators, is taking shape.

Online marketing services

We achieved strong growth of online marketing services in the first quarter of 2021 with revenues increasing by 161.5% on a year-over-year basis to RMB8.6 billion, an impressive accomplishment considering that the first quarter of a year is widely known as the low season in the ad industry. We have become the partner of choice for an increasing number of advertisers, and the number of advertisers on our platform in the first quarter of 2021 was more than doubled that of the same period of 2020. All these achievements were driven by our efforts. Firstly, since we launched our online marketing services in 2017 and still to this day, we have been continuously accumulating valuable experience and ad system refinement, in order to achieve optimized algorithm and enhanced distribution precision. Secondly, we have improved the quality of our ad materials and enhanced the content of our ads by expanding our partnerships with content creators to enable them to create customized content for advertisers. This has been a triple-win for our advertising customers, our content creators and ourselves. As of today, our *Star Magnet (磁力聚星)* has expanded partnerships with an increasing number of content creators, which more than doubled from the end of 2020. The video views of ad content produced by our partner content creators increased by over 100% sequentially in the first quarter of 2021.

Brand advertisement is one of the key areas to the development of our online marketing services in 2021. This year's Chinese New Year season was particularly lively, combined with the variety of user activities hosted on our platform, brand advertisers increased their advertising volume proactively, which drove the growth of our brand ads. In the first quarter of 2021, the year-over-year growth rate of our revenues from brand ads outpaced that of our total online marketing revenues. We featured ourselves by providing a full suite of brand ad solutions with full integration of branding campaigns, performance-based advertising and our digital promotion program. Furthermore, we have been well recognized by brand

advertisers as our broad user coverage in China enables us to be the platform that helps brand advertisers to expand their customer reach beyond traditional regions. At the same time, supported by our highly active user engagement as a leading social platform globally and our cutting-edge technological capabilities, we are in a better position to gain in-depth user insights, and empower advertisers through precision marketing to increase their overall return.

Kuaishou Union (快手聯盟) was another area in which we achieved breakthrough in online marketing services in the first quarter of 2021. Unlike other ad unions, our offering is able to refresh the industry by distributing more than just ads, but rather a three-in-one integrated package, which includes advertisement, content and e-commerce products. Through ***Kuaishou Union***, we have empowered our developers with our abundant high-quality content, products and creative ad formats. Not only that, but we have also provided more exposure and generated benefits for our content creators and e-commerce merchants. ***Kuaishou Union*** has become increasingly influential to the sector since its launch, and its developer and user coverage has been continuously expanding.

Live streaming

Our live streaming ecosystem became even more active in the first quarter of 2021, with user engagement and interactions continuing to increase. We continued our expansion into new live streaming content genres and live streaming formats in the quarter. Throughout the full month of February 2021, we launched an innovative 26-day official nonstop live streaming series called ***Super Live (超級播)***, with abundant content categories and formats, including celebrity talk shows, online concerts, ACG performances, Chinese New Year gala and more. Within one month, ***Super Live*** successfully attracted viewership in excess of 1.5 billion, and became one of the super IPs on our platform. The success of ***Super Live*** has given us a great deal of encouragement to continue to pursue innovative content concepts and formats.

Another focus for our live streaming segment in the first quarter of 2021 was the deepening and refinement of our various content verticals. For instance, 2021 is shaping up to be a really big year for sports. In the first quarter we became the official live streaming and short video platform of the China Basketball Association (“**CBA**”), the top men’s professional basketball league in China. Following this, our users can watch live-streamed CBA events in high-definition and enjoy rich interactive features on our platform. Our re-creation copyright to content from CBA events allows us to operate differently from other traditional formats of live sports broadcasting, which usually provide official commentary. Both professional sports commentators and our regular users can lend their unique style to sports commentary from their own live streaming rooms, providing our users with differentiated and lively live streaming experiences. The introduction of such high-quality copyrights has effectively encouraged user activeness in our live streaming content creation and social ecosystem. The number of live streaming users of sports vertical increased by over 200% in late April 2021, compared with that before the launch of CBA live broadcasting.

In the first quarter of 2021, the numbers of both daily active live streaming hosts and daily active live streaming users achieved double-digit growth rates on a quarter-over-quarter basis, showing the powerful flywheel effect of content creation and content consumption on our platform. In the first quarter of 2021, the average MPUs for live streaming on Kuaishou App increased by 3.1% to 52.4 million compared with 50.8 million in the fourth quarter of 2020. While, our monthly ARPPU for live streaming on Kuaishou App was RMB46.1 in the first quarter of 2021, growing by 2.9% from RMB44.8 in the same quarter of 2020. We believe as users and content creators interact more through live streaming, their mutual levels of understanding and trust grow, which in turn helps our content creators to nurture their fan bases, increase the value of their private domain traffic and pursue ways to generate income through a variety of derived avenues including e-commerce and advertisement.

Other services including e-commerce

In the first quarter of 2021, we saw tremendous growth from our other services business with revenue increasing by 589.1% to RMB1.2 billion compared with the same period in 2020, with the increase primarily driven by e-commerce. Our total e-commerce GMV continued its rapid year-over-year growth of 219.8% in the first quarter of 2021, and reached RMB118.6 billion. In the first quarter of 2021, we further enhanced our closed-loop e-commerce capabilities, solidifying our unique position as a social trust and content based e-commerce platform.

On Kuaishou, there is endless creation of content, among which e-commerce related content plays an increasingly important role, and is also one of the key attractions and differentiators for our e-commerce business. We encourage our merchants to produce more premium content, along with their unique and interesting personalities, it could help attract targeted users to spend more time in their private domains where the traffic can be retained for the long-term. Together with high-quality products, we believe this can drive significant improvements in overall conversion rates for transactions. In the first quarter of 2021, a greater portion of average daily time spent per DAU was on e-commerce live streaming, compared with the same period of the previous year on Kuaishou App. Our dedication to private domain and content has helped us to build a social trust-based e-commerce ecosystem. The trust cultivated within private domains naturally gives rise to increased transactions between buyers and their trusted merchants, as the social responsibility that comes with social trust also encourages merchants to deliver better products and services. This in turn improves the overall user experience and further strengthens mutual trust, adding long-term value to our vibrant ecosystem. In the first quarter of 2021, private domains contributed more to our total e-commerce GMV than public domains.

In the first quarter of 2021, we continued to focus on investing in e-commerce infrastructure and introduced more tools and services for *Kwai Shop* (快手小店), with these additions being well received by merchants. The contribution from *Kwai Shop* to the total e-commerce GMV for the first quarter of 2021 increased to 85%, compared with 53% in the same period of 2020. As our marketplace matures, quality of products becomes increasingly important. With this in mind, we began to integrate the means of resources on the supply chain side and reinforced *Kuaishou Selection* (好物聯盟). By doing so, we are able to improve quality of products through enhanced official product selection and foster partnerships between merchants with strong supply chain capabilities and hosts with a loyal following. Beyond this, *Kuaishou Selection* also empowers hosts with digital tools to analyze the performance of various products and behaviors of their fan bases, helping them to optimize their product selection. This is one of the initial successes we have achieved through building our closed-loop model, and it has greatly improved the overall efficiency of our ecosystem. For the first quarter of 2021, the e-commerce GMV generated on *Kuaishou Selection* to the total e-commerce GMV doubled on a quarter-over-quarter basis.

Overseas

There is no doubt that China has the most developed short video and live streaming market in the world. Indeed, Kuaishou is one of the pioneers of the industry, having started our journey ten years ago. Compared with China, the levels of maturity and penetration for short video and live streaming in overseas markets are relatively low, and we see a great deal of potential and opportunities out there. In the first quarter of 2021, we expanded proactively in the overseas markets and saw some encouraging results for different products such as *Kwai*, *SnackVideo* and others. South America and Southeast Asia are the key regions we have targeted in our international expansion. Based on prior experience, we observed that localized content which is more relevant to peoples' daily lives and culture is a key factor for attracting and retaining local users. To these ends, we have prudently invested in user acquisition and motivated users to create more local content in our different targeted markets. We are very pleased to have seen a better-than-expected performance in overseas markets with our average monthly active users exceeding 100 million in the first quarter of 2021, and further increased to more than 150 million in April 2021. Our overseas business is still at an early stage of development. From the initial steps, we are thrilled to see real potential for our business model and ecosystem outside of our domestic market and it is after all, from tiny acorns that mighty oak trees grow.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2021 Compared to First Quarter of 2020

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

	Unaudited			
	Three Months Ended March 31,			
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenues	17,019,450	100.0	12,458,132	100.0
Cost of revenues ⁽¹⁾	(10,031,655)	(58.9)	(8,199,683)	(65.8)
Gross profit	6,987,795	41.1	4,258,449	34.2
Selling and marketing expenses ⁽¹⁾	(11,659,592)	(68.5)	(8,096,266)	(65.0)
Administrative expenses ⁽¹⁾	(703,351)	(4.1)	(308,168)	(2.5)
Research and development expenses ⁽¹⁾	(2,811,146)	(16.5)	(939,457)	(7.5)
Other income	203,344	1.1	60,480	0.5
Other gains/(losses), net	690,808	4.1	(836)	(0.0)
Operating loss	(7,292,142)	(42.8)	(5,025,798)	(40.3)
Finance expense, net	(17,215)	(0.1)	(6,397)	(0.1)
Fair value changes of convertible redeemable preferred shares	(51,275,797)	(301.3)	(25,885,862)	(207.8)
Loss before income tax	(58,585,154)	(344.2)	(30,918,057)	(248.2)
Income tax benefits	834,103	4.9	426,108	3.4
Loss for the period	<u>(57,751,051)</u>	<u>(339.3)</u>	<u>(30,491,949)</u>	<u>(244.8)</u>
Non-IFRS Measures:				
Adjusted net loss	(4,918,042)	(28.9)	(4,344,803)	(34.9)
Adjusted EBITDA	(4,196,625)	(24.7)	(3,718,411)	(29.8)

Note:

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

	Unaudited			
	Three Months Ended March 31,			
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(in thousands, except for percentages)</i>				
Cost of revenues	(202,165)	(1.1)	(17,972)	(0.1)
Selling and marketing expenses	(131,555)	(0.8)	(13,832)	(0.1)
Administrative expenses	(248,917)	(1.4)	(88,655)	(0.7)
Research and development expenses	(974,575)	(5.7)	(140,825)	(1.1)
Total	<u>(1,557,212)</u>	<u>(9.0)</u>	<u>(261,284)</u>	<u>(2.0)</u>

If the impact from share-based compensation expenses had been excluded, cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenues would have been 57.8%, 67.7%, 2.7% and 10.8%, respectively, for the first quarter of 2021, and 65.7%, 64.9%, 1.8% and 6.4%, respectively, for the first quarter of 2020.

Revenues

Our revenues increased by 36.6% to RMB17.0 billion for the first quarter of 2021 from RMB12.5 billion for the same period of 2020. The increase was primarily attributable to our online marketing services and other services including e-commerce business.

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

	Unaudited			
	Three Months Ended March 31,			
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(in thousands, except for percentages)</i>				
Online marketing services	8,557,676	50.3	3,273,017	26.3
Live streaming	7,250,399	42.6	9,009,312	72.3
Other services	1,211,375	7.1	175,803	1.4
Total	<u>17,019,450</u>	<u>100.0</u>	<u>12,458,132</u>	<u>100.0</u>

Online marketing services

Revenue from our online marketing services increased by 161.5% to RMB8.6 billion for the first quarter of 2021 from RMB3.3 billion for the same period of 2020, primarily attributable to the growth in our user base which attracted more online marketing customers and improved effectiveness of our online marketing services driven by our strong AI and big data capabilities.

Live streaming

Revenue from our live streaming business decreased by 19.5% to RMB7.3 billion for the first quarter of 2021 from RMB9.0 billion for the same period of 2020, primarily due to the change in average MPUs for live streaming to 52.4 million for the first quarter of 2021, from 67.0 million for the same period of 2020. The relatively higher MPUs in the first quarter of 2020 was, to a certain extent, attributable to strict quarantine during the COVID-19 outbreak and more users turning to online social and entertainment activities, while in the first quarter of 2021, with people returning to their normal routines, relatively less time was spent on online activities.

Other services

Revenue from our other services increased by 589.1% to RMB1.2 billion for the first quarter of 2021 from RMB175.8 million for the same period of 2020, primarily due to the growth of our e-commerce business.

Cost of Revenues

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

	Unaudited			
	Three Months Ended March 31,		2020	
	2021		2020	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Revenue sharing costs and related taxes	5,125,171	30.1	5,171,580	41.5
Bandwidth expenses and server custody costs ⁽¹⁾	1,933,174	11.4	1,268,534	10.2
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽¹⁾	1,415,140	8.3	993,396	8.0
Employee benefit expenses	733,294	4.3	317,248	2.5
Payment processing costs	304,582	1.8	192,898	1.5
Other cost of revenues	520,294	3.0	256,027	2.1
Total	10,031,655	58.9	8,199,683	65.8

Note:

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

Our cost of revenues increased by 22.3% to RMB10.0 billion for the first quarter of 2021, from RMB8.2 billion for the same period of 2020, primarily attributable to (i) increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets in line with an increase in user traffic attributable to the enlarged user base and the growth of our business; and (ii) an increase in employee benefit expenses as a result of increasing the headcount of employees to support our business growth and increased share-based compensation expenses.

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 first quarter of 2021 and 2020, respectively:

	Unaudited			
	Three Months Ended March 31,			
	2021		2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Gross profit	6,987,795	41.1	4,258,449	34.2

As a result of the foregoing, our gross profit increased by 64.1% to RMB7.0 billion for the first quarter of 2021, from RMB4.3 billion for the same period of 2020. Our gross profit margin increased to 41.1% for the first quarter of 2021, from 34.2% in the same period of 2020, mainly because our live streaming revenue decreased as a percentage of our total revenues due to the expansion and growth of our other business lines such as online marketing services and e-commerce business, which further led to the decrease in cost of revenues as a percentage of our total revenues.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 44.0% to RMB11.7 billion for the first quarter of 2021, from RMB8.1 billion for the same period of 2020, and increased to 68.5% from 65.0% as a percentage of our total revenues. The increase was primarily attributable to an increase in promotion and advertising expenses. The increase in promotion and advertising expenses in the first quarter of 2021 was primarily attributable to our marketing expenses for promoting Kuaishou Express and our other apps and our brand marketing campaign expenses.

Administrative Expenses

Our administrative expenses increased by 128.2% to RMB703.4 million for the first quarter of 2021, from RMB308.2 million for the same period of 2020, and increased to 4.1% from 2.5% as a percentage of our total revenues primarily due to an increase in employee benefits expenses as a result of an increase in the headcount of administrative personnel to support our business growth and increased share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, administrative expenses as a percentage of revenues would have been 2.7% and 1.8% respectively for the first quarter of 2021 and 2020.

Research and Development Expenses

Our research and development expenses increased by 199.2% to RMB2.8 billion for the first quarter of 2021, from RMB939.5 million for the same period of 2020, and increased to 16.5% from 7.5% as a percentage of our total revenues primarily attributable to an increase in employee benefit expenses attributable to a significant increase in the number of research and development personnel as we continue to invest in AI, big data and other advanced technologies, and increased share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, research and development expenses as a percentage of revenues would have been 10.8% and 6.4% respectively for the first quarter of 2021 and 2020.

Other Income

Our other income increased by 236.2% to RMB203.3 million for the first quarter of 2021, from RMB60.5 million for the same period of 2020, primarily due to more value-added tax subsidies and government grants for the first quarter of 2021 as compared to the same period of 2020.

Other Gains/(Losses), Net

We had other gains, net of RMB690.8 million in the first quarter of 2021, compared to other losses, net of RMB0.8 million in the same period of 2020. The change from losses to gains was primarily due to increases in the net fair value gains on financial assets at fair value through profit or loss of investments in listed and unlisted entities.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB7.3 billion and a negative operating margin of 42.8% for the first quarter of 2021, compared to an operating loss of RMB5.0 billion and a negative operating margin of 40.3% for the same period of 2020.

Finance Expense, Net

Our finance expense, net was RMB17.2 million and RMB6.4 million for the first 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

Our fair value changes of convertible redeemable preferred shares were negative RMB51.3 billion for the first quarter of 2021, and negative RMB25.9 billion for the same period of 2020, primarily due to changes in the valuation of our Company, which was determined by the offering price of Shares in our initial public offering.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB58.6 billion and RMB30.9 billion for the first quarter of 2021 and 2020, respectively.

Income tax benefits

Our income tax benefits were RMB834.1 million and RMB426.1 million for the first quarter of 2021 and 2020, respectively, primarily due to the recognition of deferred tax assets attributable to the increased tax losses incurred by certain subsidiaries.

Loss for the period

As a result of the foregoing, our loss was RMB57.8 billion and RMB30.5 billion for the first quarter of 2021 and 2020, respectively.

First quarter of 2021 Compared to Fourth Quarter of 2020

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

	Unaudited Three Months Ended			
	March 31, 2021		December 31, 2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Revenues	17,019,450	100.0	18,098,656	100.0
Cost of revenues ⁽¹⁾	(10,031,655)	(58.9)	(9,594,824)	(53.0)
Gross profit	6,987,795	41.1	8,503,832	47.0
Selling and marketing expenses ⁽¹⁾	(11,659,592)	(68.5)	(6,781,475)	(37.5)
Administrative expenses ⁽¹⁾	(703,351)	(4.1)	(595,398)	(3.3)
Research and development expenses ⁽¹⁾	(2,811,146)	(16.5)	(2,429,671)	(13.4)
Other income	203,344	1.1	131,845	0.7
Other gains/(losses), net	690,808	4.1	(206,658)	(1.1)
Operating loss	(7,292,142)	(42.8)	(1,377,525)	(7.6)
Finance expense, net	(17,215)	(0.1)	(8,717)	(0.0)
Fair value changes of convertible redeemable preferred shares	(51,275,797)	(301.3)	(17,695,493)	(97.8)
Loss before income tax	(58,585,154)	(344.2)	(19,081,735)	(105.4)
Income tax benefits/(expenses)	834,103	4.9	(182,045)	(1.0)
Loss for the period	<u>(57,751,051)</u>	<u>(339.3)</u>	<u>(19,263,780)</u>	<u>(106.4)</u>
Non-IFRS Measures:				
Adjusted net loss	(4,918,042)	(28.9)	(704,488)	(3.9)
Adjusted EBITDA	(4,196,625)	(24.7)	927,287	5.1

Note:

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

	Unaudited			
	Three Months Ended			
	March 31, 2021		December 31, 2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(in thousands, except for percentages)</i>				
Cost of revenues	(202,165)	(1.1)	(81,904)	(0.4)
Selling and marketing expenses	(131,555)	(0.8)	(54,291)	(0.3)
Administrative expenses	(248,917)	(1.4)	(101,050)	(0.6)
Research and development expenses	(974,575)	(5.7)	(626,554)	(3.4)
Total	<u>(1,557,212)</u>	<u>(9.0)</u>	<u>(863,799)</u>	<u>(4.7)</u>

If the impact from share-based compensation expenses had been excluded, cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenues would have been 57.8%, 67.7%, 2.7% and 10.8%, respectively, for the first quarter of 2021, and 52.6%, 37.2%, 2.7% and 10.0%, respectively, for the fourth quarter of 2020.

Revenues

Our revenues were RMB17.0 billion for the first quarter of 2021, compared to RMB18.1 billion for the fourth quarter of 2020.

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

	Unaudited			
	Three Months Ended			
	March 31, 2021		December 31, 2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(in thousands, except for percentages)</i>				
Online marketing services	8,557,676	50.3	8,511,345	47.0
Live streaming	7,250,399	42.6	7,899,803	43.6
Other services	1,211,375	7.1	1,687,508	9.4
Total	<u>17,019,450</u>	<u>100.0</u>	<u>18,098,656</u>	<u>100.0</u>

Online marketing services

Revenue from our online marketing services slightly increased to RMB8.6 billion for the first quarter of 2021, from RMB8.5 billion for the fourth quarter of 2020.

Live streaming

Revenue from our live streaming business was RMB7.3 billion for the first quarter of 2021, compared to RMB7.9 billion for the fourth quarter of 2020, primarily due to the change in monthly ARPPU for live streaming to RMB46.1 for the first quarter of 2021 from RMB51.8 for the fourth quarter of 2020 with the expanded user base.

Other services

Revenue from our other services decreased by 28.2% to RMB1.2 billion for the first quarter of 2021, from RMB1.7 billion for the fourth quarter of 2020, primarily due to the decline of revenue from e-commerce business as a result of decreased sales transactions and capacity shortfall in the delivery industry during the Chinese New Year holiday.

Cost of Revenues

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

	Unaudited			
	Three Months Ended			
	March 31, 2021		December 31, 2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
<i>(in thousands, except for percentages)</i>				
Revenue sharing costs and related taxes	5,125,171	30.1	5,135,717	28.4
Bandwidth expenses and server custody costs ⁽¹⁾	1,933,174	11.4	1,814,894	10.0
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽¹⁾	1,415,140	8.3	1,338,734	7.4
Employee benefit expenses	733,294	4.3	560,532	3.1
Payment processing costs	304,582	1.8	317,145	1.8
Other cost of revenues	520,294	3.0	427,802	2.3
Total	<u>10,031,655</u>	<u>58.9</u>	<u>9,594,824</u>	<u>53.0</u>

Note:

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

Our cost of revenues increased by 4.6% to RMB10.0 billion for the first quarter of 2021, from RMB9.6 billion for the fourth quarter of 2020, primarily attributable to (i) increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets in line with an increase in user traffic attributable to the enlarged user base and the growth of our business; and (ii) an increase in employee benefit expenses as a result of increasing the headcount of employees to support our business growth and increased share-based compensation expenses.

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 first quarter of 2021 and the fourth quarter of 2020, respectively:

	Unaudited			
	Three Months Ended			
	March 31, 2021		December 31, 2020	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>			
Gross profit	6,987,795	41.1	8,503,832	47.0

As a result of the foregoing, our gross profit decreased by 17.8% to RMB7.0 billion for the first quarter of 2021, from RMB8.5 billion for the fourth quarter of 2020. Our gross profit margin decreased to 41.1% for the first quarter of 2021, from 47.0% for the fourth quarter of 2020, mainly because our cost of revenues increased as a percentage of our total revenues primarily due to increases in bandwidth expenses and server custody costs, depreciation of property and equipment and right-of-use assets, and amortization of intangible assets and employee benefit expenses as a percentage of our total revenues.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 71.9% to RMB11.7 billion for the first quarter of 2021, from RMB6.8 billion for the fourth quarter of 2020, and increased to 68.5% from 37.5% as a percentage of our total revenues. The increase was primarily attributable to an increase in promotion and advertising expenses. The increase in promotion and advertising expenses in the first quarter of 2021 was primarily attributable to increase in our marketing expenses for promoting Kuaishou Express and our other apps and our brand marketing campaign expenses.

Administrative Expenses

Our administrative expenses increased by 18.1% to RMB703.4 million for the first quarter of 2021, from RMB595.4 million for the fourth quarter of 2020, and increased to 4.1% from 3.3% as a percentage of our total revenues, primarily due to an increase in employee benefits expenses as a result of an increase in the headcount of administrative personnel to support our business growth and increased share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, administrative expenses as a percentage of revenues would have been 2.7% for both the first quarter of 2021 and the fourth quarter of 2020, respectively.

Research and Development Expenses

Our research and development expenses increased by 15.7% to RMB2.8 billion for the first quarter of 2021, from RMB2.4 billion for the fourth quarter of 2020, and increased to 16.5% from 13.4% as a percentage of our total revenues, primarily due to an increase in employee benefit expenses attributable to an increase in the number of research and development personnel as we continue to invest in AI, big data and other advanced technologies, and increased share-based compensation expenses. If the impact from share-based compensation expenses had been excluded, research and development expenses as a percentage of revenues would have been 10.8% for the first quarter of 2021 and 10.0% for the fourth quarter of 2020.

Other Income

Our other income increased by 54.2% to RMB203.3 million for the first quarter of 2021, from RMB131.8 million for the fourth quarter of 2020, primarily due to more tax subsidies for the first quarter of 2021 as compared to the fourth quarter of 2020.

Other Gains/(Losses), Net

We recorded other gains, net of RMB690.8 million for the first quarter of 2021, compared to other losses, net of RMB206.7 million for the fourth quarter of 2020. The change from losses to gains was primarily due to increases in the net fair value gains on financial assets at fair value through profit or loss of investments in listed and unlisted entities.

Operating Loss

As a result of the foregoing, we had operating loss of RMB7.3 billion for the first quarter of 2021, and operating loss of RMB1.4 billion for the fourth quarter of 2020, and our operating margin decreased to negative 42.8% for the first quarter of 2021, from negative 7.6% for the fourth quarter of 2020.

Finance Expense, Net

Our finance expense, net was RMB17.2 million and RMB8.7 million for the first quarter of 2021 and fourth quarter of 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

Our fair value changes of convertible redeemable preferred shares were negative RMB51.3 billion for the first quarter of 2021 and negative RMB17.7 billion for the fourth quarter of 2020, primarily due to changes in the valuation of our Company, which was determined by the offering price of Shares in our initial public offering.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB58.6 billion for the first quarter of 2021, compared to a loss before income tax of RMB19.1 billion for the fourth quarter of 2020.

Income tax benefits/(expenses)

We had income tax benefits of RMB834.1 million for the first quarter of 2021, compared to income tax expenses of RMB182.0 million for the fourth quarter of 2020. The income tax benefits for the first quarter of 2021 were primarily due to the recognition of deferred tax assets attributable to the net losses incurred by certain subsidiaries.

Loss for the period

As a result of the foregoing, our loss was RMB57.8 billion for the first quarter of 2021, compared to a loss of RMB19.3 billion for the fourth quarter of 2020.

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 first quarter of 2021, the fourth quarter of 2020 and the first quarter of 2020, respectively, to the nearest measures prepared in accordance with IFRS:

	Unaudited		
	Three Months Ended		
	March 31,	December 31,	March 31,
	2021	2020	2020
	<i>(in RMB thousands)</i>		
Loss for the period	(57,751,051)	(19,263,780)	(30,491,949)
Add:			
Share-based compensation expenses	1,557,212	863,799	261,284
Fair value changes of convertible redeemable preferred shares	51,275,797	17,695,493	25,885,862
Adjusted net loss	<u>(4,918,042)</u>	<u>(704,488)</u>	<u>(4,344,803)</u>
Adjusted net loss	(4,918,042)	(704,488)	(4,344,803)
Add:			
Income tax (benefits)/expenses	(834,103)	182,045	(426,108)
Depreciation of property and equipment	916,074	903,482	676,209
Depreciation of right-of-use assets	580,536	499,239	346,067
Amortization of intangible assets	41,695	38,292	23,827
Finance expense, net	17,215	8,717	6,397
Adjusted EBITDA	<u>(4,196,625)</u>	<u>927,287</u>	<u>(3,718,411)</u>

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 RMB57.1 billion as of March 31, 2021.

The following table sets forth a summary of our cash flows for the first quarter of 2021:

	Unaudited Three Months Ended March 31, 2021
	<i>(in RMB thousands)</i>
Net cash used in operating activities	(1,432,137)
Net cash used in investing activities	(1,019,911)
Net cash generated from financing activities	<u>38,654,768</u>
Net increase in cash and cash equivalents	36,202,720
Cash and cash equivalents at the beginning of the period	20,391,545
Effects of exchange rate changes on cash and cash equivalents	<u>538,920</u>
Cash and cash equivalents at the end of the period	<u><u>57,133,185</u></u>

Net Cash Used in Operating Activities

Net cash used in operating activities primarily consists of our loss before income tax and non-cash items, such as fair value changes of convertible redeemable preferred shares, share-based compensation expenses, depreciation of property and equipment, depreciation of right-of-use assets and fair value gains on financial assets at fair value through profit or loss, adjusted by changes in working capital.

For the first quarter of 2021, our net cash used in operating activities was RMB1.4 billion, which was primarily attributable to our loss before income tax of RMB58.6 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 RMB1.6 billion, depreciation of property and equipment of RMB916.1 million and, depreciation of right-of-use assets of RMB580.5 million, partially offset by fair value gains on financial assets at fair value through profit or loss of RMB747.6 million. The amount was further adjusted by changes in working capital, which primarily comprised an increase in accounts payables of RMB2.7 billion and an increase in other payables and accruals of RMB659.5 million. We also paid income tax of RMB189.2 million.

Net Cash Used in Investing Activities

For the first quarter of 2021, our net cash used in investing activities was RMB1.0 billion, which was primarily attributable to purchase of investments in financial assets at fair value through profit or loss of RMB3.1 billion, purchase of time deposits with initial terms over three months of RMB2.0 billion, purchase of property, equipment and intangible assets of RMB1.3 billion and placement of restricted cash of RMB700.0 million, partially offset by proceeds from disposal of investments in financial assets at fair value through profit or loss of RMB3.6 billion and proceeds from maturity of time deposits with initial terms over three months of RMB2.3 billion.

Net Cash Generated from Financing Activities

For the first quarter of 2021, our net cash generated from financing activities was RMB38.7 billion, which was primarily attributable to net proceeds from issuance of ordinary shares relating to the initial public offering of RMB39.3 billion, partially offset by payments for principal elements of lease and related interest of RMB604.9 million.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Three months ended March 31,	
	<i>Note</i>	2021	2020
		<u>RMB'000</u>	<u>RMB'000</u>
Revenues	2	17,019,450	12,458,132
Cost of revenues	3	(10,031,655)	(8,199,683)
Gross profit		6,987,795	4,258,449
Selling and marketing expenses	3	(11,659,592)	(8,096,266)
Administrative expenses	3	(703,351)	(308,168)
Research and development expenses	3	(2,811,146)	(939,457)
Other income		203,344	60,480
Other gains/(losses), net		690,808	(836)
Operating loss		(7,292,142)	(5,025,798)
Finance expense, net		(17,215)	(6,397)
Fair value changes of convertible redeemable preferred shares	7	(51,275,797)	(25,885,862)
Loss before income tax		(58,585,154)	(30,918,057)
Income tax benefits	4	834,103	426,108
Loss for the period		<u>(57,751,051)</u>	<u>(30,491,949)</u>
Attributable to:			
— Equity holders of the Company		<u>(57,750,343)</u>	<u>(30,491,949)</u>
— Non-controlling interests		<u>(708)</u>	<u>—</u>
		<u>(57,751,051)</u>	<u>(30,491,949)</u>
Loss per share for the loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	5	<u>(20.31)</u>	<u>(32.71)</u>
Diluted loss per share		<u>(20.31)</u>	<u>(32.71)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Unaudited Three months ended March 31,	
	Note	2021	2020
		<u>RMB'000</u>	<u>RMB'000</u>
Loss for the period		<u>(57,751,051)</u>	<u>(30,491,949)</u>
Other comprehensive income/(loss)			
<i>Items that will not be reclassified to profit or loss</i>			
Fair value change on convertible redeemable preferred shares due to own credit risk	7	–	1,342
Currency translation differences		2,420,461	(1,240,085)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		<u>(239,821)</u>	<u>(109,402)</u>
Other comprehensive income/(loss) for the period, net of taxes		<u>2,180,640</u>	<u>(1,348,145)</u>
Total comprehensive loss for the period		<u>(55,570,411)</u>	<u>(31,840,094)</u>
Attributable to:			
— Equity holders of the Company		<u>(55,569,703)</u>	<u>(31,840,094)</u>
— Non-controlling interests		<u>(708)</u>	<u>–</u>
		<u>(55,570,411)</u>	<u>(31,840,094)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As of March 31, 2021	Audited As of December 31, 2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property and equipment		8,008,539	7,206,100
Right-of-use assets		10,455,494	5,199,712
Intangible assets		1,277,834	1,247,788
Investments accounted for using the equity method		2,494,064	—
Financial assets at fair value through profit or loss	6	2,194,842	3,843,315
Deferred tax assets		3,498,674	2,313,301
Long-term time deposits		2,500,000	500,000
Other non-current assets		374,510	308,982
		30,803,957	20,619,198
Current assets			
Trade receivables		2,445,703	2,428,039
Prepayments, other receivables and other current assets		2,109,549	2,285,420
Financial assets at fair value through profit or loss	6	3,063,764	3,690,448
Short-term time deposits		376,138	2,729,095
Restricted cash		705,277	3,698
Cash and cash equivalents		57,133,185	20,391,545
		65,833,616	31,528,245
Total assets		96,637,573	52,147,443

	Unaudited	Audited
	As of	As of
<i>Note</i>	March 31,	December 31,
	2021	2020
	<u>RMB'000</u>	<u>RMB'000</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	139	30
Share premium	274,382,099	–
Other reserves	15,704,268	12,011,644
Accumulated losses	(229,811,856)	(172,061,513)
	<u>60,274,650</u>	<u>(160,049,839)</u>
Non-controlling interests	<u>6,342</u>	–
Total equity	<u><u>60,280,992</u></u>	<u><u>(160,049,839)</u></u>
LIABILITIES		
Non-current liabilities		
Lease liabilities	8,311,528	3,608,041
Deferred tax liabilities	32,478	31,601
Convertible redeemable preferred shares	–	185,372,816
Other non-current liabilities	158	–
	<u>8,344,164</u>	<u>189,012,458</u>
Current liabilities		
Accounts payables	14,799,455	11,544,297
Other payables and accruals	6,430,103	5,763,226
Advances from customers	3,375,544	3,290,098
Income tax liabilities	651,280	487,843
Lease liabilities	2,756,035	2,099,360
	<u>28,012,417</u>	<u>23,184,824</u>
Total liabilities	<u><u>36,356,581</u></u>	<u><u>212,197,282</u></u>
Total equity and liabilities	<u><u>96,637,573</u></u>	<u><u>52,147,443</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Three months ended	
	March 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(1,432,137)	(646,723)
Net cash used in investing activities	(1,019,911)	(14,941,587)
Net cash generated from financing activities	38,654,768	20,609,921
Net increase in cash and cash equivalents	36,202,720	5,021,611
Cash and cash equivalents at the beginning of the period	20,391,545	3,996,236
Effects of exchange rate changes on cash and cash equivalents	538,920	108,863
Cash and cash equivalents at the end of the period	<u>57,133,185</u>	<u>9,126,710</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This condensed consolidated interim financial information for the three months ended March 31, 2021 (“**Interim Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting”, issued by the International Accounting Standards Board (“**IASB**”). The Interim Financial Information is presented in renminbi (“**RMB**”), unless otherwise stated.

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

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

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

2. Revenues

The breakdown of revenues during the three months ended March 31, 2021 and 2020 is as follows:

	Three months ended	
	March 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Online marketing services	8,557,676	3,273,017
Live streaming	7,250,399	9,009,312
Other services	1,211,375	175,803
	17,019,450	12,458,132

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

	Three months ended	
	March 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue recognized at a point in time	14,856,353	11,600,061
Revenue recognized over time	2,163,097	858,071
	<u>17,019,450</u>	<u>12,458,132</u>

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

3. Expenses by nature

	Three months ended	
	March 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue sharing costs and related taxes	5,125,171	5,171,580
Employee benefit expenses	4,213,956	1,535,434
Promotion and advertising expenses	11,157,698	7,916,835
Bandwidth expenses and server custody costs	1,933,174	1,268,534
Depreciation of property and equipment	916,074	676,209
Depreciation of right-of-use assets	580,536	346,067
Amortization of intangible assets	41,695	23,827
Outsourcing and other labor costs	274,595	99,222
Payment processing cost	304,582	192,898
Professional fees	53,174	15,030
Tax surcharges	80,635	103,046
Credit loss allowances on financial assets	3,026	2,509
Others	521,428	192,383
	<u>25,205,744</u>	<u>17,543,574</u>

4. Income tax benefits

(a) *Cayman Islands*

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

(b) *British Virgin Islands (“BVI”)*

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

(c) *Hong Kong Income Tax*

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before April 1, 2018. Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the three months ended March 31, 2021 and 2020.

(d) *PRC Enterprise Income Tax (“EIT”)*

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

Beijing Dajia Internet Information Technology Co., Ltd. (“**Beijing Dajia**”) was accredited as High and New Technology 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.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expense so incurred as tax deductible expense when determining their assessable profit for that year (“**Super Deduction**”). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018. The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the period.

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

According to the New Corporate Income Tax Law beginning January 1, 2008, distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies.

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

The income tax benefits of the Group during the three months ended March 31, 2021 and 2020 are analyzed as follows:

	Three months ended	
	March 31,	
	2021	2020
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Current income tax	(352,668)	(123,811)
Deferred income tax	1,186,771	549,919
Income tax benefits	<u>834,103</u>	<u>426,108</u>

5. Loss per share

(a) *Basic loss per share*

Basic loss per share for the period 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 period.

	Three months ended	
	March 31,	
	2021	2020
	<u>RMB'000</u>	<u>RMB'000</u>
	(Unaudited)	(Unaudited)
Net loss attributable to equity holders of the Company	(57,750,343)	(30,491,949)
Weighted average number of ordinary shares in issue (thousand shares)	<u>2,842,982</u>	<u>932,259</u>
Basic loss per share (expressed in RMB per share)	<u>(20.31)</u>	<u>(32.71)</u>

(b) *Diluted loss per share*

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

During the three months ended March 31, 2021 and 2020, the Company had two categories of potential ordinary shares: convertible redeemable preferred shares and share options and restricted share units granted under share incentive plan. As the Company incurred losses for the three months ended March 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 three months ended March 31, 2021 and 2020 were the same as basic loss per share of the respective periods.

6. Financial assets at fair value through profit or loss

	As of March 31, 2021	As of December 31, 2020
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets		
Investments in unlisted entities	<u>2,194,842</u>	<u>3,843,315</u>
Current assets		
Investments in listed entities		
— Hong Kong listed	61,020	82,646
Wealth management products	<u>3,002,744</u>	<u>3,607,802</u>
	<u>3,063,764</u>	<u>3,690,448</u>
Total	<u><u>5,258,606</u></u>	<u><u>7,533,763</u></u>

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

	Three months ended March 31,	
	2021	2020
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
At the beginning of the period	7,533,763	11,160,542
Additions	3,075,866	24,213,568
Disposal	(3,625,014)	(15,527,606)
Transfer to investments accounted for using the equity method	(2,470,647)	—
Change in fair value through profit or loss	747,591	106,024
Deemed disposal due to business combination	(6,959)	—
Currency translation differences	4,006	199,311
	<u>5,258,606</u>	<u>20,151,839</u>
At the end of the period	<u><u>5,258,606</u></u>	<u><u>20,151,839</u></u>

7. Convertible redeemable preferred shares

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

	<i>RMB'000</i> (Unaudited)
At January 1, 2021	185,372,816
Changes in fair value	51,275,797
— Includes: change in fair value due to own credit risk	—
Currency translation differences	(1,564,067)
Conversion into ordinary shares	<u>(235,084,546)</u>
At March 31, 2021	<u>—</u>
At January 1, 2020	69,444,163
Issuance of Series F-1 & F-2 Preferred Shares	20,956,542
Re-designation of Series F-1 & F-2 Preferred Shares from ordinary shares	163,809
Changes in fair value	25,884,520
— Includes: change in fair value due to own credit risk	(1,342)
Currency translation differences	<u>1,742,361</u>
At March 31, 2020	<u>118,191,395</u>
Total unrealized gains and change in fair value for the period included in “Fair value changes of convertible redeemable preferred shares”	<u>25,885,862</u>

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

OTHER INFORMATION

Purchase, Sale or Redemption of 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 securities listed on the Stock Exchange during the period from the Listing Date to March 31, 2021.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting high standards of corporate governance which is 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 since the Listing Date.

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

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Mr. Su Hua currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of the chairman and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Audit Committee

The Audit Committee, after the discussion with the Auditor, has reviewed the Company's unaudited interim financial statements for the three months ended March 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 Company's unaudited interim financial statements for the three months ended March 31, 2021 have been prepared in accordance with IFRS.

Events after March 31, 2021

Save as disclosed in this announcement, there has been no other significant events that might affect the Group after March 31, 2021 and up to the date of this announcement.

APPRECIATION

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

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

Hong Kong, May 24, 2021

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

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

DEFINITIONS

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

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

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

“Kuaishou Concept”	an app that we launched in November 2018 to explore different user needs and preferences
“Kuaishou Express”	a variant of Kuaishou Flagship that was officially launched in August 2019
“Kuaishou Flagship”	a mobile app that was derived from our original mobile app, <i>GIF Kuaishou</i> (launched in 2011)
“Listing Date”	February 5, 2021, on which the Class B Shares were listed and dealings in the Class B Shares were first permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“MAUs”	refers to monthly active users, which are calculated as the number of unique user accounts, excluding spam accounts, that access an app at least once during the calendar month
“MAUs of our apps and mini programs in China”	refers to MAUs by the total number of mobile devices, excluding spam devices, that access any of our available apps and their associated mini programs in China at least once in a calendar month
“Memorandum”	the memorandum of association of the Company (as amended from time to time), adopted on January 18, 2021, which has become effective since the Listing Date
“MPUs”	monthly paying users, which refers to the number of user accounts that purchase a particular service at least once in a given month
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

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