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Kuaishou Technology 快手科技

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

RESULTS ANNOUNCEMENT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

The Board of Directors of Kuaishou Technology (快手科技) is pleased to announce the unaudited consolidated results of the Company for the three and six months ended June 30, 2022. These interim results have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting”, and reviewed by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”), in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board. The interim results have also been reviewed by the Audit Committee.

KEY HIGHLIGHTS

Financial Summary

	Unaudited Three Months Ended June 30,		Amount	As a percentage of revenues (RMB thousands, except for percentages)	Year-over- year change
	2022	2021			
Revenues	21,695,148	100.0	19,138,826	100.0	13.4%
Gross profit	9,769,768	45.0	8,384,747	43.8	16.5%
Operating loss	(3,059,098)	(14.1)	(7,215,379)	(37.7)	(57.6%)
Loss for the period	(3,176,049)	(14.6)	(7,036,411)	(36.7)	(54.9%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾	(1,311,901)	(6.0)	(5,016,052)	(26.2)	(73.8%)
Adjusted EBITDA ⁽²⁾	407,224	1.9	(3,559,758)	(18.6)	N/A

	Unaudited		Six Months Ended June 30,		Year-over-year change
	2022	2021	2022	2021	
	Amount	As a percentage of revenues (RMB thousands, except for percentages)	Amount	As a percentage of revenues	
Revenues	42,761,825	100.0	36,158,276	100.0	18.3%
Gross profit	18,551,592	43.4	15,372,542	42.5	20.7%
Operating loss	(8,702,467)	(20.4)	(14,507,521)	(40.1)	(40.0%)
Loss for the period	(9,429,945)	(22.1)	(64,787,462)	(179.2)	(85.4%)
Non-IFRS Measures:					
Adjusted net loss ⁽¹⁾	(5,034,166)	(11.8)	(10,666,739)	(29.5)	(52.8%)
Adjusted EBITDA ⁽²⁾	(1,144,484)	(2.7)	(8,489,028)	(23.5)	(86.5%)

Notes:

- (1) We define “adjusted net loss” as loss for the 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 period adjusted by adding back income tax expenses/(benefits), depreciation of property and equipment, depreciation of right-of-use assets, amortization of intangible assets, and finance (income)/expense, net.

Financial Information by Segment

	Unaudited			
	Three Months Ended June 30, 2022			
	Domestic	Overseas	Unallocated items ⁽¹⁾ (RMB thousands)	Total
Revenues	21,591,796	103,352	—	21,695,148
Operating profit/(loss)	93,623	(1,606,075)	(1,546,646)	(3,059,098)

	Unaudited			
	Three Months Ended June 30, 2021			
	Domestic	Overseas	Unallocated items ⁽¹⁾ (RMB thousands)	Total
Revenues	19,131,591	7,235	—	19,138,826
Operating loss	(1,026,375)	(4,368,235)	(1,820,769)	(7,215,379)

	Year-over-year change			Total
	Domestic	Overseas	Unallocated items ⁽¹⁾ <i>(Percentages %)</i>	
Revenues	12.9	1,328.5	—	13.4
Operating loss	N/A	(63.2)	(15.1)	(57.6)

Unaudited
Six Months Ended June 30, 2022

	Domestic	Overseas	Unallocated	Total
			items ⁽¹⁾ <i>(RMB thousands)</i>	
Revenues	42,610,821	151,004	—	42,761,825
Operating loss	(1,450,165)	(3,451,948)	(3,800,354)	(8,702,467)

Unaudited
Six Months Ended June 30, 2021

	Domestic	Overseas	Unallocated	Total
			items ⁽¹⁾ <i>(RMB thousands)</i>	
Revenues	36,149,072	9,204	—	36,158,276
Operating loss	(5,309,747)	(6,713,945)	(2,483,829)	(14,507,521)

Year-over-year change

	Domestic	Overseas	Unallocated	Total
			items ⁽¹⁾ <i>(Percentages %)</i>	
Revenues	17.9	1,540.6	—	18.3
Operating loss	(72.7)	(48.6)	53.0	(40.0)

Note:

⁽¹⁾ Unallocated items include share-based compensation expenses, other income and other gains/(losses), 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	
	June 30, 2022	2021
Average DAUs (<i>in millions</i>)	347.3	293.2
Average MAUs (<i>in millions</i>)	586.7	506.2
Average daily time spent per DAU (<i>in minutes</i>)	125.2	106.9
Average online marketing services revenue per DAU (<i>in RMB</i>)	31.7	34.0
Total e-commerce GMV ⁽¹⁾ (<i>in RMB millions</i>)	191,174.1	145,397.8

	Six Months Ended June 30,	
	2022	2021
Average DAUs (<i>in millions</i>)	346.4	294.3
Average MAUs (<i>in millions</i>)	592.3	513.0
Average daily time spent per DAU (<i>in minutes</i>)	126.6	103.1
Average online marketing services revenue per DAU (<i>in RMB</i>)	64.5	62.9
Total e-commerce GMV ⁽¹⁾ (<i>in RMB millions</i>)	366,249.7	263,957.2

Note:

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

BUSINESS REVIEW AND OUTLOOK

Business Review

The second quarter of 2022 was marked by a breakthrough performance for Kuaishou. Most notably, we achieved a significant profitability milestone in our domestic business with robust growth in our revenue streams. Our efforts to improve operating efficiency continued to prove effective, despite the challenging macro environment.

Our domestic business delivered operating profit by segment in the second quarter of 2022, ahead of our expected timeline and it represented an important progress we made in profitability by segment since we began significantly scaling up user growth investments. This demonstrates the resilience and sustainability of our business model and the fruitful reward of our strategic initiatives to streamline cost structure and enhance operating efficiency. The profitability of our domestic business brought our adjusted EBITDA back to positive territory for the second quarter of 2022, also the first time since the fourth quarter of 2020. In the second quarter of 2022, our adjusted net loss margin reached single digit status at 6.0%, having substantially narrowed by 20.2 percentage points year-over-year and 11.7 percentage points quarter-over-quarter.

Even with much more disciplined cost control, our user base and traffic sustained strong growth momentum in the second quarter of 2022, and once again reached record highs. Our total traffic continued to grow at a strong pace, increasing by 38.7% year-over-year on Kuaishou App in the second quarter of 2022.

Ecosystem

In the second quarter of 2022, we continued to improve our user acquisition and retention efficiency, deepen the trust-based ecosystem and build our characteristic content verticals. These efforts successfully drove average DAUs on Kuaishou App to a record 347.3 million, up 18.5% year-over-year. The ratio of average DAUs to average MAUs on Kuaishou App also hit a record high, expanding to 59.2% in the second quarter of 2022, reflecting our ability to grow user engagement and increase the vibrancy of our user base at scale.

In terms of user acquisition and retention, first, we improved our user acquisition efficiency by strategically expanding our efficient user acquisition channels while upgrading our operation capabilities for user conversion. Second, we continued to refine our user retention model, aiming to optimize both the retention rate and the maintenance cost per DAU. We also iterated and adjusted our traffic allocation algorithms, so as to leverage our traffic to support our content creators while optimizing user experience more effectively. These consistent measures help increase user time spent on Kuaishou App and improve our users' long-term retention rate. The average daily time spent per DAU on Kuaishou App reached 125.2 minutes in the second quarter of 2022, up 17.1% year-over-year.

Giving rise to stronger network effects and fostering a trust-based ecosystem, social attributes and interactions have always been a paramount focus and one of the most efficient user growth strategies for us. As we aim to cultivate a social environment that “embraces all lifestyles,” and growing bonds among users, pairs of mutual followers on Kuaishou App grew by 65.9% year-over-year, reaching more than 20 billion, cumulatively, by the end of June 2022.

We continued to bring more varieties to our users and enhance the quality of content verticals while strengthening our operation capabilities. Leveraging our sharp insights in market trends and user preferences, we continuously rolled out potential blockbuster content of short plays. Our *Kwai Playlet Astral* (快手星芒短劇), which provides all-around assistance for outstanding short play creators, continued to produce various genres and themes of blockbusters such as “*Love Bravely*” and “*Tale of an Ancient Snake*” to further enrich the content supply and consumption ecosystem on our platform, contributing to our organic user growth and increasing user stickiness. In-depth operation of blockbuster content also contributed positively to user acquisition and the vigor of our ecosystem. Our recent live streaming debut of famous artists such as Jackie Chan and Jay Chou sparked viral interactions online, adding another source of blockbuster content on our platform.

Online marketing services

Amidst the challenging macro environment, we expanded our online marketing services business by leveraging our strong traffic growth, robust development of closed-loop ecosystem, continuous technology iterations and improved quality of services. Our total revenue from online marketing services in the second quarter of 2022 was RMB11.0 billion, representing a 10.5% year-over-year increase, further gaining market share in the online marketing sector.

We continued to extend our advertiser coverage through a wide range of channels and provided them with differentiated supporting policies. In the second quarter of 2022, the number of advertisers on our platform increased by over 90% year-over-year. Advertiser retention rates were also boosted during the period driven by our consistent improvements in our services, products capabilities and ads performances.

The online marketing services provided to our e-commerce merchants demonstrated healthy expansion trends and strong resilience along with the signs of e-commerce recovery after the slowdown in the recent pandemic outbreak, significantly contributing to the growth of our online marketing services in the second quarter of 2022. In addition to traditional live streaming e-commerce advertisements, we further unlocked the commercial value of our combined public and private domain traffic through short video e-commerce advertisements integrated with our closed-loop transaction system, which further improved the matching efficiency and brought incremental advertising business from merchants on our platform.

We also continued to win more brand advertisers by enabling them to establish meaningful connections with consumers. The growth of our brand advertising in the second quarter of 2022 outpaced that of our overall online marketing services driven by our growing ad spaces, customized solutions that address diverse marketing needs, and our ability to combine brand advertising with performance advertising.

Live streaming

In the second quarter of 2022, revenue from live streaming reached RMB8.6 billion, increasing by 19.1% year-over-year, and average MPUs for live streaming increased by 21.8% year-over-year to 54.2 million on Kuaishou App. The revenue and paying user growth were primarily due to our improved live streaming content quality and enhanced efficiency in matching user and content, as well as the flourishing user base and the powerful traffic expansion on our platform.

On the supply side, we continually empowered our existing streamers and added new streamers by bolstering our collaboration with talent agencies. As a result, the quality of our live streaming content has significantly improved, along with our content operation capabilities.

At the same time, we launched more innovative interactive features and contextualized content consumption scenarios to invigorate consumption and demand. With algorithm iterations, we improved the timeliness and accuracy of content matching and recommendation. The combination of these initiatives supported growth of our monthly paying ratio for live streaming year-over-year in the second quarter of 2022.

Kwai Recruitment (快招工) is a prime example of the extension of use case in our live streaming ecosystem. Leveraging the advantages of our platform traffic and conversion efficiency, we facilitated the expansion of recruitment channels for many enterprises, improving industry-wide hiring efficiency while fulfilling the previously unmet user needs. In the second quarter, monthly active users of *Kwai Recruitment* on Kuaishou App reached 250 million, increasing by 90% compared with first quarter of 2022.

Other services including e-commerce

In the second quarter of 2022, our total e-commerce GMV increased by 31.5% year-over-year to reach RMB191.2 billion, driven by our continuous construction of the vibrant e-commerce ecosystem. On the supply side, in addition to non-standard products such as apparel and cosmetics in which live streaming e-commerce holds a significant advantage in display and sales conversion, food and beverage, home appliance and digital products also continued to grow in product breadth and depth on our platform, primarily driven by strong active merchant growth. This further enriched users' purchase choices and fostered their mindsets to shop through our live-streaming e-commerce platform.

At the same time, we continued exploring users' interests and needs, upgrading e-commerce content and optimizing algorithms to improve matching efficiency, which in turn boosted the e-commerce penetration and conversion on our platform. Our monthly active e-commerce paying users continued to increase in the second quarter of 2022. ***Kwai Partners*** (快手服務商), which provides comprehensive and targeted services for merchants, empowered merchants to improve their operations and boost their growth in our e-commerce ecosystem, especially those in the start-up phase. In the second quarter of 2022, over 2,000 merchants achieved a quantum leap in e-commerce GMV, empowered by ***Kwai Partners***.

Our flourishing e-commerce ecosystem and the rapid growth of our GMV is underpinned by our unique trust-based e-commerce model. To foster more trustworthy e-commerce experience, we launched the ***Repeat Customer Recommendation Index*** (回頭客推薦指數) and ***Repeat Customer Word of Mouth*** (回頭客說) so that our users can quantitatively and qualitatively assess merchants' operations through customer feedback and word of mouth. By doing so, we enable an easier decision-making process for consumers while guiding merchants to improve the quality of their goods and services. Our efforts and measures in building the trust on Kuaishou platform contributed to repeat purchase rate expansion year-over-year and quarter-over-quarter in the second quarter of 2022.

In terms of brand e-commerce, both well-known brands and ***Kwai Brands*** (快品牌), continued to grow and flourish in our e-commerce ecosystem. ***Kwai Brands*** achieved particularly rapid development as we connected them with a massive base of target users, and empowered them with an effective environment to nourish their brand images, optimize users' value-experience ratio, and scale and strengthen their private domains. In the second quarter of 2022, the number of monthly active ***Kwai Brands*** merchants doubled quarter-over-quarter and the number of monthly active brand merchants increased by over two times year-over-year, significantly contributing to higher GMV growth of our brand e-commerce relative to our overall e-commerce GMV growth in the second quarter of 2022.

Overseas

In the overseas markets, we continued to focus on strategically building up our unique ecosystem and exploring monetization in the key markets.

Our high-quality user growth in the overseas market is the best testament of our differentiated product strategy, in particular our content strategy. Along with our continuous advancements in algorithms and products, we optimized user experience, leading to an improved user retention and higher user engagement. By the end of June 2022, our average daily time spent per DAU in the overseas markets reached a new record of over 60 minutes.

On the monetization side, we delivered positive results in the construction of our overseas live streaming ecosystem by working with more talent agencies, and further strengthened our advertising service capabilities to attract more advertisers. As we move forward with our ROI-based global strategy, we are committed to driving high-quality user growth and strengthening monetization while simultaneously building the path to profitability in the overseas markets. In the second quarter of 2022, our revenue in the overseas market achieved RMB103.4 million, more than doubled quarter-over-quarter. Operating loss in the overseas market narrowed significantly to RMB1,606.1 million in the second quarter of 2022, from RMB4,368.2 million in the second quarter of 2021, and further narrowed from the first quarter of 2022.

Business Outlook

As we look to the second half of 2022, we will continue to strengthen our dynamic, trust-based ecosystem to provide an efficient and convenient digital platform for more users and industry participants. We believe there is significant potential yet to be unlocked in our integrated private and public domains through ongoing optimizations in our operating capabilities, algorithms and the depth and breadth of our monetization avenues. At the same time, we will continue to drive efficiencies through technology iteration and disciplined cost control throughout our organization in the second half of 2022.

Going forward, underpinned by our compelling differentiated content, thriving ecosystem and effective operating strategies, we are confident in capturing new growth opportunities that will further propel our sustainable development, promote industry prosperity and be a force for the betterment of society.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2022 Compared to Second Quarter of 2021

The following table sets forth the comparative figures in absolute amounts and as percentages of our total revenues for the second quarter of 2022 and 2021, respectively:

	Unaudited Three Months Ended June 30,			
	2022		2021	
	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>			
Revenues	21,695,148	100.0	19,138,826	100.0
Cost of revenues	<u>(11,925,380)</u>	<u>(55.0)</u>	<u>(10,754,079)</u>	<u>(56.2)</u>
Gross profit	9,769,768	45.0	8,384,747	43.8
Selling and marketing expenses	(8,762,445)	(40.4)	(11,269,803)	(58.9)
Administrative expenses	(955,717)	(4.4)	(864,159)	(4.5)
Research and development expenses	(3,282,353)	(15.1)	(3,911,339)	(20.4)
Other income	147,020	0.7	175,348	0.9
Other gains, net	<u>24,629</u>	<u>0.1</u>	<u>269,827</u>	<u>1.4</u>
Operating loss	(3,059,098)	(14.1)	(7,215,379)	(37.7)
Finance income, net	2,009	0.0	11,989	0.1
Share of losses of investments accounted for using the equity method	<u>(44,789)</u>	<u>(0.2)</u>	<u>(24,892)</u>	<u>(0.1)</u>
Loss before income tax	(3,101,878)	(14.3)	(7,228,282)	(37.7)
Income tax (expenses)/benefits	<u>(74,171)</u>	<u>(0.3)</u>	<u>191,871</u>	<u>1.0</u>
Loss for the period	<u><u>(3,176,049)</u></u>	<u><u>(14.6)</u></u>	<u><u>(7,036,411)</u></u>	<u><u>(36.7)</u></u>
Non-IFRS Measures:				
Adjusted net loss	(1,311,901)	(6.0)	(5,016,052)	(26.2)
Adjusted EBITDA	407,224	1.9	(3,559,758)	(18.6)

Revenues

Our total revenues, which were mainly attributable to the domestic business, increased by 13.4% to RMB21.7 billion for the second quarter of 2022 from RMB19.1 billion for the same period of 2021. The increase was primarily attributable to the growth of our live streaming business, online marketing services and e-commerce business.

The following table sets forth our revenues by type in absolute amounts and as percentages of our total revenues for the second quarter of 2022 and 2021, respectively:

	Unaudited Three Months Ended June 30,			
	2022		2021	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Online marketing services	11,006,398	50.7	9,962,297	52.1
Live streaming	8,565,099	39.5	7,193,430	37.6
Other services	2,123,651	9.8	1,983,099	10.3
Total	21,695,148	100.0	19,138,826	100.0

Online marketing services

Revenue from our online marketing services increased by 10.5% to RMB11.0 billion for the second quarter of 2022 from RMB10.0 billion for the same period of 2021, primarily attributable to the growing number of advertisers driven by our consistent improvements in our services, products capabilities and ads performances. In addition, revenue from online marketing services provided to our e-commerce merchants maintained healthy expansion trends and strong resilience.

Live streaming

Revenue from our live streaming business increased by 19.1% to RMB8.6 billion for the second quarter of 2022 from RMB7.2 billion for the same period of 2021, as a result of 21.8% year-over-year growth in average MPUs, which was further supported by improved live streaming content quality and enhanced efficiency in matching user and content.

Other services

Revenue from our other services increased by 7.1% to RMB2.1 billion for the second quarter of 2022 from RMB2.0 billion for the same period of 2021, primarily due to the growth of our e-commerce business, as a result of our efforts to reinforce our trust-based e-commerce model, expand brand e-commerce and strengthen the cooperation with our *Kwai Partners*.

Cost of Revenues

The following table sets forth our cost of revenues in absolute amounts and as percentages of our total revenues for the second quarter of 2022 and 2021, respectively:

	Unaudited			
	Three Months Ended June 30,			
	2022		2021	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Revenue sharing costs and related taxes	6,724,134	31.0	5,371,242	28.1
Bandwidth expenses and server custody costs ⁽¹⁾	1,521,207	7.0	1,950,529	10.2
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽¹⁾	1,396,522	6.4	1,524,142	8.0
Employee benefit expenses	711,112	3.3	898,574	4.7
Payment processing costs	431,656	2.0	372,272	1.9
Other cost of revenues	1,140,749	5.3	637,320	3.3
Total	11,925,380	55.0	10,754,079	56.2

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 10.9% to RMB11.9 billion for the second quarter of 2022, from RMB10.8 billion for the same period of 2021, primarily attributable to (i) the increase in revenue sharing costs and related taxes in line with our revenue growth; and (ii) the increase in content costs as part of other cost of revenues, as a result of our continuous efforts to diversify content verticals and enrich content ecosystem, partially offset by decreases in bandwidth expenses and server custody costs driven by optimized efficiency in usage.

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 second quarter of 2022 and 2021, respectively:

	Unaudited			
	Three Months Ended June 30,			
	2022		2021	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Gross profit	9,769,768	45.0	8,384,747	43.8

As a result of the foregoing, our gross profit increased by 16.5% to RMB9.8 billion for the second quarter of 2022, from RMB8.4 billion for the same period of 2021. Our gross profit margin increased to 45.0% for the second quarter of 2022, from 43.8% for the same period of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 22.2% to RMB8.8 billion for the second quarter of 2022, from RMB11.3 billion for the same period of 2021, and decreased to 40.4% from 58.9% as a percentage of our total revenues. The decrease was primarily attributable to disciplined and more efficient spending on user acquisition and retention.

Administrative Expenses

Our administrative expenses increased by 10.6% to RMB955.7 million for the second quarter of 2022, from RMB864.2 million for the same period of 2021, primarily due to an increase in share-based compensation expenses.

Research and Development Expenses

Our research and development expenses decreased by 16.1% to RMB3.3 billion for the second quarter of 2022, from RMB3.9 billion for the same period of 2021, primarily due to a decrease in employee benefit expenses, including the related share-based compensation expenses.

Other Income

Our other income was RMB147.0 million for the second quarter of 2022, compared to RMB175.3 million for the same period of 2021.

Other Gains, Net

We had other gains, net of RMB24.6 million in the second quarter of 2022, compared to other gains, net of RMB269.8 million in the same period of 2021. The change was primarily due to the net fair value losses on financial assets at fair value through profit or loss of investments in listed and unlisted entities for the second quarter of 2022, compared to the net fair value gains for the same period of 2021.

Operating Loss

As a result of the foregoing, we had an operating loss of RMB3.1 billion and a negative operating margin of 14.1% for the second quarter of 2022, compared to an operating loss of RMB7.2 billion and a negative operating margin of 37.7% for the same period of 2021.

The following table sets forth our operating profit/(loss) by segment in absolute amounts for the second quarter of 2022 and 2021, respectively:

	Unaudited		
	Three Months Ended June 30,		
	2022	2021	Year-over-
			year change
	<i>(RMB thousands, except for percentages)</i>		
Operating profit/(loss):			
Domestic	93,623	(1,026,375)	N/A
Overseas	(1,606,075)	(4,368,235)	(63.2%)
Unallocated items	(1,546,646)	(1,820,769)	(15.1%)
Total	<u>(3,059,098)</u>	<u>(7,215,379)</u>	(57.6%)

We had an operating profit from the domestic segment of RMB93.6 million for the second quarter of 2022, compared to an operating loss of RMB1.0 billion for the same period of 2021, mainly due to 12.9% year-over-year growth in domestic revenues.

Our operating loss from the overseas segment decreased to RMB1.6 billion for the second quarter of 2022 from RMB4.4 billion for the same period of 2021. The decrease was primarily attributable to continually improved efficiency of marketing spending under ROI-based global strategy.

Finance Income, Net

Our finance income, net was RMB2.0 million and RMB12.0 million for the second quarter of 2022 and 2021, respectively, primarily attributable to interest income from bank deposits, which was partially offset by interest expense from lease liabilities.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method was RMB44.8 million for the second quarter of 2022, compared to RMB24.9 million for the same period of 2021.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB3.1 billion and RMB7.2 billion for the second quarter of 2022 and 2021, respectively.

Income Tax (Expenses)/Benefits

We had income tax expenses of RMB74.2 million for the second quarter of 2022, compared to income tax benefits of RMB191.9 million for the same period of 2021, as we incurred deferred income tax expenses for the second quarter of 2022, compared to deferred income tax benefits for the same period of 2021.

Loss for the Period

As a result of the foregoing, our loss for the period was RMB3.2 billion and RMB7.0 billion for the second quarter of 2022 and 2021, respectively.

Second Quarter of 2022 Compared to First Quarter of 2022

The following table sets forth the comparative figures in absolute amounts and as percentages of our total revenues for the second quarter and the first quarter of 2022, respectively:

	Unaudited Three Months Ended			
	June 30, 2022		March 31, 2022	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Revenues	21,695,148	100.0	21,066,677	100.0
Cost of revenues	<u>(11,925,380)</u>	<u>(55.0)</u>	<u>(12,284,853)</u>	<u>(58.3)</u>
Gross profit	9,769,768	45.0	8,781,824	41.7
Selling and marketing expenses	(8,762,445)	(40.4)	(9,488,359)	(45.0)
Administrative expenses	(955,717)	(4.4)	(871,446)	(4.1)
Research and development expenses	(3,282,353)	(15.1)	(3,522,781)	(16.7)
Other income	147,020	0.7	262,678	1.2
Other gains/(losses), net	<u>24,629</u>	<u>0.1</u>	<u>(805,285)</u>	<u>(3.9)</u>
Operating loss	(3,059,098)	(14.1)	(5,643,369)	(26.8)
Finance income/(expense), net	2,009	0.0	(11,465)	(0.1)
Share of losses of investments accounted for using the equity method	<u>(44,789)</u>	<u>(0.2)</u>	<u>(35,923)</u>	<u>(0.1)</u>
Loss before income tax	(3,101,878)	(14.3)	(5,690,757)	(27.0)
Income tax expenses	<u>(74,171)</u>	<u>(0.3)</u>	<u>(563,139)</u>	<u>(2.7)</u>
Loss for the period	<u>(3,176,049)</u>	<u>(14.6)</u>	<u>(6,253,896)</u>	<u>(29.7)</u>
Non-IFRS Measures:				
Adjusted net loss	(1,311,901)	(6.0)	(3,722,265)	(17.7)
Adjusted EBITDA	407,224	1.9	(1,551,708)	(7.4)

Revenues

Our total revenues, which were mainly attributable to the domestic business, increased by 3.0% to RMB21.7 billion for the second quarter of 2022, from RMB21.1 billion for the first quarter of 2022, primarily attributable to the growth of our live streaming business and e-commerce business.

The following table sets forth our revenues by type in absolute amounts and as percentages of our total revenues for the second quarter and the first quarter of 2022, respectively:

	Unaudited			
	Three Months Ended			
	June 30, 2022		March 31, 2022	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Online marketing services	11,006,398	50.7	11,351,470	53.9
Live streaming	8,565,099	39.5	7,841,970	37.2
Other services	2,123,651	9.8	1,873,237	8.9
Total	<u>21,695,148</u>	<u>100.0</u>	<u>21,066,677</u>	<u>100.0</u>

Online marketing services

Revenue from our online marketing services slightly decreased to RMB11.0 billion for the second quarter of 2022, from RMB11.4 billion for the first quarter of 2022, primarily due to the challenging macro environment which impacted advertising spending of advertisers to some extent.

Live streaming

Revenue from our live streaming business increased by 9.2% to RMB8.6 billion for the second quarter of 2022, from RMB7.8 billion for the first quarter of 2022, primarily attributable to the improved live streaming content quality and enhanced efficiency in matching user and content.

Other services

Revenue from our other services increased by 13.4% to RMB2.1 billion for the second quarter of 2022, from RMB1.9 billion for the first quarter of 2022, primarily due to the growth of our e-commerce business, as a result of our efforts to reinforce our trust-based e-commerce model, expand brand e-commerce and strengthen the cooperation with our *Kwai Partners*.

Cost of Revenues

The following table sets forth our cost of revenues in absolute amounts and as percentages of our total revenues for the second quarter and the first quarter of 2022, respectively:

	Unaudited Three Months Ended			
	June 30, 2022		March 31, 2022	
	RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>				
Revenue sharing costs and related taxes	6,724,134	31.0	7,049,261	33.5
Bandwidth expenses and server custody costs ⁽¹⁾	1,521,207	7.0	1,605,247	7.6
Depreciation of property and equipment and right-of-use assets, and amortization of intangible assets ⁽¹⁾	1,396,522	6.4	1,318,163	6.3
Employee benefit expenses	711,112	3.3	782,087	3.7
Payment processing costs	431,656	2.0	407,720	1.9
Other cost of revenues	1,140,749	5.3	1,122,375	5.3
Total	11,925,380	55.0	12,284,853	58.3

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 decreased by 2.9% to RMB11.9 billion for the second quarter of 2022, from RMB12.3 billion for the first quarter of 2022, primarily attributable to the decrease in revenue sharing costs and related taxes.

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 second quarter and the first quarter of 2022, respectively:

	Unaudited			
	Three Months Ended			
	June 30, 2022		March 31, 2022	
	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>			
Gross profit	9,769,768	45.0	8,781,824	41.7

As a result of the foregoing, our gross profit increased by 11.2% to RMB9.8 billion for the second quarter of 2022, from RMB8.8 billion for the first quarter of 2022. Our gross profit margin increased to 45.0% for the second quarter of 2022, from 41.7% for the first quarter of 2022.

Selling and Marketing Expenses

Our selling and marketing expenses decreased to RMB8.8 billion for the second quarter of 2022, from RMB9.5 billion for the first quarter of 2022. The decrease was primarily attributable to additional marketing spending during the Chinese New Year Holiday and optimized spending on user acquisition and retention.

Administrative Expenses

Our administrative expenses increased by 9.7% to RMB955.7 million for the second quarter of 2022, from RMB871.4 million for the first quarter of 2022, primarily due to an increase in share-based compensation expenses.

Research and Development Expenses

Our research and development expenses decreased by 6.8% to RMB3.3 billion for the second quarter of 2022, from RMB3.5 billion for the first quarter of 2022, primarily due to a decrease in employee benefit expenses, including related share-based compensation expenses.

Other Income

Our other income decreased by 44.0% to RMB147.0 million for the second quarter of 2022, from RMB262.7 million for the first quarter of 2022, primarily due to less tax subsidies in the second quarter of 2022 as compared to the first quarter of 2022.

Other Gains/(Losses), Net

We recorded other gains, net of RMB24.6 million for the second quarter of 2022, compared to other losses, net of RMB805.3 million for the first quarter of 2022. The change from losses to gains was primarily due to impairment provision for investments recorded in the first quarter of 2022.

Operating Loss

As a result of the foregoing, we had operating loss of RMB3.1 billion for the second quarter of 2022 and RMB5.6 billion for the first quarter of 2022, and our operating margin was negative 14.1% for the second quarter of 2022, compared to negative 26.8% for the first quarter of 2022.

The following table sets forth our operating profit/(loss) by segment in absolute amounts for the second quarter and the first quarter of 2022, respectively:

	Unaudited		
	Three Months Ended		
	June 30,	March 31,	Quarter-over-
	2022	2022	quarter change
	<i>(RMB thousands, except for percentages)</i>		
Operating profit/(loss):			
Domestic	93,623	(1,543,788)	N/A
Overseas	(1,606,075)	(1,845,873)	(13.0%)
Unallocated items	(1,546,646)	(2,253,708)	(31.4%)
Total	<u>(3,059,098)</u>	<u>(5,643,369)</u>	(45.8%)

We had an operating profit from the domestic segment of RMB93.6 million for the second quarter of 2022, compared to an operating loss of RMB1.5 billion for the first quarter of 2022, mainly due to quarter-over-quarter growth in domestic revenues, and disciplined and more efficient spending on user acquisition and retention.

Our operating loss from the overseas segment decreased to RMB1.6 billion for the second quarter of 2022 from RMB1.8 billion for the first quarter of 2022. The decrease was primarily attributable to progress in monetization and more efficient and optimized expenditure spending under ROI-based global strategy.

Finance Income/(Expense), Net

We had finance income, net of RMB2.0 million in the second quarter of 2022, compared to finance expense, net of RMB11.5 million in the first quarter of 2022. The change from expense to income was primarily due to increases 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 RMB44.8 million for the second quarter of 2022, compared to RMB35.9 million for the first quarter of 2022.

Loss before Income Tax

As a result of the foregoing, we had a loss before income tax of RMB3.1 billion for the second quarter of 2022, compared to a loss before income tax of RMB5.7 billion for the first quarter of 2022.

Income Tax Expenses

We had income tax expenses of RMB74.2 million for the second quarter of 2022, compared to income tax expenses of RMB563.1 million for the first quarter of 2022. The change was primarily due to the prior year tax return true-up adjustments during the second quarter of 2022 and decrease of deferred income tax expense as a result of change of estimate on deferred tax assets.

Loss for the Period

As a result of the foregoing, our loss for the period was RMB3.2 billion for the second quarter of 2022, compared to RMB6.3 billion for the first quarter of 2022.

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 second quarter of 2022, first quarter of 2022 and the second quarter of 2021, as well as the first half of 2022 and 2021, respectively, to the nearest measures prepared in accordance with IFRS:

	Unaudited		
	Three Months Ended		
	June 30,	March 31,	June 30,
	2022	2022	2021
	<i>(RMB thousands)</i>		
Loss for the period	(3,176,049)	(6,253,896)	(7,036,411)
Add:			
Share-based compensation expenses	1,718,295	1,711,101	2,265,944
Net fair value changes on investments ⁽¹⁾	145,853	820,530	(245,585)
Adjusted net loss	<u>(1,311,901)</u>	<u>(3,722,265)</u>	<u>(5,016,052)</u>
Adjusted net loss	(1,311,901)	(3,722,265)	(5,016,052)
Add:			
Income tax expenses/(benefits)	74,171	563,139	(191,871)
Depreciation of property and equipment	777,846	732,912	961,892
Depreciation of right-of-use assets	837,611	828,088	656,199
Amortization of intangible assets	31,506	34,953	42,063
Finance (income)/expense, net	(2,009)	11,465	(11,989)
Adjusted EBITDA	<u>407,224</u>	<u>(1,551,708)</u>	<u>(3,559,758)</u>

Unaudited
Six Months Ended June 30,
2022 2021
(RMB thousands)

Loss for the period	(9,429,945)	(64,787,462)
Add:		
Share-based compensation expenses	3,429,396	3,823,156
Fair value changes of convertible redeemable preferred shares	—	51,275,797
Net fair value changes on investments ⁽¹⁾	966,383	(978,230)
	<u>(5,034,166)</u>	<u>(10,666,739)</u>
Adjusted net loss	(5,034,166)	(10,666,739)
Adjusted net loss	(5,034,166)	(10,666,739)
Add:		
Income tax expenses/(benefits)	637,310	(1,025,974)
Depreciation of property and equipment	1,510,758	1,877,966
Depreciation of right-of-use assets	1,665,699	1,236,735
Amortization of intangible assets	66,459	83,758
Finance expense, net	9,456	5,226
	<u>(1,144,484)</u>	<u>(8,489,028)</u>
Adjusted EBITDA	(1,144,484)	(8,489,028)

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, net (gains)/losses on deemed disposals of investments 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.

Liquidity and Financial Resources

Other than the funds raised through our global offering in February 2021, we historically funded our working capital and other capital needs 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 RMB14.4 billion as of June 30, 2022.

Our total available funds which we considered in cash management included but not limited to cash and cash equivalents, restricted cash, time deposit and financial assets. Financial assets mainly included wealth management products and others. As of June 30, 2022, the aggregate amount of our available funds was RMB41.3 billion.

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

	Unaudited Three Months Ended June 30, 2022	Unaudited Six Months Ended June 30, 2022
	<i>(RMB thousands)</i>	
Net cash used in operating activities	(2,290,605)	(5,477,478)
Net cash generated from/(used in) investing activities	1,789,213	(11,443,280)
Net cash used in financing activities	(778,231)	(1,548,774)
Net decrease in cash and cash equivalents	(1,279,623)	(18,469,532)
Cash and cash equivalents at the beginning of the period	15,330,488	32,612,419
Effects of exchange rate changes on cash and cash equivalents	340,396	248,374
Cash and cash equivalents at the end of the period	<u>14,391,261</u>	<u>14,391,261</u>

Net Cash Used in Operating Activities

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

For the second quarter of 2022, our net cash used in operating activities was RMB2.3 billion, which was primarily attributable to our loss before income tax of RMB3.1 billion, adjusted by non-cash items, primarily comprising share-based compensation expenses of RMB1.7 billion, depreciation of right-of-use assets of RMB837.6 million and depreciation of property and equipment of RMB777.8 million. The amount was further adjusted by changes in working capital, which primarily comprised decreases in other payables and accruals of RMB1.6 billion and accounts payables of RMB637.5 million. We also paid income tax of RMB619.4 million.

Net Cash Generated from Investing Activities

For the second quarter of 2022, our net cash generated from investing activities was RMB1.8 billion, which was primarily attributable to the net change of investments in financial assets at fair value through profit or loss of RMB3.5 billion and purchase of property, equipment and intangible assets of RMB1.4 billion.

Net Cash Used in Financing Activities

For the second quarter of 2022, our net cash used in financing activities was RMB778.2 million, which was primarily attributable to payments for principal elements of lease and the related interest of RMB782.3 million.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	Note	2022	2021	2022	2021
		RMB'000	RMB'000	RMB'000	RMB'000
Revenues	3	21,695,148	19,138,826	42,761,825	36,158,276
Cost of revenues	4	<u>(11,925,380)</u>	<u>(10,754,079)</u>	<u>(24,210,233)</u>	<u>(20,785,734)</u>
Gross profit		9,769,768	8,384,747	18,551,592	15,372,542
Selling and marketing expenses	4	<u>(8,762,445)</u>	<u>(11,269,803)</u>	<u>(18,250,804)</u>	<u>(22,929,395)</u>
Administrative expenses	4	<u>(955,717)</u>	<u>(864,159)</u>	<u>(1,827,163)</u>	<u>(1,567,510)</u>
Research and development expenses	4	<u>(3,282,353)</u>	<u>(3,911,339)</u>	<u>(6,805,134)</u>	<u>(6,722,485)</u>
Other income		<u>147,020</u>	<u>175,348</u>	<u>409,698</u>	<u>378,692</u>
Other gains/(losses), net		<u>24,629</u>	<u>269,827</u>	<u>(780,656)</u>	<u>960,635</u>
Operating loss		(3,059,098)	(7,215,379)	(8,702,467)	(14,507,521)
Finance income/(expense), net		<u>2,009</u>	<u>11,989</u>	<u>(9,456)</u>	<u>(5,226)</u>
Fair value changes of convertible redeemable preferred shares		<u>—</u>	<u>—</u>	<u>—</u>	<u>(51,275,797)</u>
Share of losses of investments accounted for using the equity method		<u>(44,789)</u>	<u>(24,892)</u>	<u>(80,712)</u>	<u>(24,892)</u>
Loss before income tax		(3,101,878)	(7,228,282)	(8,792,635)	(65,813,436)
Income tax (expenses)/benefits		<u>(74,171)</u>	<u>191,871</u>	<u>(637,310)</u>	<u>1,025,974</u>
Loss for the period		<u>(3,176,049)</u>	<u>(7,036,411)</u>	<u>(9,429,945)</u>	<u>(64,787,462)</u>
Attributable to:					
— Equity holders of the Company		<u>(3,176,012)</u>	<u>(7,035,217)</u>	<u>(9,430,391)</u>	<u>(64,785,560)</u>
— Non-controlling interests		<u>(37)</u>	<u>(1,194)</u>	<u>446)</u>	<u>(1,902)</u>
		<u>(3,176,049)</u>	<u>(7,036,411)</u>	<u>(9,429,945)</u>	<u>(64,787,462)</u>
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)	5				
Basic loss per share		<u>(0.75)</u>	<u>(1.71)</u>	<u>(2.23)</u>	<u>(18.58)</u>
Diluted loss per share		<u>(0.75)</u>	<u>(1.71)</u>	<u>(2.23)</u>	<u>(18.58)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Loss for the period		<u>(3,176,049)</u>	<u>(7,036,411)</u>	<u>(9,429,945)</u>	<u>(64,787,462)</u>
Other comprehensive income/(loss)					
<i>Items that will not be reclassified to profit or loss</i>					
Share of other comprehensive loss of associates		—	—	(10,083)	—
Currency translation differences		3,947,986	(1,213,382)	3,645,999	1,207,079
<i>Items that may be subsequently reclassified to profit or loss</i>					
Currency translation differences		<u>(2,616,527)</u>	<u>438,258</u>	<u>(2,424,777)</u>	<u>198,437</u>
Other comprehensive income/(loss) for the period, net of taxes		<u>1,331,459</u>	<u>(775,124)</u>	<u>1,211,139</u>	<u>1,405,516</u>
Total comprehensive loss for the period		<u>(1,844,590)</u>	<u>(7,811,535)</u>	<u>(8,218,806)</u>	<u>(63,381,946)</u>
Attributable to:					
— Equity holders of the Company		<u>(1,844,612)</u>	<u>(7,810,341)</u>	<u>(8,219,306)</u>	<u>(63,380,044)</u>
— Non-controlling interests		<u>22</u>	<u>(1,194)</u>	<u>500</u>	<u>(1,902)</u>
		<u>(1,844,590)</u>	<u>(7,811,535)</u>	<u>(8,218,806)</u>	<u>(63,381,946)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As of June 30, 2022 <i>RMB'000</i>	Audited As of December 31, 2021 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property and equipment		11,654,419	11,050,654
Right-of-use assets		10,286,001	12,561,745
Intangible assets		1,128,771	1,171,754
Investments accounted for using the equity method		581,968	1,411,141
Financial assets at fair value through profit or loss	6	4,682,971	3,300,623
Other financial assets at amortized cost	6	670,246	—
Deferred tax assets		4,872,081	5,405,224
Long-term time deposits		6,620,000	4,000,000
Other non-current assets		574,951	603,367
		41,071,408	39,504,508
Current assets			
Trade receivables	7	3,935,800	4,450,092
Prepayments, other receivables and other current assets		3,371,758	3,278,318
Financial assets at fair value through profit or loss	6	9,203,338	8,842,203
Other financial assets at amortized cost	6	187,304	—
Short-term time deposits		8,609,497	3,825,420
Restricted cash		45,888	2,415
Cash and cash equivalents		14,391,261	32,612,419
		39,744,846	53,010,867
Total assets		80,816,254	92,515,375

	<i>Note</i>	Unaudited As of June 30, 2022 RMB'000	Audited As of December 31, 2021 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		144	142
Share premium		274,426,425	274,407,796
Other reserves		25,523,588	20,853,674
Accumulated losses		<u>(259,602,627)</u>	<u>(250,172,236)</u>
		<u>40,347,530</u>	<u>45,089,376</u>
Non-controlling interests		<u>7,095</u>	<u>6,595</u>
Total equity		<u><u>40,354,625</u></u>	<u><u>45,095,971</u></u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		8,128,027	10,079,847
Deferred tax liabilities		25,912	28,477
Other non-current liabilities		<u>43,145</u>	<u>55,560</u>
		<u>8,197,084</u>	<u>10,163,884</u>
Current liabilities			
Accounts payables	9	17,427,368	20,021,082
Other payables and accruals		7,615,096	9,123,367
Advances from customers		3,214,930	3,502,642
Income tax liabilities		476,077	1,079,591
Lease liabilities		<u>3,531,074</u>	<u>3,528,838</u>
		<u>32,264,545</u>	<u>37,255,520</u>
Total liabilities		<u><u>40,461,629</u></u>	<u><u>47,419,404</u></u>
Total equity and liabilities		<u><u>80,816,254</u></u>	<u><u>92,515,375</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(5,477,478)	(4,172,893)
Net cash used in investing activities	(11,443,280)	(7,333,442)
Net cash (used in)/generated from financing activities	(1,548,774)	38,040,232
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(18,469,532)	26,533,897
Cash and cash equivalents at the beginning of the period	32,612,419	20,391,545
Effects of exchange rate changes on cash and cash equivalents	248,374	(152,011)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>14,391,261</u>	<u>46,773,431</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Basis of preparation

This condensed consolidated interim financial information for the three months and six months ended June 30, 2022 (“**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, 2021 which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) by the Group as set out in the 2021 annual report of the Company dated March 29, 2022 (the “**2021 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, 2021, as described in the 2021 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.

In preparing the Interim Financial Information, the critical accounting estimates and judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2021 Financial Statements, except for the amended accounting estimate of useful lives of property and equipment. Management reviewed and extended the useful lives of servers and equipment with effect from January 1, 2022.

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

2 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by 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.

Different businesses require different operation and marketing strategies. The Company, therefore, separately manages the operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. During the three months ended June 30, 2022, the Group started to operate and manage its business in two reportable segments. The comparative figures have been restated to conform with current period's presentation.

- Domestic
- Overseas

The CODM assesses the performance of the operating segments mainly based on revenues and operating profit or loss of each operating segment. Thus, segment result would present revenues, cost of revenues and operating expenses, and operating profit or loss for each segment, which is in line with CODM's performance review. There were no material inter-segment sales during the three months and six months ended June 30, 2022 and 2021.

The revenues from customers reported to CODM are measured as revenues in each segment. The operating profit or loss in each segment reported to CODM are measured as cost of revenues and operating expenses deducted from its revenues. Certain unallocated items are not allocated to each segment as they are not directly relevant to the operating results upon performance measurement and resource allocation by the CODM. Share-based compensation expenses, other income and other gains/(losses), net are not allocated to individual operating segments.

The segment results for the three months and six months ended June 30, 2022 and 2021 are as follows:

	Three months ended June 30, 2022			
	Domestic <i>RMB'000</i> (Unaudited)	Overseas <i>RMB'000</i> (Unaudited)	Unallocated items <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenues	21,591,796	103,352	—	21,695,148
Cost of revenues and operating expenses	(21,498,173)	(1,709,427)	—	(23,207,600)
Unallocated items	—	—	(1,546,646)	(1,546,646)
Operating profit/(loss)	<u>93,623</u>	<u>(1,606,075)</u>	<u>(1,546,646)</u>	<u>(3,059,098)</u>
	Three months ended June 30, 2021			
	Domestic <i>RMB'000</i> (Unaudited)	Overseas <i>RMB'000</i> (Unaudited)	Unallocated items <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenues	19,131,591	7,235	—	19,138,826
Cost of revenues and operating expenses	(20,157,966)	(4,375,470)	—	(24,533,436)
Unallocated items	—	—	(1,820,769)	(1,820,769)
Operating loss	<u>(1,026,375)</u>	<u>(4,368,235)</u>	<u>(1,820,769)</u>	<u>(7,215,379)</u>

	Six months ended June 30, 2022			
	Domestic <i>RMB'000</i> (Unaudited)	Overseas <i>RMB'000</i> (Unaudited)	Unallocated items <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenues	42,610,821	151,004	—	42,761,825
Cost of revenues and operating expenses	(44,060,986)	(3,602,952)	—	(47,663,938)
Unallocated items	—	—	(3,800,354)	(3,800,354)
Operating loss	<u>(1,450,165)</u>	<u>(3,451,948)</u>	<u>(3,800,354)</u>	<u>(8,702,467)</u>

	Six months ended June 30, 2021			
	Domestic <i>RMB'000</i> (Unaudited)	Overseas <i>RMB'000</i> (Unaudited)	Unallocated items <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenues	36,149,072	9,204	—	36,158,276
Cost of revenues and operating expenses	(41,458,819)	(6,723,149)	—	(48,181,968)
Unallocated items	—	—	(2,483,829)	(2,483,829)
Operating loss	<u>(5,309,747)</u>	<u>(6,713,945)</u>	<u>(2,483,829)</u>	<u>(14,507,521)</u>

3 Revenues

The breakdown of revenues during the three months and six months ended June 30, 2022 and 2021 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Online marketing services	11,006,398	9,962,297	22,357,868	18,519,973
Live streaming	8,565,099	7,193,430	16,407,069	14,443,829
Other services	2,123,651	1,983,099	3,996,888	3,194,474
	<u>21,695,148</u>	<u>19,138,826</u>	<u>42,761,825</u>	<u>36,158,276</u>

4 Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue sharing costs and related taxes	6,724,134	5,371,242	13,773,395	10,496,413
Employee benefit expenses	4,933,788	5,703,159	10,069,465	9,917,115
Promotion and advertising expenses	8,110,604	10,554,098	16,900,661	21,711,796
Bandwidth expenses and server custody costs	1,521,207	1,950,529	3,126,454	3,883,703
Depreciation of property and equipment	777,846	961,892	1,510,758	1,877,966
Depreciation of right-of-use assets	837,611	656,199	1,665,699	1,236,735
Amortization of intangible assets	31,506	42,063	66,459	83,758
Outsourcing and other labor costs	336,836	339,097	701,448	613,692
Payment processing costs	431,656	372,272	839,376	676,854
Professional fees	54,640	77,737	112,553	130,911
Tax surcharges	256,281	75,480	495,032	156,115
Credit loss allowances on financial assets	5,083	8,731	(2,858)	11,757
Others (<i>Note a</i>)	904,703	686,881	1,834,892	1,208,309
	<u>24,925,895</u>	<u>26,799,380</u>	<u>51,093,334</u>	<u>52,005,124</u>

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

5 Loss per share

(a) Basic loss per share

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net loss attributable to equity holders of the Company	(3,176,012)	(7,035,217)	(9,430,391)	(64,785,560)
Weighted average number of ordinary shares in issue (thousand shares)	<u>4,246,106</u>	<u>4,122,613</u>	<u>4,235,477</u>	<u>3,486,332</u>
Basic loss per share (expressed in RMB per share)	<u>(0.75)</u>	<u>(1.71)</u>	<u>(2.23)</u>	<u>(18.58)</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 and six months ended June 30, 2022, the Company had two categories of potential ordinary shares: share options and restricted share units ("RSUs") (during the six months ended June 30, 2021, the Company had three categories of potential ordinary shares: convertible redeemable preferred shares, share options and RSUs). As the Company incurred losses for the three months and six months ended June 30, 2022 and 2021, 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 and six months ended June 30, 2022 and 2021 were the same as basic loss per share for the respective periods.

6 Investments

	As of June 30, 2022 <i>RMB'000</i> (Unaudited)	As of December 31, 2021 <i>RMB'000</i> (Audited)
Non-current assets		
Financial assets at fair value through profit or loss		
— Investments in unlisted entities	3,047,793	2,844,187
— Investments in a listed entity	77,449	146,165
— Wealth management products and others	1,557,729	310,271
	4,682,971	3,300,623
Other financial assets at amortized cost	670,246	—
	5,353,217	3,300,623
Current assets		
Financial assets at fair value through profit or loss		
— Investments in a listed entity	22,513	30,738
— Wealth management products and others	9,180,825	8,811,465
	9,203,338	8,842,203
Other financial assets at amortized cost	187,304	—
	9,390,642	8,842,203
Total	14,743,859	12,142,826

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

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
At the beginning of the period	12,142,826	7,533,763
Additions	25,392,379	11,001,357
Disposals	(24,050,359)	(8,314,001)
Transfer to investments accounted for using the equity method	—	(2,470,647)
Change in fair value through profit or loss	(2,950)	1,040,027
Deemed disposal due to business combination	—	(6,959)
Currency translation differences	404,413	(37,756)
	<hr/>	<hr/>
At the end of the period	<u>13,886,309</u>	<u>8,745,784</u>

7 Trade receivables

	As of	As of
	June 30,	December 31,
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade receivables from contracts with customers	3,959,793	4,476,135
Less: credit loss allowances	(23,993)	(26,043)
	<hr/>	<hr/>
	<u>3,935,800</u>	<u>4,450,092</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	As of
	June 30,	December 31,
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Up to 3 months	3,659,998	4,358,887
3 to 6 months	299,795	117,248
	<hr/>	<hr/>
	<u>3,959,793</u>	<u>4,476,135</u>

Movements in the Group's allowances for credit loss of trade receivables are as follows:

	Six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
At the beginning of the period	(26,043)	(16,082)
Reversal of/(Additional) provision	<u>2,050</u>	<u>(10,589)</u>
At the end of the period	<u><u>(23,993)</u></u>	<u><u>(26,671)</u></u>

8 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2022 and 2021.

9 Accounts payables

Accounts payables and their aging analysis based on invoice date are as follows:

	As of	As of
	June 30,	December 31,
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Up to 3 months	12,237,543	16,173,978
3 to 6 months	3,746,836	2,347,408
6 months to 1 year	950,945	1,145,454
Over 1 year	<u>492,044</u>	<u>354,242</u>
	<u><u>17,427,368</u></u>	<u><u>20,021,082</u></u>

OTHER INFORMATION

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.

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 June 30, 2022, 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 June 30, 2022 <i>(HK\$ million)</i>	Balance of net proceeds as of June 30, 2022 <i>(HK\$ million)</i>	Expected timeline of full utilization of net proceeds
Approximately 35% to enhance and grow the ecosystem	16,437.5	12,885.2	3,552.3	Before December 31, 2023
Approximately 30% to strengthen research and development and technological capabilities	14,089.3	11,906.8	2,182.5	Before December 31, 2023
Approximately 25% to selectively acquire or invest in products, services and businesses	11,741.1	405.8	11,335.3	Before December 31, 2023
Approximately 10% for working capital and general corporate purposes	4,696.5	3,564.8	1,131.7	Before December 31, 2023
Total	<u>46,964.4</u>	<u>28,762.6</u>	<u>18,201.8</u>	

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 can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under the PRC laws and regulations. There are no costs associated with registering loans or capital contributions with the 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 the PRC regulation of loans and direct investment by offshore holding companies to the 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.

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 six months ended June 30, 2022.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting high standard of corporate governance which is crucial to the Group's development and safeguard the interests of the Shareholders. The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices. The Company complied with all applicable code provisions as set out in the Corporate Governance Code during the six months ended June 30, 2022.

Compliance with the Model Code

The Company has adopted the Model Code as its own code of conduct regarding Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all Directors have confirmed that they complied with the required standards as set out in the Model Code during the six months ended June 30, 2022.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2022.

Audit Committee

The Audit Committee, after the discussion with the Auditor, has reviewed the Company's unaudited Interim Financial Information for the three and six months ended June 30, 2022. 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 Information for the three and six months ended June 30, 2022 have been prepared in accordance with IFRS.

Significant Events after June 30, 2022

Save as disclosed in this announcement, there were no other significant events affecting the Group which occurred after June 30, 2022 and up to the date of this announcement.

Publication of the Interim Results and Interim Report

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kuaishou.com), and the interim report containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kuaishou.com) and will be despatched to the Shareholders in accordance with the Listing Rules in due course.

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, August 23, 2022

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

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

DEFINITIONS

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

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

“Consolidated Affiliated Entities”	the entities that the Company controls through a set of contractual arrangements
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“DAUs”	refers to daily active users, which are calculated as the number of unique user accounts, excluding spam accounts, that access an app at least once during the day
“Director(s)”	the director(s) of the Company
“GMV”	gross merchandise value, the total value of all orders for products and services placed on, or directed to the Group’s partners through, the Group’s platform, regardless of whether the order is settled or returned, excluding single transactions of RMB100,000 or greater and any series of transactions from a single buyer totaling RMB1,000,000 or greater in a single day, unless they are settled
“Group”, “our Group” or “the Group”	the Company, its subsidiaries and its Consolidated Affiliated Entities, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the subsidiaries as if they were the subsidiaries of the Company at the time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“Kuaishou App”	collectively, Kuaishou Flagship, Kuaishou Express and Kuaishou Concept mobile apps
“Kuaishou Concept”	an app that we launched in November 2018 to explore different user needs and preferences
“Kuaishou Express”	a variant of Kuaishou Flagship that was officially launched in August 2019
“Kuaishou Flagship”	a mobile app that was derived from our original mobile app, GIF Kuaishou (launched in 2011)

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

“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company’s auditors, and (iv) the voluntary liquidation or winding-up of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“ROI”	return on investment
“Share(s)”	the Class A Shares and Class B Shares in the capital of the Company, as the context so requires
“Shareholder(s)”	holder(s) of the Shares
“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