OVERVIEW

We offer various cloud services to customers in strategically selected verticals. With extensive cloud infrastructure, advanced cloud-native products based on our vigorous cloud technology R&D capabilities, industry-specific solutions and end-to-end fulfillment and deployment covering all project stages for customers, we achieved business and financial growth, with a revenue growth CAGR of 51.3% from 2019 to 2021, outpacing the broader industry growth CAGR of 36.4% for China's cloud service market during the same period. Market shares of the top two players of China's cloud service market in terms of total revenues were 24.7% and 11.1% in 2021.

Cloud service offers a wide variety of benefits to enterprises and organizations, including (i) cost reduction, (ii) agility, scalability, reliability, and (iii) technology innovation, compared with traditional IT models. Accordingly, there has been a structural shift in global IT spending from traditional IT models to cloud services.

The global cloud service market has been going through strong and steady growth since 2014, and is expected to maintain such growth momentum. The size of cloud service market in the U.S. is expected to grow at a CAGR of 20.6% from 2021 to 2026. Since 2018, China has become the second largest cloud service market globally in terms of revenue, following the U.S.. The Chinese market size increased from US$12.7 billion in 2017 to US$45.4 billion in 2021, representing a CAGR of 37.5%, and is expected to reach US$120.0 billion in 2026, representing a CAGR of 21.4% from 2021 to 2026. In addition, China's cloud service market is well positioned for further growth potential as indicated by, among others, (i) its overall lower cloud service penetration, (ii) the strong and steady growth of cloud service market globally, (iii) increasing penetration in traditional enterprises and public service organizations and (iv) increasing demand for end-to-end cloud solutions and services. The cloud service penetration rate in China was 9.7% in 2021, as compared to 22.1% in the U.S.. China is entering into a new phase of digitalization, with an increasing number of non-internet enterprises and organizations accelerating their digitalization, and adopting cloud-native technologies that were incubated in internet space. Many traditional, non-internet enterprises and organizations are not proficient with cloud stack and their existing IT architectures are not designed for the adoption of cloud solutions. As such, they are demanding for end-to-end cloud solution, starting from planning, to solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. We believe that we are well-positioned to capture the growth opportunities arising from these market trends. Furthermore, China's cloud service market has experienced intensive price competition in the past few years because of (i) reduced budgets from enterprises for cloud services under challenging macro-economic environment, and (ii) intensive competition among major market players. Such price competition is expected to be eased in the following years on the basis that (i) along with the recovery of macro-economic after the epidemic, enterprises' demand and budget available for cloud services are expected to increase, thereby easing the pricing pressure of cloud service providers, and (ii) major players are increasingly focusing on profitability than expansion. For example, the price for CDN products in aggregate decreased by 40-60% from 2018 to 2022, and is expected to in aggregate increase by 20-25% from 2023 to 2025, and the price for high performance cloud computing products in aggregate decreased by 10-15% from 2018 to 2022, and is expected to in aggregate decrease by 3-5% from 2023 to 2025. The pricing competition is expected to be gradually eased in the next five years, as cloud service providers have started to shift their business focus in 2022 from revenue expansion to acquire market shares towards enhancing profitability. Historically, to retain and acquire market shares, we may actively reduce our prices to remain competitive with peers and focus less on our overall profitability. We have taken into considerations of both our profitability, and our ability to retain and acquire premium customers and high quality projects in our product pricing. The overall price decrease of other key market players have been narrowed. For example, the year-on-year price reduction percentage for CDN products was approximately 26% in 2019, 13% in 2020, 7% in 2021 and estimated to be 3% in 2022, and the year-on-year price reduction percentage for certain public cloud high performance computing products was approximately 5% in 2019, 4% in 2020, 1% in 2021 and estimated to be stable in 2022. Historically, to retain and acquire market shares, we may actively reduce our prices to remain competitive with peers and focus less on our overall profitability. Now we have taken into considerations of both profitability, and our ability to retain and acquire premium customers and high quality projects in our price adjustments. In the first half of 2022, the prices of our key products have either increased, or the price reduction have been narrowed.

With our full commitment to cloud service, we are dedicated to mobilizing our resources to enable our customers to successfully embrace the benefits of cloud solutions, to pursue their digital transformation strategies, and to create business value.

We have established our market presence by addressing customers' comprehensive needs. We provide various advanced cloud products primarily consisted of unified IaaS infrastructure and, to a lesser extent, PaaS middleware and SaaS applications which support a wide range of uses that enable our customers' diverse business objectives. The majority of our revenues are derived from IaaS and, to a lesser extent, from PaaS middleware and SaaS applications. Specifically, substantially all of our gross billings for public cloud services are generated from IaaS products, while gross billings from PaaS products, which are categorized under cloud computing products, accounted for no more than 5% of our total gross billings for public cloud services in each year/period during the Track Record Period; additionally, our enterprise cloud services primarily consisted of IaaS products, and to a lesser extent, PaaS middleware and SaaS applications. We also offer our solutions in a holistic approach by merging our cloud solutions with dedicated customer services. Our end-to-end customer services cover planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. The entire process is primarily executed by our in-house professionals, with strict adherence to high standards and full accountability.

We have strategically expanded our footprints into selected verticals and have established a strong market presence and track record in each selected vertical through quality and efficient execution. As we continue to complete featured projects with vertical leaders, we have accumulated proprietary industry know-how and deep understanding of each selected vertical, which enables us to provide high-quality industry-specific cloud solutions. We have also aligned our research and development efforts with our business focuses, which enables us to act swiftly and develop new product modules and features that are specifically tailored to address the ever-growing business needs encountered by our expanding customer base.

We implement a premium customer strategy, with a focus on covering leading enterprises in selected verticals to establish our brand and market presence efficiently. We have amassed a large and growing Premium Customer base with increasing spending. In 2019, 2020 and 2021, we had a total of 243, 322 and 597 Premium Customers, respectively. For the same periods, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively.

Our revenue increased by 66.2% from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, and further increased by 37.8% to RMB9,060.8 million (US$1,421.8 million) in 2021, and from RMB3,987.2 million for the six months ended June 30, 2021 to RMB4,080.3 million (US$609.2 million) for the six months ended June 30, 2022.

MARKET OPPORTUNITIES AND CHALLENGES

Market Opportunities

Compared to the U.S. cloud service market, the Chinese market is still at a relatively early stage with tremendous potential indicated by its relatively lower cloud service penetration rate of 9.7% in 2021, as compared to 22.1% in the U.S.

Driven by the needs to (i) prevent data loss and downtime due to localized component failure in a single cloud, (ii) to ensure continued high-quality performance, (iii) to reduce latency by geographical distribution of processing requests, (iv) to minimize the dependency on a single cloud service provider, and the strengthening regulatory environment, multi-cloud deployment has become an essential trend in China. In 2021, while 87.9% of enterprises with over 1,000 employees deployed multi-cloud in the U.S., only 48.7% of those in China were doing the same. China's multi-cloud deployment rate is expected to increase to 75.0% in 2026.

Internet Cloud Service Market

There is increasing penetration of internet and mobile devices in China. The massive data demand of the internet industry is one of the main drivers of China's cloud service market. A wide spectrum of businesses is transforming themselves to offer internet-based services to their customers. In particular, new economies related industries such as video, gaming, and e-commerce have been growing significantly, driving the further demand for cloud resources. Internet cloud service market for these verticals continues to witness strong growth. The internet cloud service market in China is expected to grow at a CAGR of 14.9% from 2021 to 2026.

Non-internet Cloud Service Market

While the cloud-native technology and products are incubated in internet space, non-internet enterprises and organizations are also planning to accelerate digital transformation through cloud adoption, which become another catalyst for cloud service market growth in China. The overall profile of such non-internet enterprise customers in China is characterized by the following key features:

- Spanning across a wide range of traditional sectors such as financial services, healthcare, manufacturing, logistics, etc.

- Well established, with large-scale incumbent conventional on-premises IT environment

- Complex and diverse business scenarios involving issue around data silos
- Subject to increasingly stringent data security requirements

With multi-faceted considerations, including regulatory requirements and legacy IT premises, customers from certain sectors tend to demand for dedicated solutions deployed in designated locations which they could physically control. With dedicated solutions, enterprises and organizations are able to bring benefits about public cloud to their own premises while mitigating restrictions and concerns they may face with moving infrastructure off proprietary premises. The size of China's non-internet cloud service market increased from RMB61.0 billion in 2017 to RMB203.9 billion in 2021, representing a CAGR of 35.2%, and is expected to reach RMB565.6 billion in 2026, representing a CAGR of 22.6% from 2021 to 2026.

Pain Points Facing Enterprises and Organizations

Cloud migration has become long-term commitments of enterprises and organizations. However, they still face challenges in digitalization and to cloud migration:

- **Large-scale business requires reliable cloud architecture.** Enterprises with large-scale business operations require massive cloud resources deployed in a highly-reliable architecture, with cloud technologies to support EB-level storage, high concurrency computing, and demands for database and big data capabilities.

- **Unaddressed demand for end-to-end cloud solution.** Many enterprises and organizations are not proficient with cloud stack and their existing IT architectures are not designed for the adoption of cloud solutions. As such, they are demanding for end-to-end cloud adoption solution, starting from planning, to solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. As they are generally seeking for dedicated solutions, which is to be deployed on their own premises, enterprises and organizations expect cloud vendors to provide localized deployment services to address all complexities on site.

- **Demand for purpose-built industry-specific solutions.** Many enterprises and organizations are pursing digitalization, not only looking for flexible and scalable IT resources, but also next-generation cloud-native applications which help them capture the value of cloud technology. Enterprises and organizations desire for industry-specific solutions which are purpose-built for their business scenarios.

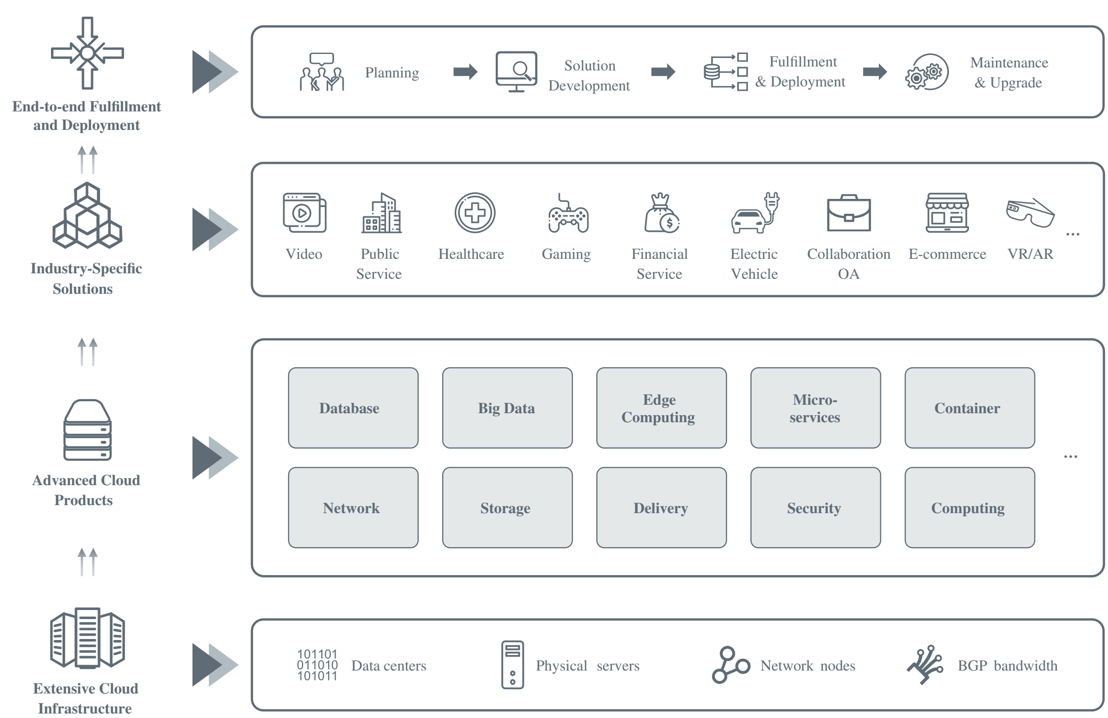
- **High requirement for continuous service and timely response.** Post the initial cloud project deployment, enterprises and organizations need to upgrade their systems periodically in response to evolving business environments. This leads to strong demand for continuous services and high requirements for cloud vendors to provide timely response and customized solutions.

- **Imminent demands for digitalization to provide online experience.** The proliferation of mobile devices and customers' ever-growing expectation for online experience have driven non-internet enterprises and organizations to apply cloud technologies to accelerate digitalization, and to provide products and services via internet.

OUR CLOUD PLATFORM

We are dedicated to providing high-quality cloud solutions to businesses and organizations across various sectors. We have built a cloud platform consisting of extensive cloud infrastructure, advanced cloud-native products, industry-specific solutions, and end-to-end services. Cloud infrastructure is the foundation of our cloud platform. It consists of hardware, software components and network resources that are needed to support the delivery of cloud products, primarily as public cloud services, to customers. Leveraging our cloud infrastructure, we provide various advanced cloud products that can be utilized to design different solutions to meet various business needs. We have designed various industry-specific solutions which consist of a selection of cloud products to cater to customer demands across different industries. Instead of merely providing cloud solutions to facilitate the entire cloud adoption process, we also offer end-to-end fulfillment and deployment services, ranging from planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade.

The following chart illustrates our cloud platform:



- ***Extensive cloud infrastructure.*** We have established extensive cloud infrastructure which is the foundation of our cloud platform. As of June 30, 2022, we had more than 110,000 servers, and achieved exabyte-level (which equals to 1,000,000,000 gigabytes) storage capacity.

- ***Advanced cloud-native products.*** Our cloud is architected specifically for customers to run business in an elastic and distributed manner required in disruptive business models. We, as an early mover in serving internet customers, have cultivated proprietary cloud-native technology and have successfully commercialized our technology capabilities through advanced cloud products.

- ***Industry-specific solutions.*** Based on the variety of cloud products, we have designed various industry-specific solutions that can unleash the full potential of our infrastructure resources and add value to our customers. Leveraging our profound industry insights, we have strategically expanded our footprints into selected verticals and have established market presence through dedicated execution.

- ***End-to-end fulfillment and deployment.*** We serve our clients throughout the whole cloud adoption process. At project initiation, we provide planning services with in-depth industry know-how, setting the overarching route for cloud migration. We have customized procedures to help customer to smoothly migrate their mission-critical data and applications on to our cloud platform. With our in-house fulfillment and deployment professionals, we adhere to consistent high standards at every stage of cloud adoption and commit to quality deployment.

OUR COMPETITIVE STRENGTHS

With our strategic vision and focus on quality execution over the years, we have established strong competitive advantages and become a trusted brand in the industry:

Established Cloud Service Provider

Established market presence and business scale. We are an established cloud service provider in China. Based on our cloud platform consisting of extensive cloud infrastructure, advanced cloud-native products, industry-specific solutions and end-to-end fulfillment and deployment services, we have established strong market presence in cloud service market in China. As of June 30, 2022, we had an extensive infrastructure network with more than 110,000 servers and achieved exabyte-level storage capacity. Anchored by our large-scale and extensive infrastructure, our cloud platform is able to deliver a consistent and instantly available product experience across regions and verticals.

We have achieved strong growth, with a revenue growth CAGR of 51.3% from 2019 to 2021, outpacing the growth CAGR of 36.4% for China's cloud service market during the same period. Specifically, we have also achieved strong growth in our enterprise cloud services, recording a CAGR of 144.1% from 2019 to 2021.

A brand for neutrality and trust. With our full commitment to cloud service, we are dedicated to mobilizing our resources, to enable our customers to successfully embrace the benefits of cloud solutions, pursue their digital transformation strategies, and create business value. As businesses migrate to cloud environment, customers are increasingly concerned over data security and potential conflicts of interest with cloud service providers. Moreover, multi-cloud strategy has become the industry norm, to ensure the consistency, reliability and security of cloud service, and data sovereignty at the backdrop of regulatory requirements. We are favorably positioned to gain trust from customers amidst the increasing penetration of multi-cloud deployment.

End-to-end Cloud Solution Provider

High quality in-house fulfillment and deployment. Our cloud solution is offered in a holistic approach. We provide our customers with products and solutions, covering the entire cloud migration process through planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. The entire process is primarily executed by our in-house professionals to optimize service efficiency and to enhance our control over service quality. Compared to outsourcing certain stages of project deployment to external vendors, we directly control on the entire process of cloud migration projects, aiming to making consistent fulfillment and deployment.

Advanced cloud products bringing full-span value proposition. We provide various advanced enterprise-grade cloud products based on our extensive infrastructure with high-level availability and reliability. Our modularized cloud products, primarily including unified IaaS infrastructure, and to a lesser extent, PaaS middleware and SaaS applications, can be utilized to design different solutions to meet various business needs. Our IaaS cloud offerings, such as cloud computing, storage and delivery, provide customers with foundational cloud resources. To a lesser extent, we also offer value-added services and products, including PaaS middleware and SaaS applications built on our cloud-native architecture, helping customers unlock operational potential and achieve business success. To address multi-faceted inquiries, we have systematically organized our resources including both our cloud capacity and in-house technological personnel, to be readily available and highly flexible to meet the demands of our customers.

Insight and capabilities in enterprise services. We have gained valuable insight and capabilities from Kingsoft Group's over 30 years of experience in providing enterprise services, and are highly committed to serve and empower our business customers with cloud technologies. With our customer-centric service philosophy, we always prioritize the needs of our customers and strive to provide them with pleasant experience. We value every customer and provide high quality customer services across their entire life cycle. For each project, we provide dedicated services to customers with our in-depth industry insights. At project initiation, our specialized industry team analyzes deeply into customer business scenarios and designs tailored solutions. During the fulfillment and deployment process, we offer customers with seamless cloud migration services. After the deployment, we have regular client reviews to constantly improve our services. In particular, for our Premium Customers, we also have a dedicated technical support team on demand 24×7 to respond to customer inquiries within 90 seconds. We also promote joint efforts in systems development and upgrade with our Premium Customers, to help them continuously optimize their cloud architecture, which further enhance our customer engagement and stickiness.

Vertical Strategy with Proven Track Record

We have strategically expanded our footprints into selected verticals and have established strong market presence in each vertical through quality and efficient execution. As we continue to serve vertical leaders, our products and solutions continue to iterate and optimize based on customers' feedback. By partnering with vertical leaders, we have built proprietary industry know-how and formed in-depth understanding of each selected vertical, which empowers us to provide high-quality industry-specific cloud solutions.

We strategically entered specific verticals and achieved a proven track record of success. The verticals we strategically entered include, but not limited to:

- ***Video.*** We started to offer video cloud solutions in 2016, right before the outburst of video streaming in China. Our video cloud solution integrates cloud infrastructure such as storage and processing, and video applications such as encoding and high resolution, providing a holistic solution. We have further upgraded this to immersive video cloud solutions featuring ultra-high resolution and ultra-low latency, which was empowered by our industry-leading cloud rendering and real-time communication technology. We are among the first cloud companies offering cloud solutions to internet video companies in China. As of June 30, 2022, we have amassed a Premium Customer base including Bilibili and Zhihu.

- ***Public service.*** We provide cloud infrastructure which systematically connects mission-critical public service organizations, and provide architecture enabling data sharing on municipal level and empowering administrative efficiency while ensuring stringent security and privacy. For example, since 2015 we have been providing public cloud solutions to Beijing Public Service Cloud, one of the largest and earliest deployed public sector cloud platforms in China. Beijing Public Service Cloud provides cloud services to various public sector organizations in Beijing. We have been supporting an increasing number of organizations through their platform. As of the Latest Practicable Date, our solutions have supported over 50 public sector organizations in Beijing.

- ***Healthcare.*** Our healthcare cloud solutions provide high-performance, secure resources and technologies, and a full portfolio of applications and services for the healthcare industry. Our cloud-based solution connects industry participants including various public service departments and healthcare institutions across national and regional levels, in order to facilitate digitalization and eliminate data silos. For example, we have successfully built a cloud-based healthcare information management system for a provincial digital health project in China related to the COVID-19 pandemic.

- ***Gaming.*** We started to offer game cloud solutions in 2014, when the mobile gaming market was set to take off. We have developed full-stack platform for gaming companies to incubate, test and operate their games in cloud environments. In 2020, we upgraded our solution for cloud gaming, allowing game developers to provide high-quality, unified and equipment-agnostic gaming experience to users, which is the first-of-its-kind industry solution. As of June 30, 2022, our customers included leading gaming companies in China such as Seasun Games, Giant Network, Well-Link, Hero Entertainment and Ourpalm.

- ***Financial service.*** We started to offer financial service cloud solutions in 2018 as we identified huge cloud demand from the financial service sector. We have pioneered the private deployment of public cloud solutions, which could effectively address the pain points faced by financial institutions amid the evolving regulatory requirements and digital transformation, and allow them to unlock the value of data assets. We have accumulated deep domain expertise and amassed a group of high quality customers in this sector. Our Data Lakehouse platform has been successfully deployed for a large state-owned bank in China. As of June 30, 2022, our customers include 18 out of the top 20 leading Chinese banks.

In addition, we are closely monitoring various end markets with emerging demand for cloud services, and have developed solutions for selected emerging sectors, such electric vehicle. Since 2021, we have been providing cloud services to an EV (Electric Vehicle) manufacturer and supporting them in EV development and operation.

Customer-centric Product Development

Customer-centric research and development. We stay committed to cloud-native technology development and have built up customer-centric research and development capabilities. To fulfill business needs of customers, we have been promoting seamless collaboration between solution development and service team and research and development team. With first-hand observations of customers' business, we are able to respond and tailor our solutions to address their needs in a timely manner. Leveraging our industry know-how, we also preemptively develop solutions to optimize customer experiences. For example, on top of our big-data middleware, we have developed different data management system suitable for different industries. Our technology platform acts as the foundation for product development and innovation to continuously address the evolving business needs of our customers, enabling us to constantly enhance customer engagement.

Modularized products to drive penetration. We have established a complete portfolio of modularized products leveraging on our proprietary advanced technologies. By completing featured projects with industry-leading customers, we are able to develop a unified suite of applications with purpose-built industry characteristics, which are interoperable with our product offerings. All of those modularized products can be readily assembled and deployed to serve other customers in the same or adjacent vertical, empowering us on gaining more businesses and market share in the same vertical. For example, we have successfully built a cloud-based healthcare information management system for a provincial digital health project in China. The core modularized products we developed for such project include one cloud infrastructure, one data lake, and four middleware (一雲一湖四中台), which are tailored to the healthcare industry and can function independently or together. Utilizing such core modularized products, we are able to quickly penetrate and provide solution to other customers in the healthcare sector. As a result, we have created a virtuous cycle where more collaborations with leading customers lead to more advanced solutions and featured projects, which lead to further industry penetration, and consistently improved R&D efficiencies.

Proprietary technologies and strong R&D capabilities. We have developed a complete portfolio of products based on our proprietary technologies, which could be delivered to our customers as components of our industry solution and ensure they have effective control over those products and eliminate external technology dependencies. The execution of our research and development strategy is backed by our strong and expanding research and development talent pool and continuous investment in research and development. As of June 30, 2022, our research and development team consisted of 1,144 people, and solution development and services team consisted of 7,377 people, in aggregate accounting for 87.3% of our total employees.

Strong Customer Conversion Capabilities and Go-to-market Efficiencies

We adopt a premium customer strategy. We seek to serve leading players in selected verticals in order to establish strong sector presence more efficiently. By completing featured projects with industry-leading customers, we are able to demonstrate our enterprise service and technology capabilities as well as strengthen our brand, which in turn empower us on acquiring more customers within those vertical.

We are dedicated to maintaining a continuous and long-term service coverage for our customers. Such service model enhances the engagement with our customers, and enables us to understand their needs in a timely manner and to identify new business opportunities. With our in-house fulfillment and deployment practice, we are able to identify customers' needs on real time basis and promote cross selling. As a result, we have fostered a solid customer base and achieved improving unit economics. Moreover, our customers tend to procure more products and solutions as our offerings are constantly upgraded and extended along with customers' business developments. Our premium customer focus and cross-selling initiatives have significantly contributed to our go-to-market efficiencies. In 2019, 2020 and 2021, we had a total of 243, 322 and 597 Premium Customers, respectively. For the same periods, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively.

Experienced Management Team and Strong Synergies with Our Strategic Shareholders

As one of the first-generation cloud companies in China, our experienced management team with entrepreneurial spirit has been leading us since our establishment, achieving rapid and continued growth of our business. Combining solid technology background with in-depth understanding of industry verticals, our management team is committed to pursuing innovative solutions to bring greater value to customers.

We also enjoy strong synergies with our strategic shareholders, including Kingsoft Group and Xiaomi. We offer cloud solutions to Kingsoft Group. We are also able to leverage the sales network of Kingsoft Group through cross-selling opportunities. We cooperate with Xiaomi and its ecosystem participants to develop cloud solutions for emerging sectors.

OUR STRATEGIES

Our growth strategies are as follows, which we believe would empower us to further achieve strong growth and a stronger market position:

Strengthen Our Market Position in Strategically Selected Verticals

We will continue to strengthen our market presence in our strategic verticals through retaining existing customers and attracting new customers. We plan to further enhance our relationship with existing customers by expanding our product offerings and creating cross-selling opportunities. In addition, we intend to offer customers additional solutions along with their business growth to further strengthen customer stickiness and increase our wallet share in existing customers. We also plan to further promote our modularized products and industry-specific solutions to penetrate such verticals and acquire more customers.

Enhance Our Presence in New Verticals and Grow Our Customer Base

We intend to expand our solution offerings to cover more verticals with strong growth potential. We will focus on capturing the massive demand from traditional enterprises and public service organizations in the next growth phase of China's cloud service market. Leveraging our proven record in more established verticals with scalable cloud spending such as video and gaming, we also plan to further tap into emerging verticals, such as electric vehicle, and logistics. Meanwhile, we will continue to adopt our premium customer strategy to cover and anchor industry leaders in such new verticals, and further optimize our products and services to meet various industry demands.

Enhance Our End-to-end Solution and In-house Fulfillment and Deployment Capabilities

We are dedicated to continuing to leverage our industry expertise and technological capabilities to offer end-to-end solution. We will further unleash the synergies from the Camelot Group acquisition by leveraging and integrating its nationwide fulfillment and deployment capacities in China. By adhering to industry-leading standards, we will stay committed to in-house fulfillment and deployment, which we believe would allow us to improve customer satisfaction and retention.

Continue to Invest in Infrastructure and Technology

Infrastructure is fundamental to our cloud platform. Therefore we plan to continue to invest in our extensive infrastructure in order to deliver higher-quality cloud service and enhance the economies of scale. Particularly, we plan to further enhance our infrastructure in first tier cities with more concentrated cloud services demand, as well as to deploy our infrastructure based on the projects of our customers. As a technology-driven cloud company, we aim to increase investment in research and development of advanced technologies such as container and data lake.

Capitalize on Scale Advantages and Improve Operational Efficiency

We have been benefiting from economies of scale and we will continue to improve operational efficiency to further unlock the economies of scale. In this regard, we plan to optimize the deployment of our computing, storage and network resources and to further improve the utilization of our infrastructure.

Enhance Our Collaborations with Business Partners

We will continue to collaborate with business partners, including our strategic shareholders and industry-leading customers to develop vertical solutions with industry best practices, which will help us continue to build up industry know-how and sector knowledge. We also aim to strengthen our relationships with system integrators to retain and expand our customer base across various industries.

OUR PRODUCTS AND SOLUTIONS

Our Cloud Products

We provide various advanced cloud products based on our extensive infrastructure, and are developed based on the same suite of underlying technology capabilities. Our modularized cloud products, primarily including unified IaaS infrastructure, and to a lesser extent, PaaS middleware and SaaS applications, can be utilized to design different solutions to meet various business needs. Our cloud products primarily consist of cloud computing, storage and delivery.

Computing

Our cloud computing products provide on-demand high-performance computing resources, and offer customers benefits such as agility, scalability and flexibility as the usage can be rapidly adapted to customers' business needs without having to make large investments in hardware as compared to traditional IT infrastructure. In addition, we also offer other cloud products including cloud network, database, data warehouse, big data and security products.

Cloud Computing

Our cloud computing products primarily include:

- Kingsoft Cloud Elastic Compute ("KEC"): KEC provides flexible and scalable computing capacity, enabling developers to easily perform large scale computing and deployment in the required server environment. Cloud servers can be deployed at any time on-demand to improve operation and maintenance efficiency. Powered by our automatic scaling technology, users are able to automatically adjust the computing resources based on their business needs, thereby enhancing the efficiency of computing power consumption and reducing the total cost of usage. For users with strong demands for on-premise resource allocation, security and compliance, we also offer Kingsoft Cloud Dedicated Host ("KDH") to provide an exclusive virtual resource pool.

- Kingsoft Cloud Bare Metal Servers Elastic Physical Compute ("EPC"): EPC provides exclusive physical servers with excellent performance and native cloud network function support. It helps users quickly build and expand application services with high performance requirements. Users can easily manage the EPC server's network configuration, storage configuration and operating system interface.

- Kingsoft Cloud GPU Elastic Physical Compute ("GEPC"): GEPC provides accelerated computing based on GPUs. It can be used in scientific computing, deep learning, image rendering, and GPU-based audio and video codec scenarios to provide stable, fast and elastic computing services and convenient unified cloud server management services.

- Kingsoft Cloud Edge Node Computing ("KENC"): KENC is a distributed edge computing resource pool. It provides customers with edge virtual machines, edge dockers, network security groups, load balancing, virtual private cloud and other functions. It helps users reduce access delay, save costs, and enables integration of more industry-specific applications.

- Kingsoft Cloud Container Engine ("KCE"): KCE is developed and adapted based on the native Kubernetes to seamlessly integrate containers with other basic computing, storage and network resources, products and services we offer. It provides users with scalable container management platform with high performance.

- Kingsoft Cloud Container Instance ("KCI"): KCI provides a server-less container service that helps users to manage the full life-cycle of their containers in the cloud without purchasing or managing the underlying servers. Based on KCI, we provide users with container services that are fully compatible with the Kubernetes ecosystem. Users can directly deploy containerized applications and manage them in a Kubernetes-native way without the need to purchase or manage underlying nodes. This facilitates the deployment of Kubernetes applications.

Cloud Network

Our cloud network products provide cloud-enabled or cloud-based network resources and services, offering secure network access and connections, to help users optimize resource allocation. Our key cloud network products include:

- Server Load Balancing ("SLB"): SLB is a network service that distributes traffic to multiple cloud servers within a computing cluster. Traffic distribution can quickly improve the external service capability of the application system. SLB hides the actual service port, enhances the security of the internal system and improves the availability of the application system by eliminating single point service failures.

- Elastic IP ("EIP"): EIP is an IP address associated with the user account, which can be bound to any cloud server, cloud physical host or load balancing of the user. With EIP, users can quickly re-map an address to another cloud server, cloud physical host or load balancing in their accounts to shield instance failures.

- Virtual Private Cloud ("VPC"): VPC helps users build a customized, logically isolated and proprietary network. Users can use a dedicated connection or VPN connection to build a hybrid cloud network with VPC and their existing data centers. All cloud resources can be connected to a VPC network, which also allows users to establish and manage security policies and network access control policies. We also provide peering service to connect two VPCs for data synchronization, enable users to reside multiple VPCs across different regions.

- Cloud Enterprise Network: Cloud Enterprise Network enable customers to establish connections between different VPC networks, and between VPC networks and local data centers. Cloud Enterprise Network features fast, high-quality and secured transmission, helping customers build an enterprise-level network.

Cloud Database

We have a full stack database platform product portfolio, primarily including relational databases and NoSQL databases, which are used to accommodate a wide variety of data models. We provide second-level failover capability, low latency cross-cloud synchronization, multi-region disaster recovery capability, and loss less data reliability support capability for important application scenarios such as financial services, internet, and public service. Our key cloud database products include:

- Kingsoft Cloud Relational Database Service ("KRDS"): KRDS is a stable and flexible online relational database that can be used at any time. It has multiple security protection features and an optimized performance monitoring system, and provides database backup, recovery and optimization features. We offer various versions of KRDS at users' choice based on the type of their servers.

- Kingsoft Cloud NoSQL Database: In addition to relational databases, we also offer NoSQL databases, which are non-tabular databases built for specific non-relational data models and have flexible schemas for building modern applications. Based on the types of data, we offer high-performance and stable NoSQL database for Redis for key-value storage, NoSQL database for MongoDB for document storage, and NoSQL database for InfluxDB for time series data.

- DragonBase: We provide distributed database DragonBase for enterprises and organizations. Featuring distributed deployment, high availability, smooth up-scaling, and enterprise-level security, DragonBase focuses on solutions to address customer's needs on massive data storage and high-concurrency operation and it also provides supportive systems and facilitate automated performance monitoring, operation, maintenance and security audit. Our DragonBase were identified as one of the industry leaders in 2021 by Frost & Sullivan.

Data Warehouse

- Kingsoft Cloud Data Warehouse ("KDW"): KDW is data warehouse platform deployed on a massively parallel processing architecture, enabling users to use a large number of computers to simultaneously perform coordinated computations in parallel and thus enhancing computation performance. It is a large-scale PB-level cloud database warehouse solution with smooth upscaling ability that supports the separation of computing and storage, multi-dimensional online data analysis and retrieval, and offline data processing. KDW enables interactive query and analytics of massive relational data and is advantageous in both internet and traditional industries.

Big Data

We have a comprehensive stack of big data platform products and compatibilities. All products are empowered by providing elastic scaling and seamless access to cloud storage. We also provide an interactive query engine for users to easily organize and analyze data on the cloud, which is an important step in utilizing data lake. In response to industry-wide developments in the research on computer vision, automatic speech recognition and natural language processing, we have built the underlying technologies that underpin big data platforms. Our key big data products include:

- Kingsoft Cloud MapReduce ("KMR"): KMR is a cloud big data platform allowing users to process vast amounts of data quickly and cost-effectively at scale. KMR gives users the engine and elasticity to run large-scale analysis at a fraction of the cost of traditional on-premise clusters.

- Kingsoft Cloud DataCloud ("DataCloud"): Based on an advanced data processing framework, DataCloud provides one-stop cloud-based data services, including data consolidation, integration, processing, management and analysis. DataCloud can be deployed on-premise to enhance control and security. With the help of DataCloud, through advanced data lake architectures, users can manage and process ultra-large-scale structured and unstructured data, build data-lake architecture, and create middleware data platform for enterprise data. It empowers users with full lifecycle data management capability.

- Kingsoft Cloud Elasticsearch Service ("KES"): KES is a cloud-based, fully managed service based on the open source search engine, Elasticsearch. It integrates Kibana, a data visualization dashboard software, and common plug-ins to provide near-real-time storage, search, and analysis features that allow user to manage ultra-large datasets in a visualized, real-time and efficient manner.

Cloud Security

We provide users with a full range of high-quality cloud security products to effectively address cloud service abuse issues and provide users with secure and stable cloud services. Our key cloud security products include:

- Kingsoft Cloud Advanced Defense ("KAD"): KAD is a managed Distributed Denial of Service (DDoS) protection service that safeguards our users' applications running on our cloud from attack.

- Kingsoft Cloud Host Security ("KHS"): KHS ensures all-round host security for cloud server and EPC, and is able to quickly identify security problems, monitor security status and comply with security requirements.

- Kingsoft Cloud Web Application Firewall ("WAF"): WAF is a firewall for web applications, ensuring security and reliability of users' websites. Users can seamlessly deploy WAF without altering any system structure.

Cloud Storage

We have developed different storage products for various application scenarios. Our cloud storage products provide cost-effective digitalized data storage infrastructure with high security, which can be deployed off premises or on premises upon request. Our key cloud storage products include:

- Kingsoft Cloud Standard Storage Service ("KS3"): KS3 is a massive, low-cost, and secure distributed cloud storage product to address users' pain points such as storage expansion, data security and distributed access. KS3 offers exabyte-level storage with high queries per second per single bucket. Users can conveniently store and retrieve various data files such as pictures, audio, video and text.

- Elastic Block Storage ("EBS"): EBS is a block-level data storage service provided for cloud server instances that can be connected to any running KEC instance in the same data center. EBS features high availability, reliability, flexibility and ease of use. It also supports advanced features such as snapshots and mirroring.

- Kingsoft Cloud File Storage ("KFS"): KFS is a file storage service for KEC, EPC and container services. With standard file access protocols, users do not need to modify existing applications. KFS offers users a distributed file system with unlimited capacity, performance scaling, single namespace, multi-party sharing, high reliability and availability.

- Kingsoft Cloud Archive Storage ("KArchive"): KArchive provides offline storage services that are cost-effective and easy to manage. It applies to long-term archive and redundancy backup of a large amount of data.

- KingStorage: KingStorage series are enterprise-level hybrid cloud storage products that include distributed blocks, files and objects cloud storage resources. They provide cloud native benefits and address customers' demands for massive data storage, while ensuring high reliability and seamless compatibility with customers' original IT infrastructure.

Cloud Delivery

Our cloud delivery products have evolved from a simple acceleration tool for one-way static content to a complex application and streaming delivery carrier, enabling our customers to deliver an interactive and immersive user experience. Our comprehensive end-to-end cloud delivery solutions allow users to build their applications on our cloud platform and utilize additional value-added services offered by us, such as large-scale storage, streaming encode and decode, and high definition video solutions, to further enhance their business operations. Our large-scale, high-concurrency, low-latency and secure cloud delivery products help our users enhance their users' experience.

With 5G deployment and advancement of edge computing, we continue to upgrade our cloud delivery network with more connected nodes and reiterate the advantages of our cloud delivery products. Streaming content represents a significant portion of the internet traffic, and is a major application scenario of our cloud delivery products. Streaming content captures a large share of users' time spent as it becomes the key distribution medium for various industry verticals, such as entertainment, e-commerce, education, traveling and advertising. Leveraging the relationship we built with our clients through our cloud delivery products, we have the natural advantage to cross-sell other cloud products, such as computing, storage and database products, to explore additional monetization opportunities.

- Kingsoft Cloud Live-video Service ("KLS"): KLS is a network system based on Kingsoft Cloud's comprehensive IaaS infrastructure. Through industry-leading video-encoding technology and powerful distribution capacities, KLS provides low-latency, high-concurrency, and stable live streaming services. KLS supports live streaming upload and download acceleration, as well as real-time transcoding, recording, watermarking, screenshots, second-level streams status management, delayed playback and many other value-added functions and applications. Meanwhile, KLS can be seamlessly integrated with the PaaS platform of Kingsoft Cloud Video Cloud, and it features fast access, multi-terminal adaptation, multi-protocol support, and easy-to-use.

- Kingsoft Cloud Media Transcoder is a distributed system for multi-media processing service. Based on the deep learning of massive multimedia data, Kingsoft Cloud Media Transcoder establishes a scientific video quality evaluation system, combined with powerful encoding/decoding technology, to provide fast, intelligent and stable media processing service.

- Kingsoft Cloud Edge Computing Network ("KECN"): KECN is a distributed edge computing network that supports edge computing scenarios such as edge bandwidth, AI inference, image rendering, gaming and IoT. We have established an end node network covering most regions and operators in China and ensuring high-speed and low-latency for customers.

- Kingsoft Cloud Delivery Network ("KCDN"): KCDN is a distributed network consisting of server clusters of edge nodes covering different regions, which distributes user content to edge nodes, effectively resolves the congestion of an internet network, and improves the response speed of users to visit the websites and the availability of the websites.

- Kingsoft Cloud Image Enhancement ("KIE"): KIE is an intelligent image enhancement product, which is able to recover and enhance image details by deep learning algorithms. It can also enhance resolution and output high-quality images.

- Kingsoft Cloud Smart High Definition (“KSHD”): KSHD integrates various computer vision and video coding technologies to substantially improve the quality of experience. It uses deep-learning-based denoise and enhance algorithms to reduce compression artifacts as well as enhance details. Meanwhile, KSHD is capable of analyzing video by way of classification and quality assessment, so as to improve the coding efficiency of video codec.

Galaxy Stack

Our proprietary Galaxy Stack essentially allows customers to deploy a public cloud architecture within their internal IT infrastructure, so that they can have the same experience as public cloud services within their IT premise, while fulfilling regulatory compliance and retaining control. Galaxy Stack employs a distributed architecture to create an open and unified cloud environment for enterprises and organizations. As a result of our continuous upgrading and optimization efforts, Galaxy Stack features container services, DevOps, database, big data, security and other functions to provide more professional, scalable and mature one-stop cloud solutions.

The key value we bring includes:

- Scalability at large scale: Galaxy Stack enables large-scale physical node deployment, massive tenant management and customer service capabilities, which strongly support customers’ massive business operations. Customers can easily adjust the physical node deployment based on their real-time demands.

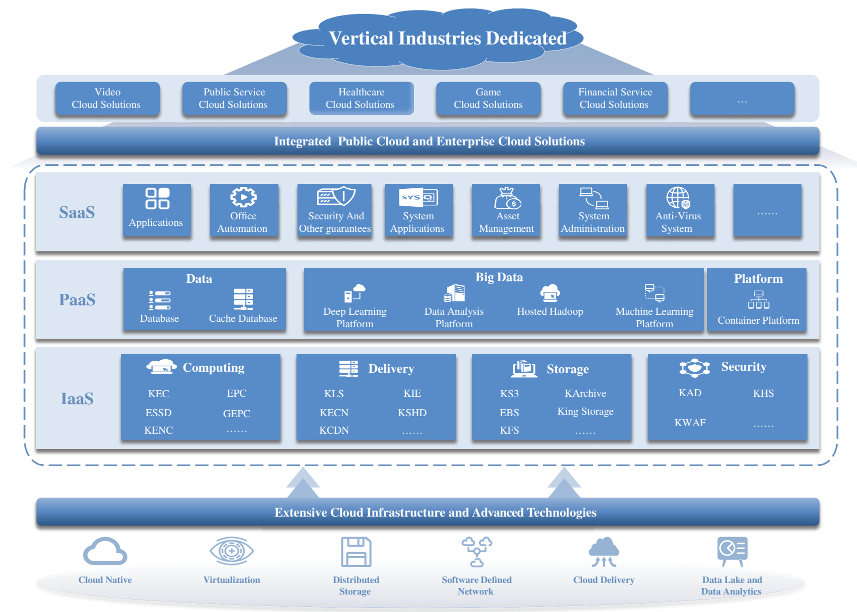
- Security: Privatized deployment meets the requirements of enterprises and organizations for high-grade information security protection, data security and business continuity.

- Autonomous control: Galaxy Stack supports customers’ autonomous control operation and maintenance.

Industry-Specific Solutions

We have designed various industry-specific solutions that can unleash the full potential of our infrastructure resources and add value to our customers. Leveraging our profound industry insights, we have strategically expanded our footprints into selected verticals and have established strong market presence through dedicated execution. As we continuously serve vertical leaders, our products and solutions continue to iterate and pivot based on customers’ feedback. By partnering with vertical leaders, we have accumulated proprietary industry know-how and formed in-depth view of each selected vertical, which enables us to provide high-quality industry-specific cloud solutions. We have designed industry-specific solutions covering a wide spectrum of industry verticals, including video, public service, healthcare, gaming and financial service, among others. Catering to the business needs for different industry verticals, we offer industry-specific solutions consisting of different products. For example, for customers in the gaming industry that require high-performance computing, storage, network and delivery products to support a large number of concurrent users, our gaming cloud solutions typically consist of GEPC, KENC, KES, EIP, SLB, KECN and NoSQL products; while for customers in the video industry that are more focused on smooth content delivery, our video cloud solutions typically consist of KLS, KCDN, VPC, EIP and KRDS products.

The following diagram illustrates details of our solutions:



Video Cloud Solutions

We started to offer video cloud solutions in 2016, prior to the explosive growth of the video industry in China. Our full stack video cloud solutions offer various state-of-the-art deep learning algorithms, including cloud trans-coding, image enhancement, smart high definition, dark image enhancement. Our holistic intelligent video cloud solutions serve both on-demand video and live streaming companies, offering a high-capacity and elastic cloud delivery network built on our industry-leading containerized edge computing platform. To meet the large-scale and high-quality cloud delivery requirements of these companies, our video cloud solutions combine core technologies such as intelligent video processing algorithms and multi-link optimization to provide enhanced cloud delivery products beyond traditional content delivery products. For on-demand videos, we offer video upload, distributed encoding, media resource management and on-demand delivery. For live streaming, we offer delivery acceleration, real-time encoding, live recording and storage. Our video cloud solutions can be accessed through a management system or API/SDK.

We are among the first cloud companies providing cloud solutions to companies engaged in video business and have amassed a high-profile customer base including Bilibili and Zhihu.

The key value we bring includes:

- High speed: Our video cloud solutions provide a quick and uninterrupted video streaming and archiving experience.

- Stability: Our video cloud solutions offer high stability and ensure performance. The distributed network eliminates incidents and disruptions, which can effectively lower packet loss rate.

- Security: Our video cloud solutions are able to maximize data security by configuring authentication settings for content.

- High definition: Our video cloud solutions provide optimized encoding and decoding solutions that allow 4K-8K ultra high definition video transmission through the internet.

Public Service Cloud Solution

Our public service cloud solutions are based on the public cloud architecture and can be easily and quickly deployed. These cloud solutions help public service organizations enhance productivity and efficiency. With capabilities of cloud computing and big data, public service organizations can achieve the goal of data integration, simplifying streamlining processes, improving efficiency, ensuring safety and reducing costs and realizing digital transformation.

The key value we bring includes:

- Digitalization: Public service organizations are able to connect data across multiple departments, improve work efficiency and enhance security, which ultimately realize digital transformation.

- Reliability: The cloud platform adopts high-availability technology and security protection system, which can guarantee the stable and uninterrupted operation of the platform.

- Comprehensiveness: We can provide a series of services from the construction of underlying cloud data center, big data management, big data analytics, etc., which meets the public service organizations' requirements for critical aspects of cloud platform product functions.

Case study

Since 2015 we have been providing public cloud solutions to Beijing Public Service Cloud, one of the largest and earliest deployed public sector cloud platforms in China. Beijing Public Service Cloud provides secure cloud services to various public sector organizations in Beijing. We have been supporting an increasing number of organizations through their platform. As of the Latest Practicable Date, our solutions have supported over 50 public sector organizations in Beijing. Our public service cloud solutions provide high reliability and data security. Our solutions help empower the digitalization and cloud migration of public services.

Healthcare Cloud Solutions

Our healthcare cloud solutions provide high-performance, secure resources and technologies, and a full portfolio of applications and services for the healthcare industry. We provide cloud services covering hospital operations, medical supervision, medical insurance payment, medical treatment and eldercare relying on our top-level cloud resources, abundant cloud products and excellent cloud service. It features big data analysis service for administrators, health management service for residents, cloud infrastructure for large and medium medical institutions and cloud application service for small and medium medical institutions. We have successfully deployed flagship projects for leading institutions.

The key value we bring includes:

- Digitalization: Leveraging our comprehensive Picture Archiving & Communication System (“PACS”), we provide solutions of medical image storage, sharing, management, quality control, and related applications. We help healthcare institutions develop a complete medical image ecosystem by leveraging unified data resources, data processing and computing to support unified system construction, deployment, and service solutions. We help healthcare institutions and hospitals improve radiology workflow, better manage the storage of images, and realize healthcare interoperability.

- Intelligent and collaborative operation: We help customers build regional healthcare platforms with unified cloud infrastructure, cloud-native technology for the middle office, big data platforms and medical resource systems. We provide DataOps capability to help the healthcare industry solve data silos, improve collaboration and the automation of data flow, and enhance collaborative synergies among regional healthcare systems.

- Low cost construction and on-demand use: All the application systems are based on the cloud computing architecture and can be used as needed without heavy assets investment.

- Improving private medical service capability: The solution represents a cloud upgrade for grassroots information system to provide private medical services and enhance functions such as intelligent assistance and remote medical service, which significantly improves private medical service capability.

- Implementation of hierarchical diagnosis and treatment system: The solution breaks the information barrier between superior and subordinate medical institutions in the same region, which realizes information interaction and data sharing.

Case study

For example, during the COVID-19 pandemic, we have successfully built the cloud-based healthcare information management system for a provincial digital health project in China. Leveraging our in-depth industry know-how and technologies, we have developed core modularized products, namely one cloud infrastructure, one data lake, and four middleware (一雲一湖四中台), which are tailored to medical use cases and can function independently or together. The platform has connected major public hospitals, pharmacy chains, community clinics and government agencies, and achieved systematical record of medical data, which then help the organization to increase efficiency of a series of scenarios including public diseases monitoring, consistent chronic condition inpatient and outpatient treatment, pharmaceuticals distribution, and residents EMR maintenance.

Game Cloud Solutions

We started to offer game cloud solutions in 2014, when the mobile gaming market was set to grow exponentially. We have developed a full-stack platform for game companies to incubate, test and operate their games in cloud environments. With our game cloud solutions, our customers are able to provide a seamless experience and direct playability for gamers across all devices. Game cloud solutions enable enterprises to develop advanced and unique games with better in-game user experience, lower response time, as well as lower operational and maintenance costs.

Our game cloud solutions primarily consist of three categories, namely architecture solutions, management solutions and operation solutions. Architecture solutions focus on addressing the users' needs for computing and storage capabilities. Based on the features of different game genres, we offer customized architecture solutions, such as cloud migration solutions. Management solutions help game companies to efficiently manage the games, covering game updates, maintenance and security. Operation solutions help users to operate and promote games and deliver better experiences to gamers. As of June 30, 2022, we have provided game cloud solutions to leading game companies in China such as Seasun Games, Giant Network, Well-Link, Hero Entertainment and Ourpalm.

The key value we bring includes:

- High concurrency: Our game cloud solutions can effectively reduce the system requirements and pressure for game servers through large-scale and simultaneous cloud computation, which in turn allows for a large number of concurrent players.

- Low latency: Developed upon our extensive network infrastructure across the world at large scale, we are able to satisfy game companies' demands for low latency and enable them to deliver high-speed game experiences.

- Security: Our game cloud solutions offer various security protections against isolated incidents and security failures to ensure player experience is not affected and to maintain high-availability at all times.

- Failure recovery: By integrating high-quality EBS, Elastic IP and SLB products, our game cloud solutions enable game companies to easily recover from failures in application or underlying layers within seconds.

- Disaster recovery: Our game cloud solutions provide multipath BGP and cross-region elastic deployment, eliminating operation risks from failures in any single data center.

Case study

Well-Link is a leading cloud gaming developer in China. We work with Well-Link to provide cloud solutions to a cloud game which has become globally renowned, enabling smooth and rich game experiences to users. For example, leveraging our multi-line and large bandwidth capabilities, we ensured smooth – in-game experience across regions for players, while ensuring graphic quality. Moreover, we offer cloud servers, network and storage products and end-to-end solution for cloud gaming, enabling user interactions across different types of devices and lower the device requirement to run the games.

Financial Service Cloud Solutions

We started to offer financial service cloud solutions in 2018 as we saw huge cloud demand in financial service sector. We have pioneered the private deployment of public cloud technologies, which could effectively address the pain points faced by financial institutions amid the regulatory requirements and digital transformation, and allow them to unleash the value of data assets. For example, our Data Lakehouse platform has been successfully deployed for a large state-owned bank in China. Furthermore, we acquired Camelot Group in September 2021 to further enhance our financial service cloud solutions. Camelot Group offers comprehensive and digitalized solutions such as teller or branch systems, anti-money laundering and fraud prevention software services to the financial services industry. The key value we bring includes:

- Digital transformation: Our customized financial service architecture solutions, by providing high-performance cloud computing service at lower costs, enable financial institutions to achieve digital transformation and migrate to cloud.

- Cloud native benefits: Our financial service cloud native solutions enable financial institutions to enjoy various benefits brought by cloud technologies, including high security, reliability, availability and flexibility.

- Business innovation: Our intelligent financial service solutions equip financial institutions with big data analytics capabilities, enabling them to easily and efficiently realize business innovations.

Case study

We provide a customized data cloud platform to Bank A, a large state-owned bank, to establish a centralized data management platform. By offering massive data integration, processing and analytics capabilities, we address Bank A's needs for digital transformation. We provide various cloud-based data products to build a one-stop data analytics platform, realizing centralized management and allocation in complex operation environment. We provide data storage of 15 PB for the platform, which is compatible with both structured and unstructured data. We offer efficient task scheduling management, data asset services covering metadata and data lake, enabling Bank A to save underlying server and storage resources. Based on the business needs of Bank A, we help them develop modularized SaaS products for various business scenarios, such as regulatory reporting, auditing and anti-money laundering.

Other Solutions

Our cloud solutions also cover various other industries, such as electric vehicle, e-commerce, office automation, and mobile internet in general, among others.

Case study

Zhihu is a leading online content community in China. We started to provide large-scale cloud native platform since 2019, enabling full cloud migration at IaaS level and partial cloud migration at PaaS level. The cloud native platform helps Zhihu reduce total IT costs and improve resource utilization efficiency. Such large-scale cloud native platform consists of a wide range of cloud storage products, bare metal servers, container services, big data and database products, establishing a massive container cluster, thereby enhancing data processing capabilities of Zhihu. Leveraging cloud native container technologies, the container cluster closely functions with other cloud services, enhancing the elasticity of resources and fast deployment. The high performance cluster is able to support over 4,000 nodes, over 3,000 image concurrency and monitoring response within one second.

Case study

Shouqi Yueche is a leading online ride hailing platform in China. We started to cooperate with Shouqi in 2020 by offering comprehensive cloud solutions. We provide cloud-native services and help Shouqi establish an IT security system. Our elastic cloud resources help Shouqi to process massive rider hailing orders during peak hours, enabling them to better serve its users.

Camelot Group

We acquired Camelot Group, a provider of enterprise digital solutions and related services, in September 2021 to further enhance our enterprise cloud services. Camelot Group's services mainly include but not limited to, the design, coding, testing, adjustment of system or software, which do not require VATS Licenses or fall within any restricted or prohibited categories for foreign investment pursuant to the 2021 Negative List. Particularly, Camelot Group offers comprehensive digitalized solutions such as teller or branch systems, anti-money laundering and fraud prevention software services to the financial services industry. As compared to our enterprise cloud solutions which focused on cloud infrastructure and platform, Camelot Group's services are more focused on software- and application-levels. We believe that the services offered by us and Camelot Group are complementary to each other, and collectively enable us to provide end-to-end cloud solutions, from infrastructure and platform to software and application, to customers. Camelot Group primarily charges customers based on performance completed to date.

We expect to benefit from our acquisition of Camelot Group in the development of our enterprise cloud services by leveraging Camelot Group's nationwide project execution capacities and resources across China, deep industry know-how, and long-standing client relationships, among others.

- ***Project execution.*** We plans to integrate the solution development and service teams of Camelot Group into ours. By integrating Camelot Group's nationwide project execution capacities and resources across China, including approximately 8,000 personnel based in Beijing, Anhui, Jiangsu, and Hubei, among others, we are able to further accelerate and enhance the implementation of enterprise cloud service projects with lower costs, improved efficiency, and higher value. For example, during the COVID-19 pandemic, we have successfully built the cloud-based healthcare information management system for a provincial digital health project in China. Travel restriction measures adopted by government authorities have brought challenges to on-site services. Benefiting from Camelot Group's local project execution capacities, we are able to efficiently communicate with customers and provide seamless on-site fulfillment, deployment and configuration services, ensuring our ability to fulfill customer requests amid challenging pandemic environment. We have provided trainings to Camelot Group's solution development and service personnel and familiarize them with the implementation and deployment of Kingsoft Cloud's services. Camelot Group's solution development services personnel consisted of employees for software and application development and related deployment and implementation services. As compared to Camelot Group's services, the deployment and implementation of our services does not require significant additional expertise. We believe that our trainings are sufficient to effectively integrate Camelot Group's solution development and service team. For enterprise cloud projects with requirements for on-site fulfillment, deployment and configuration services, we consider the locations for project sites, Camelot Group's personnel and Kingsoft Cloud's personnel, staff compensation for Camelot Group's personnel and Kingsoft Cloud's personnel, local pandemic control measures, among others, to form a project execution team that can fulfill customer requests amid challenging pandemic environment. Moreover, we are expected to optimize cost efficiency levering Camelot Group's nationwide network due to the reduced traveling costs and staff compensation.

- ***Deep industry know-how***. Camelot Group have extensive experience and expertise in providing software- and application-level services. When customers have business demands for specific application scenarios, Camelot Group's developers are able to better understand and respond to customers' needs in a more cost-efficient manners as compared to our cloud architects and engineers who may not have the expertise at application-level. Moreover, leveraging Camelot Group's deep know-how in the financial industry, it has developed a suite of comprehensive digitalized solutions such as teller or branch systems, anti-money laundering and fraud prevention software services can be readily provided to players in the industry.

- ***Long-standing client relationships***. Camelot Group's software- and application-focused offerings complements our services which focused on infrastructure and platform underlying the software and applications, and thereby enable us to provide customers with end-to-end cloud solutions. Moreover, we are able to explore cross-selling opportunities between the customers of Camelot Group and us. We are able to sell cloud products to customers using Camelot Group's services, and sell Camelot Group's services to customers using our cloud products. In 2021, the number of overlapping Premium Customers only accounted for less than 4% of our total number of Premium Customers, presenting significant potentials for cross-selling. For example, we have successfully sold Camelot Group's services to WPS Office, our existing Premium Customer. Since our consolidation of Camelot Group in September 2021, we have provided trainings to sales and marketing personnel of both Kingsoft Cloud and Camelot Group, and familiarize them with each other's service offerings to enhance cross-selling. During the communications with existing or potential customers, if one's sales personnel identified potential business opportunities for the other, they would refer and introduce the other's sales personnel to such customer. For example, as of the Latest Practicable Date, Camelot Group has entered into service contracts with four existing customers of Kingsoft Cloud with a total contract sum of RMB20.6 million. Moreover, Camelot Group is negotiating with another five existing customers of Kingsoft Cloud with a total contract sum of RMB3.5 million. We has provided cloud services to such customers, and referred Camelot Group to provide software and application development services. As of the Latest Practicable Date, Camelot Group has also referred us to certain of its existing customers, and we have established initial business contact with them.

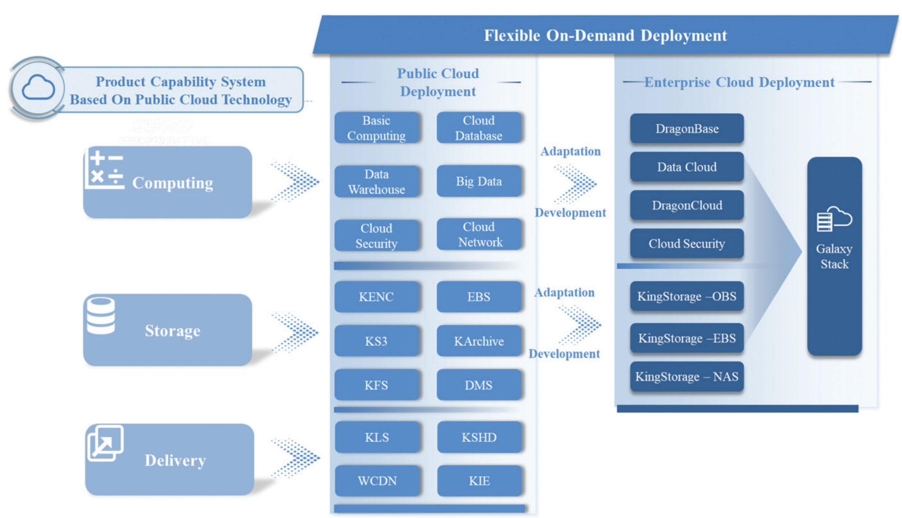
The following table sets forth a breakdown of Camelot Group's employees by function as of June 30, 2022.

	June 30, 2022	
Function	**Number of employees**	**Percentage**
Research and development	127	1.6%
Sales and marketing	140	1.7%
General and administrative	482	6.0%
Solution development services	7,279	90.7%
Total	**8,028**	**100.0%**

Camelot Group's solution development services personnel consisted of employees for software and application development and related deployment and implementation services. We have adopted the following measures to leverage Camelot Group's nationwide employee network: (i) we provided trainings to Camelot Group's sales and marketing personnel and familiarize them with our offerings to enhance cross-selling; (ii) we provided trainings to Camelot Group's solution development and service personnel and familiarize them with the implementation and deployment of our services; and (iii) for enterprise cloud projects which requirements for on-site fulfillment, deployment and configuration services, we consider the locations for project sites, Camelot Group's personnel and our personnel, staff compensation for Camelot Group's personnel and our personnel, local pandemic control measures, among others, to form a project execution team that can fulfill customer requests amid challenging pandemic environment, while ensuring optimized cost efficiency.

Revenue Model

Our cloud products and solutions can be deployed as (i) public cloud services, and (ii) enterprise cloud services. At the choice of customers, we offer different deployment methods to cater to their business needs. Our modularized public cloud products are able to meet customers' various demands across different selected industries. We also offer enterprise cloud deployment of our cloud products and solutions, primarily operated on-premise and dedicated to customers. The following diagram illustrates the deployment of our public cloud and enterprise cloud services.



The following table illustrates details of our cloud services:

<table>
<tr><th>Category</th><th>Underlying Technology</th><th>Revenue and Fee Model</th><th>Deployment</th><th>Key Benefits to Customers</th></tr>
<tr><td>Public cloud services</td><td rowspan="2">Both public cloud services and enterprise cloud services, are developed based on the same suite of underlying public cloud technology capabilities.</td><td>Usage basis – based on utilization and duration. Customers are typically charged a monthly service fee based on the actual consumption of cloud products.</td><td>Operated on off-premise infrastructure and can be delivered over the internet. Such off-premise infrastructure is owned or leased by us. Underlying infrastructure can be shared by any customer.

Our agreements with public cloud customers are typically one to three years, which can be renewed upon mutual agreement.</td><td>• Low cost of ownership and maintenance cost

• On-demand scalability

• High reliability</td></tr>
<tr><td>Enterprise cloud services</td><td>• For enterprise cloud services originated by our Group:

Revenue is recognized at a point in time based on performance completion. Customers are typically charged on a project basis with a pre-determined service fee pursuant to negotiations with the customers.

• For enterprise cloud services offered by Camelot Group:

Revenue is recognized over time as service is performed. Customers are typically charged on performance completed to date. Service fees are pursuant to negotiations with customers.</td><td>Operated on on-premise infrastructure. Underlying infrastructure is dedicated to specific customers. We help customers establish cloud environment on the infrastructure, such as setting up network and architecture, installation of management software, configuration of system and connection, among others. Duration of enterprise cloud service projects varies from project to project based on the actual workload, and usually ranges from 3 to 9 months, as applicable.</td><td>• High control over security and privacy

• Compliance with regulatory standards

• Customizable to cater to specific business needs</td></tr>
</table>

Public cloud services are operated on off-premise infrastructure and can be delivered to customers over the Internet. With public cloud deployment, customers do not need to own or maintain the underlying IT infrastructure and can enjoy on-demand cloud resources to meet their business needs. Due to the nature of public cloud services, the underlying infrastructure is shared among different customers, which means that multiple organizations will sometimes be using the same physical server at the same time. Our public cloud services cover various verticals, including, among others, video, gaming, electric vehicle, e-commerce, and mobile internet.

We also offer enterprise cloud services primarily for non-internet enterprises and organizations with high control and customization available from dedicated cloud resources. Due to their complicated operation structure and process, they generally have higher demand for compatibility, reliability, privacy and security in cloud products. With multi-faceted consideration, including regulatory requirements and legacy IT premises, customers from certain traditional sectors tend to demand for dedicated solutions deployed in designated location which they could physically control. In this regard, we offer enterprise cloud services operated on on-premise infrastructure. With increasingly complex business structures and massive data accumulated from daily operations, traditional enterprises and public service organizations require hyper-scale computing and big data capabilities as part of their cloud solutions. The below table sets forth the number of our enterprise cloud service projects by major industry verticals.

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
Number of Enterprise Cloud Services Projects					
Public Service	118	225	166	85	45
Healthcare	–	5	4	4	8
Financial Service	32	13	42	23	20
Camelot Group	–[(1)]	–[(1)]	440	–[(1)]	479
Total	**150**	**243**	**652**	**112**	**552**

Note:

(1) Not applicable as we acquired Camelot Group in September 2021 and started to consolidate its results of operations since then.

The below table sets forth the number of our Enterprise Cloud Service Premium Customers by major industry verticals.

	For the year ended December 31, 2019	2020	2021	For the six months ended June 30, 2022
Number of Enterprise Cloud Service Premium Customers				
Public Service	53	107	94	41
Healthcare	–	4	2	7
Financial Service	14	13	28	14
Camelot Group	–[(1)]	–[(1)]	258	233
Total	**67**	**124**	**382**	**295**

Note:

(1) Not applicable as we acquired Camelot Group in September 2021 and started to consolidate its results of operations since then.

For public cloud services, we generally charge customers based on utilization and duration and offer these customers credit terms. Customers are typically charged a monthly service fee based on the actual consumption of cloud products. We also offer prepaid subscription packages over a fixed subscription period. For enterprise cloud services, we generally charge customers on a project basis based on performance completion, payment terms of which can range from one to six months, and can vary substantially from customer to customer. The vast majority of revenue from enterprise cloud is non-recurring in nature. Customers are typically charged a pre-determined service fee, or based on performance completed to date. Based on communication with customers, we understand their business needs and estimate the types of products and number of personnel involved in the projects. Accordingly, we negotiate with the customers to determine the services fee. We also provide multi-phase project arrangements to meet the demands of our enterprise cloud customers to improve their business digitalization progressively. Under our enterprise cloud services, we also provide digital services to enterprise customers through Camelot Group, which we acquired in September 2021. In accordance with applicable accounting policies, the Group only has one operating segment as the chief operating decision maker of the Group, who has been identified as the Chief Executive Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For details, see Note 2 to the Accountants' Report included in Appendix IA.

The pricing of our products and services is determined based on various factors such as the type of products/services, the number of fulfilment and deployment personnel involved, the level of customization, among others. When considering whether to offer more competitive prices, we typically consider the market price level, the customers' procurement amount, payment schedule, our overall profitability, among others.

The following table sets forth a breakdown of our revenue by products and services for the periods indicated:

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)				
	(in thousands, except for percentages)											
Revenues												
Public cloud services	3,458,843	87.4	5,166,851	78.5	6,159,085	966,495	68.0	2,942,610	73.8	2,669,951	398,613	65.5
Enterprise cloud services	486,308	12.3	1,372,689	20.9	2,897,817	454,731	32.0	1,042,177	26.1	1,409,083	210,371	34.5
Others[(1)]	11,202	0.3	37,767	0.6	3,882	609	0.0	2,432	0.1	1,273	190	0.0
Total Revenues	**3,956,353**	**100.0**	**6,577,307**	**100.0**	**9,060,784**	**1,421,835**	**100.0**	**3,987,219**	**100.0**	**4,080,307**	**609,174**	**100.0**

Note:

(1) We recorded insignificant revenues from other miscellaneous services that we provided on an ad hoc basis, which has not been and is not expected to be material to our business.

The following table sets forth the gross billings breakdown for our public cloud services and enterprise cloud services for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
Public cloud services										
Computing	1,017,515	25.8	1,586,890	24.2	2,103,956	23.5	999,798	25.8	1,235,189	29.8
Storage	298,314	7.6	285,061	4.3	268,999	3.0	138,136	3.6	138,301	3.4
Delivery	2,137,355	54.2	3,318,413	50.5	3,845,696	43.1	1,819,584	47.0	1,364,268	33.1
Enterprise cloud services	489,713	12.4	1,378,811	21.0	2,710,165	30.4	911,576	23.6	1,389,022	33.7
Total Gross Billings	**3,942,897**	**100.0**	**6,569,175**	**100.0**	**8,928,816**	**100.0**	**3,869,094**	**100.0**	**4,126,781**	**100.0**

As a result of our continuous business expansion, we have experienced continuous growth in our revenue and gross billings during the Track Record Period.

BUSINESS SUSTAINABILITY AND PATH TO PROFITABILITY

Overview

We were loss-making during the Track Record Period. Due to our continuous investment in infrastructure and technology, we have recorded operating loss since our establishment. At the early stage of China's cloud service market and our business development, in line with other major market players, we were more focused on revenue expansion to acquire market shares and premium customers, rather than profitability. However, as it is common for IaaS cloud service providers in the PRC to sustain operating losses for long period, which is typically over 12 years before turning profitable, and the cloud service industry is subject to rapid technological change and our technologies may become obsolete, we may not be able to achieve profitability as planned.

Despite the history of operating losses, we have accumulated extensive cloud infrastructure, advanced cloud-native products, industry-specific solutions and end-to-end fulfillment and deployment capabilities covering all project stages, thereby establishing a solid foundation for long-term development and profitability. We achieved business and financial growth, with a revenue growth CAGR of 51.3% from 2019 to 2021. In 2019, 2020 and 2021, and the six months ended June 30, 2022, we incurred net loss of RMB1,111.2 million, RMB962.2 million, RMB1,591.8 million (US$249.8 million), and RMB1,365.3 million (US$203.8 million) respectively, and incurred adjusted net loss (Non-GAAP Financial Measure) of RMB989.9 million, RMB632.1 million, RMB1,157.4 million (US$181.6 million), and RMB1,158.5 million (US$173.0 million), respectively in 2019, 2020 and 2021, and the six months ended June 30, 2022. In the same periods, our gross profit was RMB7.7 million, RMB357.0 million, RMB351.3 million (US$55.1 million) and RMB145.2 million (US$21.7 million) respectively. As a result of our net loss, we recorded net operating cash outflows of RMB439.1 million, RMB290.4 million, RMB708.9 million (US$111.2 million) in 2019, 2020 and 2021, respectively, and RMB282.4 million (US$42.2 million) for the six months ended June 30, 2022. Nonetheless, we have been increasingly focused on profitability and liquidity management and have achieved a positive net operating cash flow of RMB343.6 million in the second quarter of 2022 and RMB100.9 million in the third quarter of 2022, despite of the challenges brought by resurgence of COVID-19 in the first half of 2022.

We achieved positive net operating cash flow in the second and third quarters of 2022 primarily because of improvement of accounts receivable recoveries and accounts payables. Our recoveries of accounts receivable improved significantly, as demonstrated by (i) the RMB588.8 million and RMB210.4 million decrease of accounts receivable were in the second quarter and in the third quarter, respectively, compared with an increase of accounts receivable of RMB24.3 million in the first quarter, and (ii) other than Camelot Group, cash payments from Kingsoft Cloud's customers amounting to RMB5,439 million and RMB5,355 million for the nine months ended September 30, 2021, and 2022, respectively, representing 87.8% and 123.1% of revenues for the same periods, respectively, demonstrating our improved collection of accounts receivable in 2022. The improvement was mainly due to (i) our enhanced collection efforts, such as adjusting our monthly accounts collection targets as well as promptly following up with collection of accounts receivable; and (ii) our stringent project selection favoring customers with strong liquidity position and low credit risk. In addition, our accounts payable decreased by RMB165.6 million and increased by RMB7.5 million in the second quarter and the third quarter, respectively, compared with a decrease of RMB339.3 million in the first quarter. The improvement was primarily due to our enhanced payment management, such as adjusting our monthly payment plans and firming our payment approval process.

Our gross profit margin, net loss, adjusted net loss (Non-GAAP Financial Measure) and net operating cash outflows during the Track Record Period was mainly driven by the substantial upfront investment we made in cloud infrastructure and operating expenses to support long-term business growth. Among these substantial costs and expenses, IDC costs have been the largest component of our cost of revenues, which include, among others, procurement of cloud resources essential for our cloud products. Specifically, IDC costs include costs for bandwidth and racks, accounting for 72.2%, 61.7%, 56.3% and 52.4% of our total revenues in 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively. Our solution development and services costs elevated in 2022 due to our strategic focus on enhancing delivery and implementation of enterprise cloud services, accounting for 23.7% of our total revenues for the six months ended June 30, 2022, as compared to 0.5% for the six months ended June 30, 2021. Additionally, our net loss and net operating cash outflows were also partially driven by our spending in operating expenses, which is critical to upgrade our cloud technology and promote our brand. There was a lack of improvement in our operating expenses as a percentage of total revenues during the Track Record Period. Our operating expenses as a percentage of total revenue was 29.1%, 23.8%, 23.9% and 30.2% in 2019, 2020 and 2021, and the six months ended June 30, 2022 respectively. Specifically, our operating expenses consist of (a) research and development expenses incurred to upgrade our infrastructure, improve our cloud technology and develop new products and solutions, accounting for 15.1%, 11.8%, 11.6% and 11.5% of our total revenues during the same periods, respectively, (b) general and administrative expenses mainly consisting of staff expenses and credit losses, accounting for 6.0%, 5.8%, 6.6% and 11.6% of our total revenues during the same periods, respectively, and (c) selling and marketing expenses incurred to promote our cloud products and solutions, accounting for 8.0%, 6.2%, 5.7% and 7.1% of our total revenues during the same periods, respectively. The slight increase in our operating expenses as a percentage of total revenue from 2020 to 2021 was mainly due to the increase in general and administrative expenses as a percentage of total revenue, primarily attributable to the increase in staff compensation from 2020 to 2021 as a result of our increased general and administrative personnel. The increase in our operating expenses as a percentage of total revenue in the six months ended June 30, 2022 was mainly attributable to (i) the increase in selling and marketing expenses as a percentage of total revenue, primarily attributable to the amortization expenses as a result of recognized customer relationship following the acquisition of Camelot Group, and (ii) the increase in general and administrative expenses as a percentage of total revenue, primarily attributable to (a) the decrease in our revenues other than Camelot Group from the six months ended June 30, 2021 to the six months ended June 30, 2022, (b) the increase in staff expenses (excluding share-based compensation), and (c) the increase in credit losses. The increase in staff compensation (excluding share-based compensation) as percentage of total revenues from 1.5% in the first half of 2021 to 3.7% in the first half of 2022 was mainly due to our consolidation of Camelot Group, whose general and administrative staff expenses (excluding share-based compensation) accounted for 5.1% of Camelot Group's revenues in the first half of 2022. The increase in credit losses was primarily due to the increased provisions made on account receivables that may have recoverability issues. For details, see “Business–Business Sustainability and Path to Profitability – Improve Operational Efficiency Through Economies of Scale.”

Our gross profit margin improved from 0.2% in 2019 to 5.4% in 2020, but decreased to 3.9% in 2021 and further declined to 3.6% for the six month ended June 30, 2022. The decline was primarily due to tightened regulations towards the internet sector, such as education and gaming sectors and Internet platforms, since the second half of 2021 and the resurgence of COVID-19 in the first half of 2022 as detailed below.

By business nature, we need to get the underlying resources readily available before engaging and onboarding clients and meeting their demands. When determining the amounts of procurement we estimate the optimal level based on the then foreseeable customer demand by taking into account of: market conditions, observable industry developments and our business development strategies. Bandwidth resources, which account for a large portion of IDC costs and serve as the underlying resource for cloud delivery products, are charged based on peak usage within a specified timeframe. However, since the second half of 2021, market has witnessed a general slowdown in customer demand in the internet sector of China due to macro-economic conditions and PRC regulatory developments affecting the internet industry. As a result, the market size of cloud service in China experienced a decrease from RMB152.6 billion for the first half of 2021 to RMB150.4 billion for the first half of 2022. Coupled with the impact from the resurgence of COVID-19 in China in the first half of 2022, the actual market demand in the second half of 2021 and 2022 turned out to be weaker than our original estimate (based on which our upfront procurement were made), which had a negative impact on our gross profit margin.

From 2019 to 2021, we have benefited from economies of scale and improved our operational efficiency. This is evidenced by the general decrease in our operating expenses as percentages of our total revenues from 2019 to 2021, including our selling and marketing expenses, and research and development expense. Our general and administrative expenses as percentage of our total revenues increased from 5.8% in 2020 to 6.6% in 2021, and from 5.1% for the six months ended June 30, 2021 to 11.6% for the six months ended June 30, 2022, primarily attributable to (i) the increase in staff compensation due to our increased general and administrative talents; (ii) the increase in credit losses from RMB31.9 million in 2020 to RMB114.1 million (US$17.9 million) in 2021 was mainly due to the increase in accounts receivables and contract assets along with our business growth, and to a lesser extent, the increased provisions in the second half of 2021 made for accounts receivables that may have recoverability issues, and from RMB17.7 million for the six months ended June 30, 2021 to RMB140.2 million (US$20.9 million) for the six months ended June 30, 2022 primarily because we made provisions on account receivables that may have recoverability issues; and (iii) the increase in professional service fees in relation to the Listing. Similarly, our selling and marketing expenses as percentage of our total revenues increased from 5.2% for the six months ended June 30, 2021 to 7.1% for the six months ended June 30, 2022, primarily attributable to the increase in amortization expenses as a result of increased customer relationship following our acquisition of Camelot Group.

Our adjusted EBITDA margin (Non-GAAP Financial Measure) was -11.4%, 1.1%, -3.4% and -13.6% in 2019, 2020 and 2021, and the six months ended June 30, 2022, mostly in line with our gross profit margin trend. This trend was driven by the similar reasons discussed above affecting our net losses while depreciation and amortization costs generally grew steadily along with the business growth over the same time periods.

To maintain business sustainability and achieve profitability, we plan to:

- **continue strategic business adjustments to focus on profitability**. To enhance efficiency and cost control, we have made strategic adjustments including (i) downsizing of CDN products, (ii) the decision to focus on high-quality enterprise cloud projects, and (iii) optimize our resources in an effort to improve overall profitability, sustainability and long-term competitive edge. As a result of the these efforts, we have narrowed gross loss margin for public cloud services from (4.0%) in the second half of 2021 to (2.9%) in the first half of 2022. Going forward, we plan to continue to diversify our premium customer base, optimize resources, and stabilize prices, while focusing more on public cloud products with relatively higher profit margins. For enterprise cloud services, in the first half of 2022, we made a strategic decision to focus on high-quality projects. Specifically, we currently request all potential projects to be submitted for review and approval by a designated committee led by our CEO. During the review and approval process, we will consider (i) profitability considering the contract value, estimated human resources and fulfillment costs; (ii) whether the projects involve a considerable portion of our core products such as computing, storage, big data, container, etc.; (iii) whether the projects are within our strategically selected verticals; (iv) the customers' credibility, financial and liquidity condition; and (v) risk of delay in acceptance by customer. We believe that the enhanced project selection process has a positive impact on our profitability, liquidity position and cash flow. This is evidenced by our enhanced gross profit margin since the first half of 2022 and positive operating cash flow since the second quarter of 2022. Such selection criteria forms a part of our strategy to expand enterprise cloud services. We will continue to focus on and further penetrate into strategically selected verticals, and will select high quality projects to ensure sustainability and profitability;

- **continue to benefit from the integration of Camelot Group**. We acquired Camelot Group in September 2021, and we expect our business and profitability will benefit from such acquisition through (i) synergies achieved with Camelot Group, and (ii) the stable and profitable business of Camelot Group. We expect to benefit from our acquisition of Camelot Group in the development of our enterprise cloud services by leveraging Camelot Group's nationwide project execution capacities and resources across China, deep industry know-how, and long-standing client relationships, among others. Moreover, in 2019, 2020, 2021 (prior to and after our acquisition of Camelot Group) and the six months ended June 30, 2022, the gross profit margin of Camelot Group was 22.5%, 24.7%, 21.1%, 20.8% and 14.9% respectively, and the net profit margin of Camelot Group was 6.7%, 6.5%, 3.5%, 6.7% and 0.1%, respectively. We expect our consolidated profitability will benefit from the consolidation of Camelot Group's profitable results of operations;

- **continue driving business development and optimizing our service mix** with an increasing focus on enterprise cloud services, where we see favorable market trends and sustainable growth potential with a more favorable gross margin profile. As compared to public cloud services, enterprise cloud services have recorded higher gross profit margins during the Track Record Period and require low capital expenditure requirement for us, as customers are typically responsible for the costs of underlying equipment and cloud resources, such as IDC and servers. Our revenue grew at a CAGR of 51.3% from 2019 to 2021, ranking second among major leading cloud service providers in China in terms of total cloud service revenue CAGR from 2019 to 2021. With our accumulated industry knowledge and know-how, our enterprise cloud services has been outgrowing public cloud services in the Track Record Period, and its revenue amounted to an increasing portion of our total revenues during the Track Record Period, being 12.3% in 2019, 20.9% in 2020, 32.0% in 2021, and 34.5% in the six months ended June 30, 2022;

- **effectively manage costs of revenue** by optimizing modularized products, re-utilizing proven solution components, and better aligning infrastructure resources with our strategic business focuses. Moreover, we have strategically adjusted our business focus to downsize our CDN products since 2022, which we believe will enable us to better manage our IDC cost, thereby optimizing our overall cost structure to drive gross profit margin improvements. These efforts are expected to allow us to deliver solutions and services in a more efficient manner. We have significantly improved our gross profit, achieving gross profit breakeven in 2019, and achieved a gross profit margin of 3.9% in 2021; and

- **improve operational efficiency through economies of scale**, as we continue to scale our business as an established player in the cloud service market, the major components of our operating expenses, namely staff expenses, generally do not increase proportionately with our revenue growth. We have been dedicated to enhancing our ability to manage and control our operating expenses. We will also continue to optimize human resources management and enhance overall operational efficiency. We expect that our operating expenses as a percentage of total revenue will decrease in the long term as we further improve operational efficiency going forward.

For details of the above-mentioned plans, please refer to "– Business Sustainability and Path to Profitability" below.

Despite our continued efforts to maintain business sustainability and achieve profitability, we may continue to incur net losses, including for the year ending December 31, 2022, as we expect to continue to invest in the cloud infrastructure and incur a substantial amount of IDC costs and operating expenses to support our business operations. Our Directors expect our Group to record positive operating cash flow before we achieve net profit breakeven, including for the fourth quarter of 2022, on the basis that (i) we expect to incur large amount of depreciation and amortization, which is a non-cash item and shall be adjusted in the reconciliation from net loss to net cash generated from operating activities, and (ii) our net loss is expected to be narrowed. Based on the foregoing, the discussion with the Directors and senior management of the Company and the independent due diligence conducted by the Joint Sponsors, the Joint Sponsors concur with the Directors' view.

Overall Background in Support of Our Profitability Potential

The global cloud service market was pioneered by the U.S. nearly a decade ago. As the U.S. industry trajectory indicates, (i) cloud service is a proven business model with long and strong growth path, as well as high margin potential; and (ii) cloud business requires significant upfront capital investment, and typically takes many years before turning profitable and further achieving high margins. The Chinese cloud service market, although grew explosively and became the second largest cloud service market following the U.S. in 2018, still has significant potential in terms of overall penetration, maturity, and profitability, as it continues to evolve and develop. China's cloud service market is competitive and rapidly evolving during the current development stages. Some market players compete through offering services at lower prices, which force us to decrease prices in order to remain competitive in terms of customer acquisition and retention. Price competition in China's cloud service market has been gradually easing in recent years, as major players are increasingly focusing on enhancing service quality and technology capabilities to attract customers.

We are the fourth largest cloud service provider in China in terms of total revenues with a market share of 3.1%. Market shares of the top two players in terms of total revenues were 24.7% and 11.1% in 2021. Nonetheless, major cloud service providers may not have the resources, experience or expertise to penetrate and dominate each industry sector. We believe that we are well-positioned in the market competition due to its strategic product and service capabilities, and vertical selection. For example, we were the exclusive cloud service provider for a provincial digital health project; as a result of our advanced cloud technology, and bare metal server, we have generated increasing revenue from a major customer of our cloud computing products, who also used another dominant cloud service provider; we, together with other dominant market players, were engaged as cloud vendors for a leading bank in China and the Beijing Public Service Cloud. Specifically, we believe that we are able to effectively compete with other players considering that (i) we have accumulated a large and loyal Premium Customer base contributing increasing revenues, as evidenced by our net dollar retention rates of Public Cloud Service Premium Customers of 155%, 146%, 114%, 110% and 88% in 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively, (ii) clients of our enterprise cloud services demonstrated strong up-selling potentials. For example, since 2018, a large state-owned bank purchased multiple products and services for different local branches, (iii) the trend for increasing prevalence of multi-cloud deployment is expected to further drive market growth, creating opportunities for us, (iv) we have gained valuable insight and capabilities from Kingsoft Group's over 30 years of experience in providing enterprise services; as compared to other major cloud service providers that historically mainly targeted at Internet sectors, our enterprise service experience and expertise enable us to better strategically penetrate into traditional sectors; (v) unlike other major cloud service providers, we are able to further enhance our fulfillment and deployment capabilities leveraging Camelot Group's nationwide project execution capacities and resources across China, deep industry know-how, and long-standing client relationships, among others; (vi) we have strategically expanded our footprints into selected verticals, such as financial service, healthcare and public services, and have established strong market presence in each vertical through quality and efficient execution; and (vii) we enjoy strong synergies with our strategic shareholders, including Kingsoft Group and Xiaomi, and are able to leverage their sales network and ecosystem to expand our customer base; moreover, we have, and will continue to, update and refine our products and solutions by serving our strategic shareholders, and re-utilize such products and solutions to other customers. We have been continuously benefiting from our strategic shareholders and their ecosystem, and gaining more business opportunities. We have engaged business partnership with a number of companies which are associates, affiliates or invested companies of our strategic shareholders, and are expect to continue to cultivate business opportunities with them. Moreover, we will leverage our shareholder network to expand our coverage and develop our business into other companies in their ecosystem. We have a proven track record of our steady progress on path to profitability and sustainability:

- Established market presence: We have developed into an established player in China's cloud service market, and ranked as the fourth largest cloud service provider in China in terms of total revenues with a market share of 3.1%;

- Growth at scale: Our growth has consistently outpaced the market. From 2019 to 2021, our growth rates for each of total revenues, public cloud services revenue, as well as enterprise cloud services revenue were higher than the growth rates in the corresponding markets in China during the same period; our revenue grew at a CAGR of 51.3% from 2019 to 2021, ranking second among major leading cloud service providers in China in terms of total cloud service revenue CAGR from 2019 to 2021;

- Profitability potential: We have significantly improved profitability, achieving gross profit breakeven in 2019, which further increased to 3.9% in 2021. Our operating loss margin narrowed from 28.9% in 2019 to 20.0% in 2021, and net loss margin narrowed from 28.1% in 2019 to 17.6% in 2021; and

- Liquidity: We have consistently and successfully secured various forms of financing from capital markets, including financial institutions and third-party investors, prudently managed cash flows and maintained strong cash position, proactively optimized business mix for corporate resilience, and prudently and decisively invested in infrastructure and technology for the long run. As of October 31, 2022, we had a total of RMB4,767.1 million (US$652.6 million) cash resources (that include cash and cash equivalents and short-term investments).

While past performance is no indication of our future results, we plan to leverage our proven capability in driving growth and improving efficiency to continue to enhance our financial performance towards long-term profitability by (i) continuing to drive high-quality revenue growth, (ii) continuing to optimize service mix, (iii) enhancing capability to manage and optimize our costs of revenue, and (iv) improving our operational efficiency through economies of scale. Despite these efforts, our future profitability still remains uncertain subject to various factors, such as general economic conditions in China, development of China's cloud service industry, our ability to retain existing customers and acquire new customers, to upgrade our technology, infrastructure, products and solutions, to compete effectively and successfully, and to continuously grow revenues in a cost-effective way and improve our operational efficiency. For details, see "Risk Factors – Risks Relating to Our Business and Industry – We have a history of net loss and we may not be able to achieve or subsequently maintain profitability."

Business Sustainability and Path to Profitability

Strategic Business Adjustments to Focus on Profitability

At the early stage of China's cloud service market and our business development, in line with other major market players, we were more focused on revenue expansion to acquire market shares and premium customers, rather than profitability. To enhance efficiency and cost control, we have made strategic adjustments including (i) downsizing of CDN products, (ii) the decision to focus on high-quality enterprise cloud projects, and (iii) optimize our resources in an effort to improve overall profitability, sustainability and long-term competitive edge.

Public Cloud Services

For public cloud services, we have strategically adjusted our business focus to downsize our cloud delivery products since 2022, as evidenced by the decrease of 25.1% in our gross billings of delivery products from the six months ended June 30, 2021 to the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2022, the established gross profit margins for our cloud delivery products were (6.9%), 0.2%, (3.9%) and (4.2%), respectively, which are lower than that for our overall public cloud services. Moreover, we have strategically decided to diversify our premium customer base, optimize resources, and stabilize prices, while focusing more on public cloud products with relatively higher profit margins. As a result of these efforts, we have narrowed gross loss margin for public cloud services from (4.0%) in the second half of 2021 to (2.9%) in the first half of 2022.

Enterprise Cloud Services

For enterprise cloud services, in the first half of 2022, we made a strategic decision to focus on high-quality projects in an effort to improve overall profitability, sustainability and long-term competitive edge. Key considerations in selecting high-quality projects include (i) profitability based on contract value, estimated human resources and fulfillment costs, and (ii) the customers' credibility, financial and liquidity condition to improve the Company's liquidity position and cash flow. Specifically, we currently request all potential projects to be submitted for review and approval by a designated committee led by our CEO. During the review and approval process, we will consider (i) profitability considering the contract value, estimated human resources and fulfillment costs; (ii) whether the projects involve a considerable portion of our core products such as computing, storage, big data, container, etc.; (iii) whether the projects are within our strategically selected verticals; (iv) the customers' credibility, financial and liquidity condition; and (v) risk of delay in acceptance by customer. We believe that the enhanced project selection process has a positive impact on our profitability, liquidity position and cash flow. This is evidenced by our enhanced gross profit margin since the first half of 2022 and positive operating cash flow since the second quarter of 2022. Such selection criteria forms a part of our strategy to expand enterprise cloud services. We will continue to focus on and further penetrate into strategically selected verticals, and will select high quality projects to ensure sustainability and profitability.

Continue to Benefit from the Integration of Camelot Group

We acquired Camelot Group in September 2021, and we expect our business and profitability will benefit from such acquisition through (i) synergies achieved with Camelot Group, and (ii) the stable and profitable business of Camelot Group.

Business Synergies with Camelot Group

We expect to benefit from our acquisition of Camelot Group in the development of our enterprise cloud services by leveraging Camelot Group's nationwide project execution capacities and resources across China, deep industry know-how, and long-standing client relationships, among others. Specifically, by integrating Camelot Group's nationwide project execution capacities and resources across China, including approximately 8,000 personnel based in Beijing, Anhui, Jiangsu, and Hubei, among others, we are able to further accelerate and enhance the implementation of enterprise cloud service projects with lower costs, improved efficiency, and higher value. Camelot Group's local project execution capacities are especially important to us in the challenging pandemic environment. Camelot Group's software- and application-focused offerings complement our services which focus on infrastructure and platform underlying the software and applications, and thereby enable us to provide customers with end-to-end cloud solutions. Moreover, we are able to explore cross-selling opportunities between the customers of Camelot Group and us. We are able to sell cloud products to customers using Camelot Group's services, and sell Camelot Group's services to customers using our cloud products. In 2021, the number of overlapping Premium Customers only accounted for less than 4% of our total number of Premium Customers, presenting significant potentials for cross-selling. Since our consolidation of Camelot Group in September 2021, we have provided trainings to sales and marketing personnel of both Kingsoft Cloud and Camelot Group, and familiarize them with each other's service offerings to enhance cross-selling. During the communications with existing or potential customers, if one's sales personnel identified potential business opportunities for the other, they would refer and introduce the other's sales personnel to such customer. For example, as of the Latest Practicable Date, Camelot Group has entered into service contracts with four existing customers of Kingsoft Cloud with a total contract sum of RMB20.6 million. Moreover, Camelot Group is negotiating with another five existing customers of Kingsoft Cloud with a total contract sum of RMB3.5 million. We have provided cloud services to such customers, and referred Camelot Group to provide software and application development services. As of the Latest Practicable Date, Camelot Group has also referred us to certain of its existing customers, and we have established initial business contact with them.

Stable and Profitable Business of Camelot Group

We completed the acquisition of Camelot Group in September 2021, and its results of operations have been consolidated into ours since then. Camelot Group has been delivering stable and profitable results of operations, and therefore we expect the consolidation of Camelot Group to have a positive impact on our consolidated financial performance.

Camelot mainly provides enterprise digital services, including but not limited to, the design, coding, testing, and adjustment of system or software. Costs for such software- and application- services are primarily compensation for software and application developers.

In 2019, 2020, 2021 (prior to and after our acquisition of Camelot Group) and the six months ended June 30, 2022, the gross profit margin of Camelot Group was 22.5%, 24.7%, 21.1%, 20.8% and 14.9% respectively, and the net profit margin of Camelot Group was 6.7%, 6.5%, 3.5%, 6.7% and 0.1%, respectively. The decrease of Camelot Group's gross profit margins in 2021 and 2022 was mainly due to the weak economic condition and decreased demand from customers. Camelot Group mainly provides enterprise digital services, including but not limited to, the design, coding, testing, adjustment of system or software. The aforesaid business and operation of Camelot Group was affected due to softened economic condition driven by COVID-19 resurgence and its strict lock-down measures, especially in 2022. For example, operations of companies within real estate and internet industries were negatively impacted by these factors and these companies reduced their IT budget and purchases accordingly. Additionally, costs for Camelot Group is primarily compensation for software and application developers, which tends to be sticky and cannot be adjusted promptly with change of revenue, thus leading to relatively lower gross margin than previous years. The decrease in Camelot Group's net profit margin in 2022 was primarily attributable to the decrease of gross profit margin. For details, see "Financial Information – Our Acquisition of Camelot Group."

Despite such decreases which were mainly affected by COVID-19, Camelot Group still achieved gross profit and net profit. Therefore, we expect our consolidated profitability will benefit from the consolidation of Camelot's results of operations.

Continue to Drive Business Development

We intend to continue to drive development through high-quality growth, which will enable us to develop sustainably and ultimately achieve profitability.

Effectively and strategically expanding our Premium Customer base is crucial to high-quality growth. We implemented a premium customer strategy, focusing on covering and serving leading enterprises in selected verticals and forging long-term relationships with them to establish lasting market presence efficiently. By partnering with such Premium Customers, our products and solutions are continuously refined to meet their high demands, which in turn, due to the scalability of our cloud products and solutions, enables us to serve a broader customer base with similar needs in a cost-effective manner.

Loyal Premium Customer Base to Further Penetrate into Existing Verticals

We have amassed a large, growing, and loyal Premium Customer base. In 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, we had a total of 243, 322, 597, 288 and 488 Premium Customers, and our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146%, 114%, 110% and 88%, respectively. A net dollar retention rate above 100% reflects that we have generated increased revenue from the relevant customers retained over such periods. The decrease in net dollar retention rate of Public Cloud Service Premium Customers from 2020 to 2021, and that from the six months ended June 30, 2021 to the six months ended June 30, 2022, was mainly due to the weaker demand by major customers in the internet sector in the second half of 2021 and 2022 as discussed above and our proactive scale-down of CDN products. Our average revenues per Premium Customer decreased from RMB20.0 million in 2020 to RMB17.0 million in 2021, mainly due to the slight decrease in average revenues per Enterprise Cloud Service Premium Customer from RMB11.0 million in 2020 to RMB10.7 million in 2021. Such decrease was mainly due to the dilution from our acquisition of Camelot Group, whose average revenues per Enterprise Cloud Service Premium Customer was relatively lower, being RMB7.7 million in 2021. Our average revenues per Premium Customer decreased from RMB13.6 million in the six months ended June 30, 2021 to RMB8.2 million in the six months ended June 30, 2022, mainly due to the decrease in average revenues per Enterprise Cloud Service Premium Customer from RMB13.7 million to RMB4.7 million for the same periods, respectively. Such decrease was mainly due to (i) the aforementioned dilution from our acquisition of Camelot Group, whose average revenues per Enterprise Cloud Service Premium Customer was RMB4.4 million in the first half of 2022, and (ii) our more stringent selection of projects with a focus on profitability over volume, as well as considering potential customers' credibility, financial and liquidity condition. The retention rates of our Public Cloud Premium Customers, calculated by dividing the number of Public Cloud Premium Customers in the previous year that remained as our customers in the current period/year, by the total number of Public Cloud Premium Customers in the previous year, are 87% in 2020, 87% in 2021 and 80% in the six months ended June 30, 2022. We plan to continue to execute our premium customer strategy to cover and anchor vertical leaders, expand our Premium Customer base through further penetration in selected verticals and entering into new verticals, such as electric vehicle, explore additional cross-selling and up-selling monetization opportunities to help us scale up our revenues, and further optimize and develop our products and solutions to meet their demands. As of the Latest Practicable Date, our total contract sum in electric vehicle vertical amounted to RMB32 million. We have a proven record of selling more products to key customers. For example the average number of products used by our top 20 customers in public cloud as measured by the total revenue generated in the first half of 2022, improved from 8.0 in 2019 to 10.1 in 2020, to 11.5 in 2021 and further increased to 11.8 in the first half of 2022.

By continuously offering high-quality cloud services, we are able to strengthen business relationships with existing customers, especially Premium Customers. Some customers in the internet sector may develop in-house cloud services to address a portion of their internal needs for cloud services, but we believe that such trend will not have a material adverse impact on our relationship with such customers on the grounds that (i) in-house development of cloud services requires significant upfront investment and ramp-up time, (ii) capacity of in-house developed cloud services is typically more limited than that of established third-party cloud service providers, like us, (iii) once customers have chosen their cloud service providers to store their data and operate their applications, this reliance strengthens over time and the switch cost increases as the service continues, (iv) as a result of the multi-cloud deployment, in-house development of cloud services do not exclude the use of third-party cloud service providers. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any termination or material adverse change of business relationships with our major customers regardless of whether some of them have developed internal cloud infrastructure.

We plan to further drive business development by completing featured projects to enhance our industry reputation, and thus to further penetrate into a larger customer base. As our existing customers, especially Premium Customers, benefit from our solutions in more and more use cases, we will be able to establish market presence and attract more new customers. Within our strategically selected verticals, namely financial services, health care and public services, we believe there are significant opportunities for us to further penetrate. There are approximately 1.6 million companies in such strategically selected verticals. Leveraging our proven record in more established verticals with scalable cloud spending such as video and gaming, we also plan to further tap into emerging verticals, such as electric vehicle, and logistics.

Further Expansion into Selected New Verticals

We have a proven track record in successfully entering into new verticals. For example, we started to offer healthcare cloud solutions in 2020, which have contributed increasing revenues since then. In 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from healthcare cloud solutions amounted to RMB55.1 million, RMB307.2 million, RMB63.9 million and RMB24.5 million, respectively. We also plan to further tap into emerging verticals, such as electric vehicle. The following illustrates our steps and strategies in tapping into a new vertical:

- When expanding into a new vertical, we start with anchoring industry leaders in such vertical. For example, in EV, we started by collaborating with a leading electronic and smart manufacturing company in 2021.

- We proactively communicate with such customers to understand their business needs and pain points, and how they can benefit from our cloud solutions. For example, in EV, by communicating with such customer, we understand that they need high performance computing resources in manufacturing, data storage and training capabilities in developing autonomous driving technologies, and other cloud technologies to support their daily operations.

- Based on our modularized products, we design the architecture of cloud solutions to customers in the new vertical. All of those modularized products can be readily assembled and deployed to serve other customers in the same or adjacent vertical, empowering us on gaining more businesses in the same vertical. We seek to serve leading players in order to establish strong sector presence more efficiently. Moreover, as our cloud products are primarily focused on infrastructure and platform-level, we typically do not need to invest significant resources in developing new cloud products for a new vertical. For example, in EV, our solutions provided to such customer primarily include (i) high performance computing products based on our existing EPC product, (ii) high performance storage and big data products to support large-scale model training, and (iii) our Galaxy Stack product to enhance security and control while enjoying the benefits of public cloud services. We optimized the architecture of our solutions to enhance compatibility of our solutions with the customer's existing IT infrastructure and their business operations.

- By completing featured projects with industry-leading customers, we are able to demonstrate our enterprise service and technology capabilities as well as strengthen our brand, which in turn empower us to acquire more customers within those vertical. For example, in EV, we have also started collaboration with other players including other motor manufacturers and autonomous driving companies.

- To facilitate our expansion into new verticals, such as EV, we also recruited talents with in-depth industry knowledge to better understand customers' needs, and attended industry conferences to present our solutions and expand our customer reach.

We believe that our plans to expand into new strategically selected verticals with high demand for cloud services will have a positive impact on our profitability considering that (i) we will be able to expand our customer base and achieve revenue growth, (ii) as many cloud products are modularized that can be readily assembled, re-utilized and deployed, we do not expect to incur significant incremental costs in this regard, (iii) the solutions designed for leading players in the new verticals can be readily assembled and deployed to serve other customers in the same or adjacent verticals. For risks related to expansion into new verticals, see "Risk Factors – Risks Relating to Our Business and Industry – If our expansion into new verticals is not successful, our business, prospects and growth momentum may be materially and adversely affected."

Continue to Optimize Service Mix

We will continue to optimize our service mix to maximize our competitive strengths amid evolving market environments, which we believe is key to sustainable development and achieving profitability.

Leveraging our extensive experience in providing enterprise services and strong solution development and implementation capabilities, we have started, and expect to continue, to focus on enterprise cloud services, where we see favorable market trends and strong demands. As compared to public cloud services, enterprise cloud services have recorded higher gross profit margins during the Track Record Period and require low capital expenditure requirement for us, as customers are typically responsible for the costs of underlying equipment and cloud resources, such as IDC and servers.

Our efforts to optimize service mix is evidenced by the rapid growth of our enterprise cloud services. Revenue generated from enterprise cloud services amounted to an increasing portion of our total revenues during the Track Record Period, being 12.3% in 2019, 20.9% in 2020, 32.0% in 2021 and 34.5% in the six months ended June 30, 2022. Going forward, we plan to continue to lean our focuses and resources on such strategic optimization of service mix. Additionally, Camelot Group's deep domain expertise in financial service vertical with established long-term customer base further fortifies our competitive advantages in enterprise cloud services and better positions us to compete more effectively and gain additional market share. By integrating Camelot Group's nationwide project execution capacities and resources across China, including Beijing, Anhui, Jiangsu, and Hubei, among others, we are able to further deepen our communications with customers to better understand their business needs. As a result, we are able to further accelerate and enhance the growth of enterprise cloud service.

Effectively Manage and Optimize Costs

Our ability to manage and optimize our costs is critical to the success of our business and our ability to achieve sustainable profitability. While driving quality-growth and optimizing service mix inherently have positive impacts on our profitability, we also implement specific cost management initiatives. In particular, we are focused on (i) improving our ability to manage our infrastructure resources more efficiently, and (ii) enhancing our cost efficiency in solution deployment and implementation.

Our public cloud service, especially CDN, requires upfront procurement of infrastructure resources such as upfront procurement of bandwidth, based on the then foreseeable customer demand (which tends to fluctuate and be impacted by macro-economic conditions). In this regard, we expect to enhance cost efficiency to better match our procurement with market demands through effective infrastructure resource planning, robust and prudent market analysis, and flexible procurement arrangement. We will focus on matching our revenue streams with underlying resources. Specifically, we have strategically adjusted our business focus to downsize our CDN products since 2022, as evidenced by the decrease of 25.1% in our gross billings of delivery products from the six months ended June 30, 2021 to the six months ended June 30, 2022. We believe this strategic business adjustment will enable us to better manage our cost, thereby optimizing our overall cost structure to drive gross profit margin improvements.

Moreover, we have developed, and will continue to develop, our technology capabilities and infrastructure to provide modularized products and proven solution components that can be readily assembled, re-utilized and deployed to serve a large group of customers with similar demands, thereby achieving scalability and cost efficiency. In addition, following our acquisition and business integration with Camelot Group, we expect to benefit from its nationwide project execution capacities and resources, to better control our solution development and services costs and to further improve our cost efficiency in deployment and implementation.

We have significantly improved gross profit, achieving gross profit breakeven in 2019, and achieved gross profit margin of 3.9% in 2021. Our IDC costs, the largest component of our cost of revenues, as a percentage of our revenues decreased from 72.2% in 2019 to 61.7% in 2020, and further to 56.3% in 2021 and 52.4% in the six months ended June 30, 2022. We expect such trends to generally continue as we scale up.

Improve Operational Efficiency Through Economies of Scale

Operating expenses management and control is important for us to achieve profitability. Therefore, we intend to further enhance our ability to manage and control our operating expenses through improving our economies of scale.

Our operating expenses consist of research and development expenses, selling and marketing expenses and general and administrative expenses. We intend to efficiently align such expenses with our business strategic priorities. In addition, the major component of our operating expenses, namely staff expenses, generally does not increase proportionately with our revenue growth. We will also continue to optimize human resources management and enhance overall operational efficiency.

Our operating expenses as a percentage of total revenue was 29.1%, 23.8%, 23.9% and 30.2% in 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively. As a result of our continuous business expansion, we expect our operating expenses to increase in absolute amounts but decrease as a percentage of total revenue in the long term due to economies of scale (as certain major components of operating expenses such as staff expenses are not expected to grow in proportion to revenue growth). The increase in our operating expenses as a percentage of total revenue in the six months ended June 30, 2022 was mainly attributable to (i) the increase in selling and marketing expenses as a percentage of total revenue, primarily attributable to the amortization expenses as a result of recognized customer relationship following the acquisition of Camelot Group, accounting for 0.5% and 1.8% of our total revenues in 2021 and the six months ended June 30, 2022; the amortization expense is associated with the acquisition and is amortized using a straight-line method. Therefore such amortization expenses will decrease as percentage of total revenues as the total revenues increase, and (ii) the increase in general and administrative expenses as a percentage of total revenue, primarily attributable to (a) the decrease in our revenues other than Camelot Group from the six months ended June 30, 2021 to the six months ended June 30, 2022, (b) the increase in staff expenses (excluding share-based compensation) as percentage of total revenues from 1.2% in 2020 to 1.8% in 2021, and further to 3.7% in the first half of 2022, and (c) the increase in credit losses as percentage of total revenues from 0.5% in 2020 to 1.3% in 2021, and further to 3.4% in the first half of 2022. The increase in staff compensation from 2020 to 2021 was mainly due to our increased general and administrative talents, from 256 as of December 31, 2020 to 288 as of December 31, 2021. The increase in staff compensation from the first half of 2021 to the first half of 2022 was mainly due to our consolidation of Camelot Group, whose general and administrative staff expenses (excluding share-based compensation) accounted for 5.1% of Camelot Group's revenues in the first half of 2022. We expect to optimize our workforce and improve the efficiency of our general and administrative personnel. The increase in credit losses was primarily due to the provisions made on account receivables that may have recoverability issues. We made these provisions based on our impairment analysis as of each reporting date in accordance with our accounts receivable management policies. Going forward, we will further enhance our credit management by establishing dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our acquired customers and proactively following up on customers to ensure their payments are made as scheduled. We believe these efforts will effectively control credit loss and thereby lowering the general and administrative expenses as a percentage of our total revenues. Based on the foregoing, we do not expect the underlying reasons for above-mentioned increase in general and administrative expenses and selling and marketing expenses as percentages of total revenues to continue in the long run. Going forward, we expect to continuously optimize human resources management and enhance overall operational efficiency.

Working Capital Sufficiency

We have been applying a variety of methods to manage our working capital. We usually grant a credit term ranging from 30 to 180 days to our customers. We maintain strict control over our outstanding receivables and our overdue balances are regularly reviewed by our senior management. Meanwhile, we manage and negotiate flexible credit terms with our suppliers to improve our cash position. For most of our suppliers, the credit terms offered to us range from 30 days to 180 days. For details, see "Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets – Accounts Receivable, Net of Allowance" and "Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets – Accounts Payable." We expect that our working capital management will be further improved considering that (i) as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms, and (ii) as we build trust with our customers and gain more bargaining power as our business develops, we are able to negotiate for shorter credit terms with our customers. Especially for enterprise cloud services, we focused on the customers' credibility, financial and liquidity condition to ensure the accounts receivable recoverability. Moreover, we have also enhanced on the collection efforts on the accounts receivables.

In the second and third quarters of 2022, we recorded net operating inflows of RMB343.6 million and RMB100.9 million. We achieved positive net operating cash flow in the second and third quarters of 2022 primarily because of improvement of accounts receivable recoveries and accounts payables. Our recoveries of accounts receivable improved significantly, as demonstrated by (i) the RMB588.8 million and RMB210.4 million decrease of accounts receivable were in the second quarter and in the third quarter, respectively, compared with an increase of accounts receivable of RMB24.3 million in the first quarter, and (ii) other than Camelot Group, cash payments from Kingsoft Cloud's customers amounting to RMB5,439 million and RMB5,355 million for the nine months ended September 30, 2021, and 2022, respectively, representing 87.8% and 123.1% of revenues for the same periods, respectively, demonstrating our improved collection of accounts receivable in 2022. The improvement was mainly due to (i) our enhanced collection efforts, such as adjusting our monthly accounts collection targets as well as promptly following up with collection of accounts receivable; and

(ii) our stringent project selection favoring customers with strong liquidity position and low credit risk. In addition, our accounts payable decreased by RMB165.6 million and increased by RMB7.5 million in the second quarter and the third quarter, respectively, compared with a decrease of RMB339.3 million in the first quarter. The improvement was primarily due to our enhanced payment management, such as adjusting our monthly payment plans and firming our payment approval process.

We also proactively review and adjust our cash management policy and working capital needs according to general economic conditions and our near term business plans. Taking into account (i) the financial resources available to us, including a total of RMB4,767.1 million (US$652.6 million) cash resources as of October 31, 2022 (that include cash and cash equivalents and short-term investments), (ii) currently available financing facilities including RMB511.5 million (US$70.0 million) unutilized banking facilities as of October 31, 2022, and our ability to obtain additional financing facilities from both banks and strategic shareholders, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities before and after our listing on the Nasdaq, (iv) our operating cash outflow in 2021, being RMB708.9 million (US$111.2 million), accounted for only 15% of the financial resources available to us as of October 31, 2022 (that include cash and cash equivalents and short-term investments), (v) our positive net operating cash flow of RMB343.6 million in the second quarter of 2022 and RMB100.9 million in the third quarter of 2022, mainly attributable to our increasing focus on profitability and liquidity management, and (vi) our plans to continue to enhance our financial performance as discussed above, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this listing document. Having taken into account the factors above and the view of the Directors, the Joint Sponsors concur with the above-mentioned Directors' view.

The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. See also the cautionary statements in "Forward-looking Statements" in this listing document.

OUR INFRASTRUCTURE AND TECHNOLOGIES

We are dedicated to providing customers with secure and compliant cloud services and our extensive cloud infrastructure and advanced technologies have been the key to our success.

Infrastructure

Our distributed infrastructure is the foundation of our technology. As of June 30, 2022, we operated two data centers and more than 110,000 servers primarily throughout China, and achieved exabyte-level storage capacity. We have been investing significantly in our infrastructure to upgrade our computing power and storage capabilities, in order to deliver higher-quality cloud service and enhance the economies of scale. We purchase servers, network equipment and network resources, and lease data centers from industry-leading suppliers to ensure the reliability and availability of our network infrastructure. Our suppliers primarily include IDC operators, telecommunication operators and server providers in China.

Cloud Technologies

We create and apply advanced technologies to drive our development of products and solutions. Our core technologies include:

Cloud Native

Leveraging our proprietary container architecture, our cloud native technologies are applied using zero-performance loss bare metal servers. We provide core cloud native capabilities including microservices engines, service mesh solutions, DevOps systems and functional computing. Integrated with our cloud native security system, our solutions provide customers scalable, and flexible cloud native infrastructure.

Virtualization

We have built a complete virtualization technology stack. Technologies like x86 virtualization, input/output para-virtualization, high-performance storage and network virtualization, GPU (graphics processing unit) virtualization, with critical features such as smooth live migration and live patching, are all well supported and applied to our cloud products.

Distributed Storage

We have developed different storage technologies for various application scenarios, including key-value storage, table storage, object storage, elastic block storage, and file storage, providing high-performance storage products with reliability, scalability and availability.

Software Defined Network

Our virtualized network architecture, designed on the basis of disaster recovery multi-region construction, supports multi-tenant networks. With petabit-per-second-scale distributed east-west forwarding capabilities and terabit-per-second-scale north-south traffic capabilities, the cloud network provides high-performance interconnect services for computing, storage and various PaaS services.

Cloud Delivery

We have developed a comprehensive set of cloud delivery systems, including caching system, OTCP (optimized transmission control protocol) stack, user datagram protocol-based transport stack, traffic scheduling system, high-performance domain name system, near-real-time performance analysis system and IPV 4 (internet protocol version 4) and IPV 6 (internet protocol version 6) dual-stack network system.

Data Lake and Data Analytics

Our data lake technology allows customers to store both structured and unstructured data at any scale as-is, without having to first structure the data. Such data lake serves as a repository for data analytics, enabling customers to uncover insights from business data to guide better decisions.

RESEARCH AND DEVELOPMENT

Our vision and focus on innovation have fueled our growth and enabled us to deliver our products and services. We allocate a substantial portion of our operating expenses to research and development, including upgrading our infrastructure, improving our cloud technology and developing new products and solutions. We incurred RMB595.2 million, RMB775.1 million, RMB1,043.8 million (US$163.8 million) and RMB467.6 million (US$69.8 million) of research and development expenses in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

Our capabilities in technology is built by our talented and dedicated research and development staff. We focus on building and maintaining a large pool of talented researchers to drive our research and development efforts. We provide rigorous training to new recruits to familiarize them with our platform and thereby closely integrate them into our research and development staff. We had a team of approximately 1,144 engineers, researchers, programmers and computer and data scientists as of June 30, 2022. We encourage different points of view to lead us to find inspiration and improve our products and solutions.

The development of our cloud products and solutions is underpinned by our strong R&D capabilities. Our continuous investments in research and development activities result in a wealth of intellectual properties. As of June 30, 2022, we have registered 536 patents, 661 trademarks, 663 copyrights, and 134 domain names in China and overseas.

In addition, we aim to increase our research and development efforts to strengthen our technology capabilities and continue to invest in advanced technologies such as edge computing, container and data lake.

DATA PRIVACY AND SECURITY

Data security and privacy are our highest priority. To this end, we constantly enhance our data system resilience, protect user privacy, and show transparency on how we manage it. We aim to deliver high-quality cloud services with careful data and information protection, and we are in pursuit of security-driven innovations to provide effective solutions. We value transparency in our data management practices and have issued the Privacy Policy, the Kingsoft Cloud Security White Paper, and the Cookies Policy on our official website to clarify the way we collect, store, use, share and delete personal information in relation to Kingsoft Cloud products, services, websites, and other application scenarios. We have designed strict data protection policies to ensure that the collection, consolidation, use, storage, transmission and dissemination of such data are in compliance with applicable laws and with prevalent industry practice in all material respects. We also established a Security and Privacy Committee, comprised of members from various departments, including data security, privacy compliance, internal control and audit, and supervision, to ensure compliance with applicable laws and regulations in all material respects and to ensure that we meet the expectations of our customers.

We have established a robust information system in compliance with applicable data security requirements in all material respects. Our information system applies safeguards, including double-firewalls, antivirus walls and web application firewalls. We encrypt data to enhance data security. Our database can only be accessed through computers designated for authorized use. Only authorized staff can access these computers for designated purposes. We also have clear and strict authorization and authentication procedures and policies in place. Our employees only have access to data which is directly relevant and necessary for their job responsibilities and for limited purposes and are required to verify authorization upon every access attempt.

We regularly assess the effectiveness of our information system and data privacy and security policies. We closely monitor regulatory developments to ensure compliance. For example, in 2021, we conducted a full identification and review of relevant regulations and made amendments to our current data security documents based on the most recent released Data Security Law of the People's Republic of China after looking into every detailed item within, so as to keep our data security management abreast with the latest regulations and policies. We also actively participate in legislative feedback activities, such as the "Corporate Seminar of Standard Contract Provisions on Personal Information Exportation" to provide our insights and keep us abreast with the most recent regulatory requirements. To promote awareness of data privacy and security, we regularly hold and participate in data security and privacy protection conferences, industry insight sharing and regulatory communication meetings.

We have completed various information security, privacy and compliance certifications/validations, proving the security and reliability of our data protection technologies. For example, we have obtained ISO 9001 for Quality Management System, ISO 20000-1 for Service Management System, ISO 27001 for Information Security Management, ISO 22301 for Business Continuity Management Systems, ISO 27018 for Protection of Personally Identifiable Information for Public Cloud and ISO 27017 for Cloud Security Management System. Our in-house legal and data protection team has also been awarded as Winner in cloud services, and Highly-recommended in data protection and privacy in the 2021 In-house Counsel Awards by China Business Law Journal.

During the course of our business in the PRC, we may collect, process and store various types of data concerning our enterprise customers and limited volume of individual customers in the cloud service and IoT business. We process such personal information only to the extent necessary for providing the relevant services to the customers, and the individuals whose personal information processed by us currently is far below one million. The volume of customer's end user data is not within the calculation of "one million" threshold considering (i) we do not access or process the customer's end user data let alone being capable of identifying whether or not such data contains personal information; and (ii) in the consultation with the officer of CAC, it is advised that we, as the entrusted cloud service provider, are not required to submit the security assessment regarding the end user data controlled by the customer:

- In the cloud service business, we process the personal information of the contact person/authorized employees of enterprise customers and individual customers to verify their identity and for account management, which include the account, name, telephone number, identity document, facial image, bank account, PIN code, payment information and order information of the individual customers, the account, name, email address and telephone number of sub-account users, the name, telephone number and address of the recipients of the invoices, the name and identity document of the enterprise customers' legal representatives and authorized persons, and the name, telephone number, email address and address of enterprise customers' contact persons. When using or interacting with our cloud services, customers may also upload personal information (for example, of their end users) to the cloud server provided by us; however, we only store personal information of customer's end users as a neutral provider of information storage space and neutral technical support services entrusted by the customers. Technically, we are not able to and will not access and process any customer's end user data without the permission or authorization from the customer. That said, without such permission or authorization from the customer, we can only conduct system maintenance instead of accessing and processing any customer's end user data. In addition, as confirmed by the Industry Consultant, it is also the industry norm that (i) the cloud service providers will not and does not need to access and process any customer's end user data; and (ii) technically, the cloud service providers are not able to access and process any customer's end user data without the permission or authorization from the customer. The personal information we process about the contact person/authorized employee of the enterprise customers and individual customers for account management is stored separately from the personal information of customer's end user. We offer various secured method for storage of customer's end user data including Object Storage (KS3), Relational Database (KRDS), Cloud Database Redis (KCS), and Cloud Database MongoDB. Each secured stored option is secured with different security strategy, including data storage separation, access control, multiple-factor verification etc. We have strict access control mechanism in place to monitor any access to system and we do not grant any access to the systems where the customer's end user data is stored, which is our commitment to the users of our cloud services. Aside from the access control mechanism, we also implement the audit trail and event logging system to track each activity and network event on the system to prevent any unauthorized access to the any customer's end user data. We also put in place security breach and incident response policy to respond and address any threat actors and vulnerabilities to such system. Each system maintenance is made with prior planning and notification to the users and tracked on our network logging system. This suite of security measures which are in line with industrial practice will ensure that we prevent any unauthorized access to customer's end user data.

- In some other business like IoT, we process the telephone number, avatar, name, gender, identity document and address, and move in date of the individual customers, the name and identity document of the persons registered at the property management companies, the name, telephone number, visiting address and time, facial image and license plate number of the visitors, the email address, account and avatar of the personnel of the companies that deploy the IoT devices, and the telephone number, name, avatar, company, department, employee number, and facial image of the personnel of the property management companies.

We have completed the grading and filing of our primary business information systems under the PRC Multiple-level Protection System according to the Administrative Measures for the Hierarchical Protection of Information Security (《信息安全等級保護管理辦法》), and established a comprehensive system to protect the data security and privacy:

- We have published and implemented the Management Measures for the Security and Privacy Committee of the Kingsoft Cloud (《金山雲安全與隱私委員會管理辦法》), established the security and privacy committee, and appointed the personal information protection responsible persons, the data security responsible persons, and the cybersecurity responsible persons under the Personal Information Protection Law, the Cybersecurity Law and the Data Security Law of the PRC.

- We have applied access control and conducted data security training periodically to prevent the employees from abusing the data.

- We have published and implemented the Data Security Plan (《數據安全方案》), the Specification on the Classification and Management of Data Security of the Kingsoft Cloud (《金山雲數據安全性分級及管理規範》), the Measures for the Personal Information Processing and Protection of the Kingsoft Cloud (《金山雲個人信息處理與保護辦法》), and the Policy on the Personal Information Protection Compliance Audit of the Kingsoft Cloud (《金山雲個人信息保護合規審計制度》), and adopted encryption and desensitization measures on the data.

- We have published and implemented the Management Policy on Terminal Antivirus of the Kingsoft Cloud (《金山雲終端防病毒管理制度》), the Management Policy on the Machine Room Operation and Maintenance Security (《機房運維安全管理制度》), and the Specification on the Cloud Host Security of the Kingsoft Cloud (《金山雲雲主機安全規範》), adopted technical measures to prevent behaviors endangering cybersecurity and monitor and record network operation status and network security incidents, and kept the network logs for no less than six months, adopted remote disaster recovery and backup, and established the process to monitor the information about the security vulnerabilities of our systems and handle such vulnerabilities in a timely manner when discovered.

- We have published and implemented the Policy on the Management of Business Continuity (《業務連續性管理制度》), the Process of the Emergency Response of Vulnerability Information (《漏洞情報應急響應流程》), the Process of the Emergency Response of Security Incidents (《安全事件應急響應流程》), and the Management Measures on the Monitoring and Disposal of the Cybersecurity Threats of the Kingsoft Cloud (《北京金山雲網絡安全威脅監測與處置管理辦法》). Moreover, if any cybersecurity incidents occurred, we would start the emergency plans and adopt remedial measures immediately, and report the incidents to the competent regulators and relevant entities according to the requirements under the PRC laws.

- To ensure protection of data security and privacy, have established various internal control measures regarding use of services from third parties. For example, the Specification on the Classification and Management of Data Security of the Kingsoft Cloud (《金山雲數據安全性分級及管理規範》) requires us to monitor data safety and compliance during our collaboration with third parties. Our supplier relationship management measures require us to evaluate potential suppliers before engagement. conduct cybersecurity due diligence on our suppliers, which focuses on their internal cybersecurity management measures, security incidents and compliance, data security, system security and failure response measures. According to our procurement management measures, we shall use our standard procurement agreement templates to the extent applicable. Pursuant to our standard protection terms, our suppliers are obliged to comply with our requirements on data security and privacy, and to indemnify us for any losses.

Such policies and measures were established by taking into account the key legal requirements under applicable cybersecurity and data privacy laws and regulations, including the Personal Information Protection Law, the Cybersecurity Law and the Data Security Law, as well as their subordinated laws and regulations, and have incorporated the mandatory legal requirements into our compliance rules.

During the Track Record Period and up to the Latest Practicable Date, (i) we have not accessed or otherwise processed the data uploaded by the customers to the cloud server, in particular the data of the customers' end users; (ii) we have implemented necessary measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations as disclosed in "Business – Data Privacy and Security"; and (iii) we have not experienced any material incidents of data or personal information leakage, any violation of data protection and privacy laws and regulations, and we have not been subject to any investigation, inquiry, or sanction, or other legal proceedings against the Group in relation to cybersecurity or data privacy or any cybersecurity review from the CAC or any other relevant PRC government authority. Going forward, we will also closely monitor and assess further regulatory developments regarding cybersecurity and data privacy laws, and will comply with the latest regulatory requirements to the extent applicable to us. Based on the foregoing, our Directors and our PRC Legal Adviser believe that we have complied and will comply with all applicable laws and regulations on data privacy and security in the PRC in all material aspects.

During the Track Record Period and up to the Latest Practicable Date, we have not received any claim from any third party against us on the ground of infringement of such party's right to data protection as provided by applicable PRC laws and regulations or any applicable laws and regulations in other jurisdictions and we have not been subject to any government investigation, inquiry, action or penalty in such respects, or experienced any material data loss or breach incidents.

SALES AND MARKETING

To promote our cloud products and solutions, we mainly directly reach out to our customers and in certain cases we cooperate with third-party agents. Direct sales supported by our experienced industry-focused team is our primary sales approach. To promote our cloud products and solutions, particularly when we enter into a new vertical, we intend to cooperate with industry leaders to complete featured projects to demonstrate our technological capabilities and the advantages of our cloud products and solutions. We then leverage such featured projects to market our products and solutions for other customers in the vertical. We seek to generate recurring revenues through after-sale services and cross-sell new solutions after we gain insights into customer needs.

We have established a professional and industry-focused in-house sales team. Our employees have deep knowledge of the industries and customers that they are responsible for. Our in-house sales team works closely with our engineering team to ensure that they can propose and integrate the most suitable solutions to address the pain points faced by participants in the relevant industry verticals.

To encourage and incentivize our in-house sales team, we have designed a compensation structure that includes both fixed and performance-based components. We set specific performance targets for each team member. We evaluate such employee's performance every year and pay out performance-based compensation accordingly.

In addition, we have a marketing team responsible for increasing the awareness of our brand, promoting our new and existing products and services, maintaining our relationships with business partners and managing public relations.

CUSTOMERS AND CUSTOMER SUPPORT

Customers

We primarily focus on providing high-quality enterprise-grade cloud products and solutions to enterprises and public service organizations. Our platform has gathered a broad and diverse customer base, which has expanded rapidly since our inception. For the year ended December 31, 2021, we had 7,951 customers across a wide array of industry verticals, such as video, public service, healthcare, gaming and financial service, among others. The total number of our Premium Customers increased from 243 in 2019 to 322 in 2020, and further to 597 in 2021.

We strategically focus on cooperating with industry leaders to complete featured projects to demonstrate our technological capabilities and the advantages of our cloud products and solutions. As a result, we have generated a substantial portion of our revenues from large customers. Our total revenues generated from Premium Customers contributed 97.4%, 98.1%, 98.2% and 98.4% of our total revenues in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

We have generated a solid customer base. Our platform offers a wide spectrum of cloud products and we focus on capturing cross-selling opportunities. In 2019, 2020 and 2021, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively, representing the continuous growth of revenue generated from our existing Public Cloud Service Premium Customers. We have a proven record of selling more products to key customers. For example the average number of products used by our top 20 customers in public cloud (as measured by the total revenue generated in the first half of 2022, accounting for 86.7% of total revenue for public cloud services in the same period) improved from 8.0 in 2019 to 10.1 in 2020, to 11.5 in 2021 and further increased to 11.8 in the first half of 2022.

We have been diversifying our customer base through further penetration in selected verticals and entering into new verticals. Our top five customers in each year/period during the Track Record Period in aggregate accounted for 65.7%, 61.5%, 50.5% and 50.9% of our total revenues in the respective period. Our largest customer in each of 2019, 2020 and 2021 and the six months ended June 30, 2022 accounted for 30.9%, 28.1%, 21.9% and 19.3% of our total revenue for the respective period.

The following tables set forth a summary of our five largest customers for the periods indicated.

Five Largest Customers for the Year Ended December 31, 2019	Background and Business Profile	Registered Capital	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Revenue
Customer A	A China-based technology company operating a range of leading content platforms	US$100.0 million	Public cloud services	2016	1,222,723	30.9%
Xiaomi	A China-based consumer electronics and smart manufacturing company listed on the Hong Kong Stock Exchange, whose primary business includes development and sales of smartphones, IoT and lifestyle products, provision of internet services	RMB1,850.0 million	Public cloud services	2012	570,551	14.4%
Customer B	A China-based technology company operating content and social platforms listed on the Hong Kong Stock Exchange, whose primary business includes online marketing services, live streaming services and other services	RMB101.0 million	Public cloud services	2015	461,927	11.7%
Customer C	A China-based technology company listed on the Nasdaq and the Hong Kong Stock Exchange, whose primary business includes operation of providing online entertainment services to users	RMB2,500.0 million	Public cloud services	2017	234,755	5.9%
Kingsoft Group	A China-based software and internet services company listed on the Hong Kong Stock Exchange, whose primary business includes design, research and development and sales and marketing of the office software products and services of WPS Office, as well as research and development of games, and provision of PC games and mobile games services	US$1.2 million	Public cloud services	2014	109,177	2.8%

Five Largest Customers for the Year Ended December 31, 2020	Background and Business Profile	Registered Capital	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Revenue
Customer A	A China-based technology company operating a range of leading content platforms	US$100.0 million	Public cloud services	2016	1,851,315	28.1%
Customer B	A China-based technology company operating content and social platforms listed on the Hong Kong Stock Exchange, whose primary business includes online marketing services, live streaming services and other services	RMB101.0 million	Public cloud services	2015	987,773	15.0%
Xiaomi	A China-based consumer electronics and smart manufacturing company listed on the Hong Kong Stock Exchange, whose primary business includes development and sales of smartphones, IoT and lifestyle products, provision of internet services	RMB1,850.0 million	Public cloud services	2012	655,247	10.0%
Customer C	A China-based technology company listed on the Nasdaq and the Hong Kong Stock Exchange, whose primary business includes operation of providing online entertainment services to users	RMB2,500.0 million	Public cloud services	2017	302,206	4.6%
Customer D	A U.S. technology company listed on the Nasdaq, whose primary business includes design, manufacturing and marketing smartphones, personal computers, tablets, wearables and accessories, and offering a variety of related services	N/A	Public cloud services	2019	249,704	3.8%

Five Largest Customers for the Year Ended December 31, 2021	Background and Business Profile	Registered Capital	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Revenue
Customer A	A China-based technology company operating a range of leading content platforms	US$100.0 million	Public cloud services; enterprise cloud services	2016	1,983,204	21.9%
Customer B	A China-based technology company operating content and social platforms listed on the Hong Kong Stock Exchange, whose primary business includes online marketing services, live streaming services and other services	RMB101.0 million	Public cloud services; enterprise cloud services	2015	1,186,105	13.1%
Xiaomi	A China-based consumer electronics and smart manufacturing company listed on the Hong Kong Stock Exchange, whose primary business includes development and sales of smartphones, IoT and lifestyle products, provision of internet services	RMB1,850.0 million	Public cloud services; enterprise cloud services	2012	772,454	8.5%
Customer C	A China-based technology company listed on the Nasdaq and the Hong Kong Stock Exchange, whose primary business includes operation of providing online entertainment services to users	RMB2,500.0 million	Public cloud services	2017	352,860	3.9%
Customer D	A U.S. technology company listed on the Nasdaq, whose primary business includes design, manufacturing and marketing smartphones, personal computers, tablets, wearables and accessories, and offering a variety of related services	N/A	Public cloud services	2019	281,365	3.1%

Five Largest Customers for the Six Months Ended June 30, 2022	Background and Business Profile	Registered Capital	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Revenue
Customer A	A China-based technology company operating a range of leading content platforms	US$100.0 million	Public cloud services; enterprise cloud services	2016	787,620	19.3%
Xiaomi	A China-based consumer electronics and smart manufacturing company listed on the Hong Kong Stock Exchange, whose primary business includes development and sales of smartphones, IoT and lifestyle products, provision of internet services	RMB1,850.0 million	Public cloud services; enterprise cloud services	2012	465,355	11.4%
Customer B	A China-based technology company operating content and social platforms listed on the Hong Kong Stock Exchange, whose primary business includes online marketing services, live streaming services and other services	RMB101.0 million	Public cloud services; enterprise cloud services	2015	346,554	8.5%
Customer E	A China-based based technology company listed on the Nasdaq the Hong Kong Stock Exchange providing technology infrastructure and marketing reach to merchants, brands, retailers and other businesses	US$153.0 million	Enterprise cloud services	2017	312,234	7.7%
Customer D	A U.S. technology company listed on the Nasdaq, whose primary business includes design, manufacturing and marketing smartphones, personal computers, tablets, wearables and accessories, and offering a variety of related services	N/A	Public cloud services	2019	161,997	4.0%

Xiaomi was one of our five largest customers for each of the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, and Kingsoft Group was one of our five largest customers for the year ended December 31, 2019. Except as disclosed above, to the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, our customers were Independent Third Parties. Except as disclosed above, as of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers.

To the best knowledge of the Company, Customer A and Customer E are already providing, or have the ability to provide cloud services to themselves or others. However, during the Track Record Period and up to the Latest Practicable Date, we are not aware of any potential competition that may materially and negatively affect our current business relationships with our five largest customers. Moreover, during the Track Record Period and up to the Latest Practicable Date, we are not aware of any material potential disputes or disagreements between our Group and our five largest customers. We are also not aware of any termination or withdrawal of contracts by state-owned enterprise customers in any significant sense.

We are an important cloud service provider for each of our five largest customers during the Track Record Period, as evidenced by our significant annual revenue generated from each of such customers. Our advanced enterprise-grade cloud products with high-level availability and reliability, enabling the customers to seamlessly migrate to cloud and enjoy the benefits of the Group's cloud services such as cost reduction, security, flexibility, scalability and reliability, which are essential for the customers' business operation. We are able to maintain relationship with major customers and competitive advantages leveraging our high-quality cloud products, valuable insight and capabilities from Kingsoft Group's over 30 years of experience in providing enterprise services, nationwide project execution capacities and resources across China benefiting from our acquisition of Camelot Group, among others. For example, a major customer of our cloud computing products have been increasing its usage as a result of our advanced cloud technology and superior customer services. Specifically, our bare metal servers help the customer quickly build and expand application services with high performance requirements, while offering high reliability. We value each customer and are committed to provide customer services and support covering the entire cloud migration process, thereby enhancing the customer's experience in using our products and services.

We generally enter into annual contracts with our public cloud service customers. The salient terms and conditions of our agreements of public cloud service with customers are set out below:

- Specification of deliverables: Our contracts with customers typically specify the products or services to be provided in details based on customer demands. The specification of deliverables to customers may include, but not limited to, description of products or services, personnel resources arrangement and response time requirements.

- Credit terms: We typically offer credit terms ranging from one to six months. For public cloud customers, we also offer prepaid subscription packages over a fixed subscription period.

- Compliance: Customers shall use our products and services appropriately and in compliance with all applicable laws and regulations. We do not involve in the development or operation of our customers' products and services. Our customers shall be responsible for the compliance, including the legal collection and use of personal information of its product and services.

- Termination: The agreement may be terminated upon mutual consent between the parties.

- Ownership: We usually retain all our intellectual property rights with respect to our products.

For our enterprise cloud service customers, we enter into service contracts on a project basis. The salient terms and conditions of our agreements with customers are set out below:

- Specification of deliverables: Our contracts with customers typically specify the products or services to be provided in details based on demands of the projects. The specification of deliverables to customers may include, but not limited to description of products or services, timeframe of project execution, personnel resources arrangement and response time requirements. Specification of deliverables for enterprise cloud services also include deployment of our products and solutions operated on on-premise infrastructure.

- Post-delivery services and quality assurance: After delivery, we may also provide maintenance and upgrade services, which mainly includes technical support services performed by our technical support team. We typically provide quality assurance regarding our products and services to our customers for a 12-month period after the project is accepted by the customer in accordance with the acceptance terms agreed in the contracts.

- Credit Terms: We typically offer credit terms ranging from one to six months, subject to the actual progress of project execution.

- Compliance: Customers shall use our products and services appropriately and in compliance with all applicable laws and regulations. We do not involve in the development or operation of our customers' products and services. Our customers shall be responsible for the compliance, including the legal collection and use of personal information of its product and services.

- Termination: The agreement may be terminated upon mutual consent between the parties.

- Ownership: We usually retain all our intellectual property rights with respect to our products.

See also "Connected Transactions – Summary of Continuing Connected Transactions" for details and salient terms of our agreements and/or cooperation with Kingsoft Group and Xiaomi Group.

Some of our public service customers rely on their agents, typically system integrators, when selecting suppliers or service providers. Such third-party agents are not agents that the Company engages to broaden its sales channels. Instead, they are primarily information technology service providers selected by end customers to implement their projects, and save them from the trouble of directly negotiating with various suppliers or service providers. The use of such third-party agents by end customers is an industry norm. When we enter into a contract with such agents, we recognize such agents as our direct customers from accounting perspective. The contract terms for such agents are substantially consistent with other customers. We only have contractual rights and obligations with such third-party agents.

The below table sets forth details of our revenue by major industry verticals in absolute amount and percentage of the total revenues during the Track Record Period.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB* (unaudited)	*%*	*RMB*	*%*
	(RMB in thousands, except for percentages)									
Revenue										
Internet Sector	3,458,843	87.4	5,166,851	78.5	6,159,085	68.0	2,942,610	73.8	2,669,951	65.5
Public Service	406,681	10.3	1,164,183	17.7	1,369,674	15.1	762,446	19.1	186,312	4.6
Healthcare	–	0.0	55,111	0.8	307,191	3.4	63,922	1.6	24,530	0.6
Financial Service	79,627	2.0	153,395	2.4	402,424	4.4	215,809	5.4	60,871	1.4
Camelot Group	–	–	–	–	818,528	9.0	–	–	1,137,370	27.9
Others	11,202	0.3	37,767	0.6	3,882	0.0	2,432	0.1	1,273	0.0
Total revenue	**3,956,353**	**100.0**	**6,577,307**	**100.0**	**9,060,784**	**100.0**	**3,987,219**	**100.0**	**4,080,307**	**100.0**

* Internet sector primarily refers to our public cloud services customers. Revenues of Camelot Group are only included since the acquisition in September 2021.

The following table sets for a breakdown of our gross profit (loss) and gross profit (loss) margin by major industry verticals for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit (loss)	Gross profit (loss) margin	Gross profit (loss)	Gross profit (loss) margin	Gross profit (loss)	Gross profit (loss) margin	Gross profit (loss)	Gross profit (loss) margin	Gross profit (loss)	Gross profit (loss) margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB* (unaudited)	*%*	*RMB*	*%*
	(RMB in thousands, except for percentages)									
Internet Sector	(60,891)	(1.8)	204,558	4.0	(11,736)	(0.2)	117,839	4.0	(76,395)	(2.9)
Public Service	54,235	13.3	114,548	9.8	113,932	8.3	87,130	11.4	18,709	10.0
Healthcare	–	–	7,723	14.0	23,322	7.6	8,811	13.8	2,469	10.1
Financial Service	12,462	15.7	26,723	17.4	54,036	13.4	19,277	8.9	29,534	48.5
Camelot Group	–	–	–	–	170,528	20.8	–	–	169,747	14.9
Others	1,903	17.0	3,431	9.1	1,206	31.1	1,928	79.3	1,098	86.3
Total	**7,709**	**0.2**	**356,983**	**5.4**	**351,288**	**3.9**	**234,985**	**5.9**	**145,162**	**3.6**

The gross profit margin of finance service sector is slightly higher than that of the other major industry verticals, primarily because the cloud service market is relatively established for the financial service sector, and the customers generally have higher budget for cloud services.

During the Track Record Period, our revenue, gross profit (loss) and gross profit (loss) margin from Internet sectors were consistent with that of our public cloud services. Our gross profit from Internet sectors turned positive from 2019 to 2020 primarily due to the significantly increased revenue, since our customers in the internet sector were benefiting from the growth of internet usage in the early stage of COVID-19. The gross losses from Internet sectors in 2021 and the second half of 2022 were primarily due to (i) our upfront procurement for underlying resources including IDC costs at the beginning of 2021 largely based on our observations in 2020, while the actual market demand since the second half of 2021 turned out to be weaker, resulted from the general demand slowdown in the internet sector of China, and (ii) pricing pressure in the cloud industry.

During the Track Record Period, the fluctuations of our revenue, gross profit and gross profit margins for public service, healthcare and financial services were generally in line with the movements of that of enterprise cloud services. Our revenue from public service and financial service increased significantly over the course of 2019, 2020 and 2021, primarily because our enterprise cloud services were at an early development stage in 2019, followed by rapid growth in 2020 and 2021 reflecting the strong market demand. We entered into the healthcare sector in 2020 to seize the market opportunities in light of the COVID-19 and achieved significant revenue growth from 2020 to 2021. The decrease of revenue from public service, healthcare and financial services sectors from the first half of 2021 to the first half of 2022 was primarily due to our stringent project selection process with a strategic focus on high quality projects to achieve profitability, which also had driven the increase of gross profit margin from these sectors over the same periods.

See “Financial Information – Description of Key Components of Consolidated Statements of Profit or Loss – Gross (Loss)/Profit”.

End-to-end Fulfillment and Deployment

We have gained valuable insight and capabilities of enterprise services from Kingsoft Group, the widely trusted leading software franchise in China, and are devoted to serving enterprise customers and empowering them with cloud technologies. We have benefited from Kingsoft Group’s over 30 years of experience in providing enterprise services. With our customer-centric service philosophy, we always prioritize the needs of our customers and strive to provide an exceptional experience to them. As a result, our brand has received broad recognition in China.

We have built an experienced team that is knowledgeable about both technology advancements and pain points faced by participants in relevant industry verticals, allowing us to provide products and solutions that directly address the needs of our customers.

We value each customer and provide customer services and support covering the entire cloud migration process, which is executed by our in-house professionals to optimize service efficiency and to enhance our control over service quality. We have built our in-house team to deliver end-to-end services, covering all of the mission-critical tasks including planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade.

For example, for each enterprise cloud project, we provide dedicated services to customers with our in-depth industry insights. At project initiation, our specialized industry team performs in-depth analysis on customers' business needs and designs tailored solutions accordingly. Our product expertise and industry know-how are embedded in our solutions, empowering customers to easily integrate cloud resources and technologies with their business system. During the fulfillment and deployment process, we offer customers seamless cloud migration services. We have established 13 strategically located deployment centers with deployment team who are experienced with deployment and equipped with our product expertise and industry know-how. After delivery, we have regular client reviews to constantly improve our services. In particular, for our Premium Customers, we also have a technical support team on demand 24×7 who respond to customer inquiries within 90 seconds.

As compared to in-house deployment, building projects with external third parties has to involve different practices, require integrations across their fragmented offerings to form a complete workflow, which creates friction costs. In addition, inconsistency across different teams' expertise and unclear accountability may result into deteriorated quality of fulfillment and deployment. Compared to outsourcing certain stages of project deployment to external vendors, we directly work on the entire process of cloud migration projects, aiming to making consistent fulfillment and deployment. We believe our in-house fulfillment and deployment can bring various benefits to our customers:

- **Consistency and quality service throughout the process.** Our internal team is deeply engaged in the entire cloud migration process. We design customer-tailored solution in upfront planning, and continue to maintain direct control over the fulfillment, deployment and configuration, ensuing consistency and quality.

- **Trusted service provider**. As we directly work on the cloud migration projects, we build up client trust through timely response and proactive engagement, avoiding potential risks arising from coordination among different third-party vendors.

- **High efficiency and certainty.** By equipping our localized deployment team with leading product capabilities, we are able to achieve great efficiency and certainty in fulfill customers' requests, even in the challenging pandemic environment.

Moreover, by integrating Camelot Group's nationwide project execution capacities and resources across China, including Beijing, Anhui, Jiangsu, Hubei, among others, we are able to further enhance our communications with customers to better understand their business needs. As a result, we are able to further accelerate and enhance the implementation of enterprise cloud service projects with lower costs, improved efficiency, and higher value. For example, during the COVID-19 pandemic, we have successfully built the cloud-based healthcare information management system for a provincial digital health project in China. Travel restriction measures adopted by government authorities have brought challenges to on-site services. Benefiting from Camelot Group's local project execution capacities, we are able to efficiently communicate with customers and provide seamless on-site fulfillment, deployment and configuration services, ensuring our ability to fulfill customer requests amid challenging pandemic environment.

SUPPLIERS AND PROCUREMENT

Our suppliers primarily consist of IDC operators, telecommunication operators and server providers. Our top five suppliers in each year/period during the Track Record Period in aggregate accounted for 31.8%, 28.1%, 22.0% and 21.7% of our total purchases in the respective period. Our largest supplier in each of 2019, 2020 and 2021 and the six months ended June 30, 2022 accounted for 10.0%, 9.3%, 8.5% and 8.7% of our total purchases for the respective period.

The following tables set forth a summary of our five largest suppliers for the periods indicated.

Five Largest Suppliers for the Year Ended December 31, 2019	**Background and Business Profile**	**Products Purchased**	**Year of Commencement of Relationship with the Group**	**Transaction Amounts**	**Percentage Contribution to the Group's Total Purchases***
				(RMB'000)	
Supplier A	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	463,347	10.0%
Supplier B	A China-based company listed on the Shenzhen Stock Exchange, which sells computer-related equipment and other mechanical equipment, internet installation and integration services and software development, among others	Server and equipment	2018	278,974	6.0%

Five Largest Suppliers for the Year Ended December 31, 2019	Background and Business Profile	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts	Percentage Contribution to the Group's Total Purchases*
				(RMB'000)	
Supplier C	A China-based company whose primary business includes provision of technology promotion services, computer system integration, and computer software and hardware retailing, among others	Server and equipment	2016	272,097	5.9%
Supplier D	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	234,349	5.1%
Supplier E	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	224,158	4.8%

Five Largest Suppliers for the Year Ended December 31, 2020	Background and Business Profile	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Purchases*
Supplier A	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	606,777	9.3%
Supplier E	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	597,242	9.2%
Supplier D	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	288,017	4.4%
Supplier B	A China-based company listed on the Shenzhen Stock Exchange, which sells computer-related equipment and other mechanical equipment, internet installation and integration services and software development, among others	Server and equipment	2018	196,035	3.0%
Supplier F	A China-based technology company listed on the Shenzhen Stock Exchange, whose primary business includes provision of information technology consulting services, information system integration services, sales of hardware and software, and software development, among others	Server and equipment	2014	140,888	2.2%

Five Largest Suppliers for the Year Ended December 31, 2021	Background and Business Profile	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Purchases*
Supplier E	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	769,721	8.5%
Supplier A	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	646,645	7.1%
Supplier D	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	240,167	2.6%
Supplier G	A China-based company whose primary business includes technical development, technical service, technical training, technical consultation, software development and sales of computers, software, auxiliary equipment and mechanical equipment	Server and equipment	2017	204,086	2.2%
Supplier H	A China-based company whose primary business includes manufacturing, installing and selling microcomputers and servers, selling computer software and auxiliary equipment, and providing information technology services and internet information services	Server and equipment	2018	146,162	1.6%

Five Largest Suppliers for the Six Months Ended June 30, 2022	Background and Business Profile	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts *(RMB'000)*	Percentage Contribution to the Group's Total Purchases*
Supplier E	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	340,512	8.7%
Supplier A	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	278,737	7.1%
Supplier D	An integrated telecommunications operator in China listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, which provides a wide range of telecommunications services and telecommunications products	IDC services	2014	93,914	2.4%
Supplier H	A China-based company whose primary business includes manufacturing, installing and selling microcomputers and servers, selling computer software and auxiliary equipment, and providing information technology services and internet information services	Server and equipment	2018	76,690	2.0%
Supplier I	A China-based technology services company providing a wide range of technology services	Technology services	2021	57,587	1.5%

* The amount of total purchase contains the addition of fixed asset and construction in progress and cost of revenue excluding depreciation and amortization costs.

During the Track Record Period, we have not experienced any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers, delay in delivery of our orders from our suppliers.

As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

The salient terms and conditions of our agreements with suppliers are set out below:

- Specification of deliverables: Our suppliers shall deliver the procured items as specified in the agreement. Specification of deliverables may include, but not limited to the procured products or services, volume and unit price.

- Delivery: Our suppliers shall deliver the procured items within the prescribed time period through the transportation means (if applicable) as set forth in the agreement.

- Inspection: We are entitled to inspect the products or services delivered and provide comments for suppliers to address.

The salient terms and conditions of our agreements with IDC suppliers are set out below:

- Charging basis: Our IDC suppliers typically charge us based on the specified unit prices for usage of different types of racks or bandwidth and the amount of our usage in the billing period as set forth in the agreement.

- Minimum procurement: Our agreements with some major IDC suppliers contain minimum procurement amounts, primarily for bandwidth, for the duration of the contract term which is typically one year. Such minimum procurement amounts are primarily determined by the estimated optimal level based on the then foreseeable customer demand. If we fail to meet the minimum procurement requirements, we may be required to make additional payments to the suppliers so that they receive considerations as if the minimum procurement requirements were met. In 2019, 2020, 2021 and the six months ended June 30, 2022, our procured bandwidth for cloud storage and computing products amounted to RMB165.5 million, RMB186.9 million, RMB231.8 million and RMB112.3 million, respectively. For the periods, our actual usage amounted to RMB144.8 million, RMB159.5 million, RMB194.3 million and RMB86.8 million of these procured amount, representing 87.5%, 85.4%, 83.8% and 77.3% utilization rate, respectively. The utilization rate decreased significantly from 2021 to the six months ended June 30, 2022 primarily because the actual market demand turned out to be weaker than expected, particularly in the second half of 2021 and in 2022 to date mainly as a result of challenging macro-economic conditions, a general demand slowdown in the internet sector of China amid tightening regulations on industries such as online education, live streaming and e-commerce, as well as the impact of the COVID-19 resurgence. In the third quarter of 2022, our procured bandwidth for cloud storage and computing services amounted to RMB52.0 million, and our actual usage amounted to RMB42.9 million of these procured amounts, representing a 82.5% utilization rate, which indicates a significant increase from 77.3% in the first half of 2022 primarily as a result of our cost management efforts. For cloud delivery, procured bandwidth is organized to support the entire cloud delivery network which can be used to serve different customers concurrently, during a period of time. In practice, as long as one customer is using our cloud delivery products, the bandwidth procured for our cloud delivery network is being utilized, even though it can support more customers to use it concurrently. Therefore, the "utilization rate" for cloud delivery products is not application. In 2019, 2020, 2021 and the six months ended June 30, 2022, total IDC costs for cloud delivery as percentages of total gross billings for cloud delivery were 100%, 91%, 99% and 97%, respectively. The increase in 2021 and the first half of 2022 illustrates the upfront over procurement of IDC costs. IDC costs accounted for a significant portion of total gross billings for cloud delivery products mainly because cloud delivery products are relatively standard and subject to intensive price competition.

- Termination: Our agreements with IDC suppliers usually terminate at the expiration of contract term or upon our notification for termination, unless the parties otherwise agree. Upon receipt of our termination notice, IDC suppliers may terminate services after expiration of the contract term, and we shall make the payments due under the agreements until such termination of services.

The salient terms of our agreements with IDC suppliers are in line with industry practice because (i) the charging basis, minimum procurement and termination provisions as described above are generally consistent with the industry norm; and (ii) in particular, major IDC suppliers often require minimum procurement in entering into agreements with customers. Based on the foregoing, our Directors are of the view that, to their best knowledge, these terms are in line with industry practice.

COMPETITION

The market in which we participate is competitive. We face competition in every major aspect of our business. In particular, we mainly compete with other cloud service providers in China. Competition primarily lies in our industry, including product functionality and scope, performance, scalability and reliability of services, technology capabilities, marketing and sales capabilities, user experience, pricing, brand recognition and reputation. In addition, new and enhanced technology may further increase competition in our industry. We are the fourth largest cloud service provider in China in terms of total revenues with a market share of 3.1% in 2021, and the aggregate market shares of the other top five players in China's cloud service market in 2021 were 24.7%, 11.1%, 6.9%, and 3.0%, respectively. For details, see "Industry Overview – Competitive Landscape."

We believe that we are well-positioned to compete effectively on the basis of the foregoing factors. Nevertheless, some of our existing competitors have greater name recognition, broader footprint, longer operating histories, larger customer bases as well as greater financial, technical and other resources. See "Risk Factors – Risks Relating to Our

Business and Industry – The market in which we participate is competitive, and if we do not compete effectively, our business, results of operations and financial condition could be harmed.” For more information on the competitive landscape of our industry, see “Industry Overview.”

INTELLECTUAL PROPERTY

We develop and protect our intellectual property portfolio by registering our patents, trademarks, copyrights and domain names. We have also adopted a comprehensive set of internal rules for intellectual property management. These guidelines set the obligations of our employees and create a reporting mechanism in connection with our intellectual property protection. We have entered into standard employee agreements and confidentiality and non-compete agreements with our full-time R&D staffs, which provide that the intellectual property created by them in connection with their employment with us is our intellectual property.

As of June 30, 2022, we have registered 536 patents, 661 trademarks, 663 copyrights, and 134 domain names in China and overseas. We have obtained the license from Kingsoft to use its “金山雲” and “Kingsoft Cloud” trademarks. We have also obtained the license from Kingsoft Group to use some of its registered patents during their terms of registration. We intend to vigorously protect our technology and proprietary rights, but there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. See “Risk Factors – Risks Relating to Our Business and Industry – We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property could adversely affect our business, results of operations and financial condition.”

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes or any other pending legal proceedings of intellectual property rights with third parties.

EMPLOYEES

We had 9,764 employees as of June 30, 2022, most of whom were located in China, and the rest were located overseas. The following table sets forth a breakdown of our employees by function during the Track Record Period.

Function	December 31, 2019 Number of employees	December 31, 2019 Percentage	December 31, 2020 Number of employees	December 31, 2020 Percentage	December 31, 2021 Number of employees	December 31, 2021 Percentage	June 30, 2022 Number of employees	June 30, 2022 Percentage
Research and development	1,150	62.5%	1,286	59.4%	1,216	11.9%	1,017	10.4%
Sales and marketing	400	21.7%	533	24.6%	398	3.9%	348	3.6%
General and administrative	209	11.4%	256	11.8%	288	2.8%	273	2.8%
Solution development and services	82	4.5%	91	4.2%	111	1.1%	98	1.0%
Camelot Group	–[1]	–[1]	–[1]	–[1]	8,196	80.3%	8,028	82.2%
Total	1,841	100%	2,166	100%	10,209	100%	9,764	100%

Note:

(1) Not applicable as we acquired Camelot Group in September 2021 and started to consolidate its results of operations since then.

The number of our employees increased significantly from 2,166 as of December 31, 2020 to 10,209 as of December 31, 2021 primarily as a result of our acquisition of Camelot Group. The number of our employees decreased by 4.4% from 10,209 to 9,764 as of June 30, 2022, as a result of our human resources optimization as well as natural employee attrition from time to time.

Our success depends on our ability to attract, retain and motivate qualified personnel, and we believe that our high-quality talent pool is one of the core strengths of our Company. We adopt high standards and strict procedures in our recruitment, including campus recruitment, online recruitment, internal recommendation and recruitment through executive search, to satisfy our demands for different types of talents.

We provide regular and specialized training tailored to the needs of our employees in different departments. Our employees can also improve their skills through our development of solutions for our customers and mutual learning among colleagues. New employees will receive pre-job training and general training.

We offer competitive compensations for our employees. Besides, we regularly evaluate the performance of our employees and reward those who perform well with higher compensations or promotion.

As required by PRC laws and regulations, we participate in various employee social security schemes organized by municipal and provincial government, including pension, maternity insurance, unemployment insurance, work-related injury insurance, health insurance and housing provident fund. We are required under PRC laws and regulations to make contributions to employee social security schemes at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We enter into standard contracts and agreements regarding confidentiality, intellectual property, employment, commercial ethics and non-competition with all of our executive officers and the vast majority of our employees. These contracts typically include a non-competition provision effective during and up to two years after their employment with us and a confidentiality provision effective during and after their employment with us.

None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

INSURANCE

Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance, as required by PRC laws and regulations. We also purchase supplemental commercial medical insurance for our employees.

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key-man life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. During the Track Record Period, we did not make any material insurance claim in relation to our business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

We believe that strong ESG management is essential to the sustainability of our business. In addition to developing advanced cloud technologies, we aim to build and deliver more enabling products and services to all stakeholders. For example, we have been proactively leveraging our technology capabilities to help overcome the challenges of the COVID-19 pandemic by developing countermeasures such as resource management platforms.

In May 2022, we issued our ESG report for 2021. The ESG report mainly includes topics of privacy and data security, customer service, technology innovation, talent attraction, development and training, business ethics and anti-corruption, and intellectual rights protection and others. In 2021, we were granted the “ESG Practices Excellence Award” in the 2021 ESG TOP 60 Pioneers. Jiemian News and Shanghai United Media Group, two mainstream media outlets, conducted the evaluation, which looked at enterprises from five dimensions: corporate ESG progress overview, environmental, social, corporate governance responsibilities and business development.

Governance on ESG matters

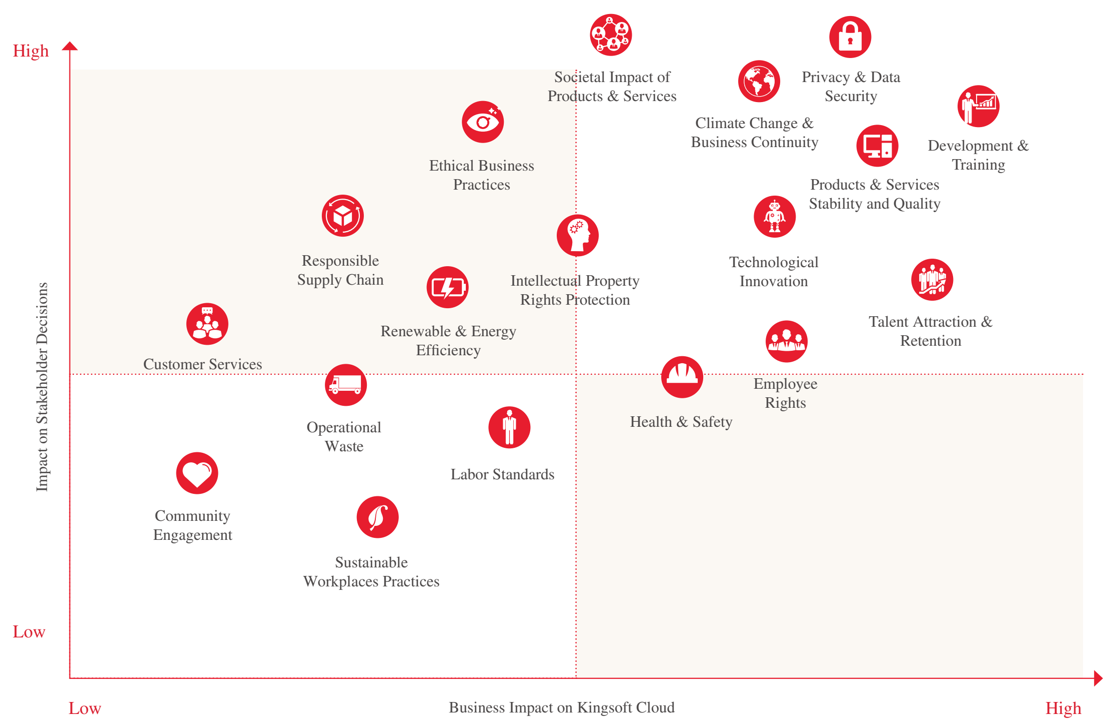
Our Board has the collective and overall responsibility for establishing, adopting and reviewing our ESG vision, policy and target, and evaluating, determining and addressing our ESG-related risks. Our Board may engage independent third parties to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks. Our Board also reviews and approves our annual ESG report to direct our dialogue with stakeholders regarding ESG matters. Our management presents and communicate the key highlights of ESG-related matters to the Board before our release of ESG report. The nominating and corporate governance committee of the Board (consisted of Mr. Tao Zou, our executive director and acting CEO, and Ms. Jingyuan Qu, our independent non-executive director, with Mr. Tao Zou as the chairman) is primarily responsible for overseeing of our ESG initiatives, including assessment of climate-related risks and opportunities. The compensation committee of the Board is responsible for oversight of human capital matters, and the audit committee of the Board is responsible for oversight of our financial risk and compliance issues. Furthermore, we have establish a risk control committee (the “Risk Control Committee”) at management level in 2021 to oversee ESG-related risks. The Risk Control Committee supports the Board and its committees in formulating and implementing the ESG policies and overseeing the communication with stakeholders regarding ESG matters.

ESG Strategy and Policy

Considering customers, employees, communities, investors, and other stakeholders can be affected by how we manage the impact of our products and services on creating long-term value development, we intend to maximize our products effectiveness and thrive with a balanced strategy of environmental sustainability and socio-economic development. To this end, we actively seek perspectives and insights from our stakeholders, through which inform our strategy development and lead our business decisions toward sustainability. We support the Ten Principles of the United Nations Global Compact, as well as the United Nations Sustainable Development Goals (SDGs), and incorporate them into our ESG strategy.

ESG-related Risks and Opportunities

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance in relation to health, work safety or environment regulations and had not had any incident, or received any claim for personal or property damage made by our employees which had materially and adversely affected our financial condition or business operations. It is also expected that the climate-related risks such as extreme weather conditions would not have a material impact on our operation in the short, medium and long terms. Nonetheless, our management have been assessing and managing business risks and opportunities. The below diagram sets forth the ESG-related issues that we consider material to us and our stakeholders, with the relative importance demonstrated.



The below table sets forth details of our assessment regarding ESG-related risks over the short, medium and long term, including physical risks and transition risks, their impact to our business and our responses.

	Risks and Impact	Our responses
Short-term	*Extreme Weather (Physical Risk)*: Extreme weather disasters are caused by climate change worldwide, such as floods, typhoons and earthquakes. All these natural disasters may seriously affect the safe and stable operation and business continuity of our data center. Service interruption or major equipment damage will bring serious business continuity and economic interests risks to us.	To tackle issues caused by climate change, we strictly follows the Emergency Operating Procedure (EOP) for extreme weather in the data center. In case of extreme weather conditions, insulation and protective measures are taken to ensure the temperature of the equipment room and the stable operation of the data center. In addition, we found that a safe geographical location is the best defense against natural disasters by comparing the cases of data centers suffering from extreme weather at home and abroad.
	Reputational Risks (Transition Risk): Global investors are increasingly concerned about environmental performance, climate change and other topics. As a public company and a key player in the cloud services industry, any inaction or slow response to the environmental performance could affect our reputation, investment decisions, or even lost business opportunities.	To proactively address such risks, our risk control department has incorporated climate-related risks into its risk assessment model and has studied the possible impact on reputation and taken the next steps. In addition, we have established a transparent information disclosure mechanism to better communicate to our stakeholders our efforts and objectives related to ESG.

	Risks and Impact	**Our responses**
Medium-term	*Policy Risk (Transition Risk)*: Regulatory policies relevant to power restriction, carbon emission and such may increase our operational compliance costs and affect the normal operation of the data centers.	In the context of a tighter regional policy of power restriction, we have taken the initiative to adopt more stringent management measures, such as avoiding high-power data centers and establishing a data center energy consumption assessment and risk warning mechanism.
	Technology Risk (Transition Risk): With the rapid development of low-carbon technologies, the Internet of Things and other emerging technologies, failure to identify and apply emerging technologies promptly may present greater climate-related risks to our operations.	To reduce such risk, we actively explore the possibility of heat recovery technology and other emerging technologies
	Market Risk (Transition Risk): Our suppliers may have to deal with rising costs due to climate change, indirectly leading to cost increases in our operational costs.	To mitigate such risk, we seek suppliers that are less vulnerable to climate change, such as using alternative energy like wind power or hydropower.
Long-term	*Chronic risks triggered by climate change (Physical Risk)*: Climate change may lead to operation instability and higher costs in the long term. For example, geological hazards can lead to operational disruptions or loss of assets; sea-level rise can affect the normal operation of coastal data centers; and prolonged droughts can lead to higher water bills in the area where they are located.	We actively addresses chronic risks and continues to promote data center sustainability transformation, thereby reducing the impact of data center operations on the natural environment and making efforts to slow down climate change. We are exploring wind power and hydropower developed areas for data center construction; conducting green power research on the transmission lines of wind power and solar power input in Beijing; and using natural resources and waste heat recovery for server cooling to improve energy utilization.

Environment

We do not operate any production facilities, and thus we are not subject to significant health, workplace safety or environmental risks. Nonetheless, we are committed to innovating products and services that empower businesses in a way that also protects the environment and resources that we share on this planet.

Although cloud computing companies are main consumers of electricity, cloud computing technology is to centralize the energy-intensive scattered in all types of enterprises, saving the overall energy consumption level at the society-wide level. Served as the main storage and computing location of mass data, data centers are considered as high energy consumption unit in the technology industry. Energy consumption in data centers accounts for approximately 89% of our total energy use.

Sustainable Data Center

In line with China's "dual carbon" goals of "striving to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060", our data centers are established in a high-efficiency, low-carbon, energy-saving, and renewable way. In addition, we improve energy and resource utilization in the processes of the planning, design, operation, and maintenance of the data center, implementing a green development strategy. We closely monitor the power usage effectiveness, or PUE, of our data centers. PUE is the ratio of total amount of energy used by a computer data center facility to the energy delivered to computing equipment, illustrating how efficiently a data center uses energy. The actual PUE of our data center in Beijing was 1.37 in 2021, lower than its designed PUE of 1.4.

The major exhaust gas generated by the data centers is mainly the exhaust gas discharged when the diesel generator does not burn sufficiently. In response, we cleaned and replaced the filters of the generator exhaust system more frequently and reduced the no-load running time of the generator. We also strengthen cooperation with environmental protection departments to perform regular equipment quality inspection and maintenance to ensure that exhaust gas emissions meet national standards and minimize the impact of exhaust gas on outdoor emissions.

Green Workplace

Our workplace sustainability philosophy centers around resource efficiency and powered by a smart management system. In June 2021, we obtained the ISO14001 for Environmental Management System certification. The Xiaomi Science and Technology Park, where our headquarters are located, was awarded a Two-star Grade Certificate of Green Building Design Label under the Beijing Evaluation Standard for Green Building, and obtained the certification for Leadership in Energy and Environment Design (LEED) Platinum.

Environmental Statistics

In line with our vision for sustainable development, we oversee our environmental protection performance in aspects such as energy and resources consumption, greenhouse gas ("**GHG**") emissions and waste production. The table below sets forth details of our environmental statistics for the years/periods indicated. The statistics regarding energy and resources consumption and GHG emission refer to data of our own data centers, which are the primary source of our energy use.

	For the Year Ended December 31,		For the Six Months Ended June 30,
	2020	2021	2022
Total GHG emissions (scope 1 and 2) (tons)*	18,460.48	22,004.52	13,688.50
Total GHG emissions (scope 1 and 2) per unit of revenue (tons per million RMB)*	2.81	2.43	3.35
Total comprehensive energy consumption (MWh)	26,245.26	31,164.12	19,493.46
Total energy consumption in offices per unit of revenue (MWh per million RMB)	3.99	3.44	4.78
Running water consumption (tons)	47,763.00	63,318.00	53,979.00
Running water consumption per unit of revenue (tons per million RMB)	7.26	6.99	13.23
Non-hazardous waste (tons)	110.74	371.05	N/A**
Non-hazardous waste per unit of revenue (tons per million RMB)	0.02	0.04	N/A**
Hazardous waste (tons)	N/A***	0.092	N/A**
Hazardous waste per unit of revenue (tons per million RMB)	N/A***	0.00001	N/A**

* According to Measures for Administration of Carbon Emissions Trading (For Trial Implementation) issued by the Ministry of Ecological and Environment of PRC, the inventory of GHG includes carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons and nitrogen tri-fluoride. Our GHG inventory primarily includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent and the calculation is based on the 2019 Baseline Emission Factors for Regional Power Grids in China issued by the Ministry of Ecology and Environment of PRC, and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (2019 Edition) issued by the Intergovernmental Panel on Climate Change (IPCC). GHG emissions (Scope 1) arise mainly from the consumption of "direct energy" (gasoline and diesel fuel) in our operation. GHG emissions (Scope 2) arise mainly from the consumption of "indirect energy" (purchased or acquired electricity) in our operation.

** Not available because our waste production was recorded on an annual basis.

*** Not available because we started to record data for hazardous waste in 2021.

Our GHG emissions mainly arise from electricity generated by burning fossil fuels and direct burning of diesel and gasoline. Direct energy consumption arises from the consumption of diesel and gasoline in our operation. Indirect energy consumption arises from the consumption of purchased electricity in our operation. Our running water consumption mainly refers to the municipal water supply and reclaimed water supply. Our hazardous waste primarily refers to waste toner cartridges and waste ink cartridges from printers in our office buildings. Our non-hazardous waste primarily refers to domestic and electronic waste from our offices. The increase of total GHG emissions (scope 1 and 2), resource consumption and waste production from 2020 to 2021 was primarily due to our expansion of offices nationwide and our own data centers. Nonetheless, the intensity per unit of revenue thereof generally decreased over the same periods with our improvement in energy efficiencies.

The GHG scope 3 emissions during our ordinary course of business mainly relates to the emission from the purchased services such as electricity used by leased racks, as well as daily commute and business travels by our employees. The carbon emissions generated during the operation of racks are calculated according to the estimated electricity consumption of racks. The carbon emissions from employee commuting are estimated based on the number and location of our employees, and the carbon emissions from commuting traffic of 10,000 people per trip in the commuting monitoring report of major cities in China in 2021 issued by the Ministry of Housing and Urban-Rural Development of China and China Academy of Urban Planning and Design. In 2021 and the six months ended June 30, 2022, our total GHG scope 3 emissions were estimated to be 175.2 thousand tons and 115.8 thousand tons, respectively.

Technological Innovation

Leveraging our technology infrastructure resources, we have developed various advanced cloud computing products, providing solutions to a variety of industries. Adhering to the concept of inventing for good, we are committed to leveraging our technology capabilities to address the needs and challenges of the new generations and promote the well-being of all.

Responsible Operations

We uphold the principles of compliance and integrity in every aspect of our operation. We abide by all applicable laws and regulations in our operations and act by the highest standards. We are dedicated to providing high-quality cloud services, safeguarding data security and promoting honest business practices. Our efforts in responsible operations include, among others, the following:

- We put every effort into protecting user privacy and data security. See "– Data Privacy and Security."

- Dedicated to providing advanced cloud products and solutions, intellectual property rights protection is of paramount importance to us. We firmly protect our own innovation achievements and also fully respects that of other parties.

- We dedicate ourselves to building a fair and transparent working environment and adopt a zero-tolerance attitude towards corruption, bribery and any other unethical behaviors.

Talent Development

We regard our employees as the most valuable assets for the Company. We respect the fundamental rights entitled to employees, ensure equal opportunities for all employees and job applicants and continually look for ways to further diversify our workforce and strengthen our culture of inclusion.

We wish to grow together with our employees. We provide a range of training programs and incentive mechanisms for employees worldwide, all aiming to help employees improve their all-around capabilities.

We strive to create a warm workplace reflecting our diverse, equal and inclusive culture, with each of our employee bringing their passion and potential to the max, to constantly innovate and reimagine the future. To this end, we put effort in increasing workforce diversity and talents retention.

Occupational Health and Safety

We continue to invest in health, safety and wellness programs to help employees enjoy a better quality of life and contribute to our success. We strictly abide by applicable laws, regulations and internationally recognized practices in conducting our operation and continue to invest in building a more robust protection system for all our employees. We emphasize the importance of fire safety management in our workplace. We conduct regular safety inspections, fire drills, training and educational campaigns as well as other activities to enhance employees' safety awareness and emergency response skills.

FACILITIES

We occupy certain properties for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of June 30, 2022, none of the properties leased by us had a carrying amount of 15% or more of our consolidated total assets.

As of the Latest Practicable Date, we leased offices in Beijing and certain other cities where we operate with an aggregate gross floor area of approximately 51,246 square meters. These facilities currently accommodate our management headquarters and data centers, as well as most of our sales and marketing, research and development, and general and administrative activities. We believe that there is sufficient supply of properties in China and other jurisdictions where we operate and we do not rely on the existing leases for our business operations.

For more information about the risks with respect to our leased properties, see "Risk Factors – Risks Relating to Our Business and Industry – We face certain risks relating to the real properties that we lease, which may adversely affect our business."

LEGAL PROCEEDINGS AND NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any material non-compliance incidents that have led to fines, enforcement actions, or other penalties that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation.

Failure to Make Full Contributions to Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

During the Track Record Period and up to the Latest Practicable Date, we had not made full contributions to the social insurance plan and housing provident fund based on the actual salary level of some of our employees as prescribed by relevant laws and regulations, primarily because certain of the employees of Camelot Group were not willing to bear the costs associated with social insurance and housing provident funds strictly in proportion to their salary. Pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. We have made provisions of nil, nil, RMB15.0 million and RMB25.1 million in our consolidated statements of comprehensive profit or loss for the shortfall in our social insurance and housing provident fund contributions for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022, respectively. We had made full contributions to the social insurance plan and housing provident fund based on the actual salary level of employees in 2019 and 2020. The contribution shortfall in 2021 and the six months ended June 30, 2022 was attributable to that certain of the employees of Camelot Group were not willing to bear the costs associated with social insurance and housing provident funds strictly in proportion to their salary. We believe we have made sufficient provisions for the shortfall in our social insurance and housing provident fund contributions. See "Risk Factors – Risks Relating to our Business and Industry – Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other related regulations of the PRC may have an adverse impact on our financial conditions and results of operation."

Legal Consequences

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by employees regarding our social security insurance and housing provident fund policy. We undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities. Based on the foregoing, our PRC Legal Adviser is of the view that the risk of us being fined is relatively low, provided that we pay the outstanding amount, and late fee (if any), for social insurance and house provident funds in full amount within the prescribed period after receiving notices to rectify such non-compliance from the relevant PRC authorities. Accordingly, we believe the potential operational and financial impacts of the shortfall in social insurance and housing provident funds are not material to the Group.

Remedial Measures and Internal Control

We undertake to make full payment of social insurance and housing provident fund based on the actual salaries of any newly recruited employees. Additionally, we are in the process of communicating with existing employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which requires additional contributions from them. We undertake to use our best efforts to communicate with our existing employees, to make full contribution of social insurance and housing provident fund for them in the next payment cycle. We will also use our reasonable best effort to facilitate such communications and encourage employees' cooperation in a timely manner. We have been actively communicating with the relevant local government authorities in this respect.

We have enhanced our internal control measures requiring social insurance and housing provident fund contributions to be made in compliance with relevant PRC laws and regulations, including the following measures:

- *Training*. Strengthen legal compliance training to our employees responsible for compliance matters, finance and human resources, which may provide additional information to employees, including the relevant laws and regulations, latest development of national and local policies and market practices on issues of employees' key concerns;

- *Monitoring*. Designate our human resources and employee care staff to coordinate, review and monitor the communication with employees, the payment status regularly;

- *Awareness*. Proactively keep abreast of latest development in PRC laws and regulations in relation to social insurance and housing provident funds; and

- *Consultation*. Consult external PRC legal counsel for advice on relevant PRC laws and regulations. We will maintain close communication with relevant authorities on a regular basis to understand their requirements and interpretation of relevant rules and regulations, and make contributions to social insurance and housing provident fund in accordance with their specific guidance in a timely manner.

LICENSES AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, we had obtained all material licenses, permits, approvals and certificates necessary to conduct our business operations from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect. These include the VAT Licenses for internet data center services, internet access services, domestic internet protocol virtual private network services, content delivery network services and internet information services. For the licenses or permits that are going to expire, we are in the process of renewing them.

The following table sets forth the details of the material licenses and permits necessary for the operation of our business in China.

License/Permit	Entity Holding the License/Permit	Grant Date	Expiration Date
VAT License for services including internet data center (IDC) services, internet access (ISP) services, domestic internet protocol virtual private network services and content delivery network (CDN) services	Kingsoft Cloud Network	September 19, 2022	March 18, 2024
VAT License for EDI services and internet domain name resolutions services	Kingsoft Cloud Network	October 9, 2022	April 11, 2023(1)
VAT License for IDC services, ISP services and CDN services	Beijing Jinxun Ruibo	October 18, 2022	June 24, 2027
VAT License for internet information services and internet domain name resolutions services	Beijing Jinxun Ruibo	February 18, 2022	February 18, 2027
VAT License for internet information services	Kingsoft Cloud Information	January 17, 2019	January 17, 2024

License/Permit	Entity Holding the License/Permit	Grant Date	Expiration Date
VAT License for ISP services and information services (excluding internet information services)	Kingsoft Cloud Information	May 27, 2022	September 30, 2026
VAT License for internet information services	Kingsoft Cloud Network	October 9, 2022	October 9, 2027
VAT License for ISP services	Nanjing Qianyi	April 9, 2018	January 9, 2023(2)
VAT License for internet information services	Nanjing Qianyi	September 27, 2022	September 27, 2027
VAT License for internet information services	Wuhan Kingsoft Cloud	December 14, 2018	December 14, 2023
VAT License for IDC services and information services (excluding internet information services)	Wuhan Kingsoft Cloud	September 30, 2021	December 14, 2025
VAT License for ISP services and information services (excluding internet information services)	Shanghai Jinxun Ruibo	October 18, 2022	January 24, 2027
VAT License for CDN services, ISP services and information services (excluding internet information services)	Shenzhen Yunfan	April 29, 2022	October 26, 2025

Notes:

(1) The Company will apply for renewing the license in a timely manner in February or March 2023 before its expiration.

(2) The Company is in the process of renewing the license and expects to complete the renewal process in January 2023 before its expiration.

AWARDS AND RECOGNITION

The following table sets forth major awards and recognitions we received as of the Latest Practicable Date.

Award/Recognition	Award Year	Awarding Institution/Authority
Best Edge Computing Platform	2020	APAC CDN Industry Alliance
Gold Award	2020	The Eighth China Information Technology Expo
Top 50 Big Data Enterprises	2020	China Big Data Industry Ecological Alliance
Cloud Gaming Case of the Year – Cloud Gaming Service Platform	2020	5G Cloud Gaming Industry Alliance
Gold Award for VR/AR Innovation	2020	Virtual Reality Industry Alliance
Information Innovation Product	2020	The Internet Economy Magazine
Data Industry Transformation Leader – Leading Enterprise in Edge Computing	2020	Global Internet Data Conference
50 Leading Finance Technology Enterprises	2020	KPMG China
Top 50 VR Enterprises	2021	Virtual Reality Industry Alliance
Top 100 Competitive Software and Information Technology Service Enterprises	2021	China Information Technology Industry Federation
RTC Technology Innovation Award	2021	APAC Content Distribution Conference & CDN Summit
ESG Pioneer – ESG Practice Award of the Year	2021	Shanghai United Media Group

RISK MANAGEMENT AND INTERNAL CONTROL

Information Technology Risk Management

We have established and currently maintain information technology risk management and internal procedures and policies that we consider to be appropriate for our business operations. We are dedicated to continually improving these systems. See "– Data Privacy and Security" in this section for information about our information security procedures and policies.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethic and legal compliance. We maintain high standards in recruitment with strict procedures to ensure the quality of new hires and provide specialized training tailored to the needs of our employees in different departments. We also conduct periodic performance reviews for our employees, and their remuneration is performance-based. We monitor the implementation of internal risk management policies on a regular basis to identify, manage and mitigate internal risks in relation to the potential incompliance with our code of conduct, work ethics, and violations of our internal policies or illegal acts.

We also have in place a code of business conduct and ethics, and FCPA-related policies to safeguard against corruption within our Company, providing to our employees the best practices and work ethics as well as our anti-corruption and anti-bribery guidance and measures. In particular, we have adopted an internal code of business conduct and ethics to enhance the professionalism of teams, strengthen the awareness of compliance and integrity, as well as prevent all kinds of violations or improper conducts. Under our firm-wide whistleblowing policy, we make our internal reporting channel open and available for our staff to file complaints or report violations. We will conduct timely investigation and evidence collection after receiving complaints about and reports on violation of the code of integrity.

Financial Reporting Risk Management

We have in place a set of accounting policies and procedures in connection with our financial reporting risk management, such as financial and accounting policies, budget management procedure and financial statement preparation procedure. We have various procedures and IT systems in place to implement accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations. Our accounting and financial team is led by Mr. Haijian He, our executive Director and Chief Financial Officer, who has extensive experience in finance and financial reporting. Our accounting and financial team also consisted with qualified and experienced financial and accounting staff to strengthen our financial reporting capability.

Prior to our initial public offering in 2020, we had been a private company with limited accounting and financial reporting personnel and other resources with which we address our internal control over financial reporting. In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2018 and 2019, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting. The material weakness identified was our lack of sufficient accounting and financial reporting personnel with requisite knowledge and experience in application of U.S. GAAP and SEC rules.

We have implemented a number of measures to address the material weakness. Our Chief Financial Officer, who is responsible for our accounting and finance department has over ten years of financial experience and expertise, in particular in managing financing and evaluating risks in complex merger and acquisition transactions. We have hired additional qualified financial and accounting staff with U.S. GAAP and SEC reporting experience to strengthen our financial reporting capability, and have expanded the capabilities of existing accounting and financial reporting personnel through continuous training and education in the accounting and reporting requirements under U.S. GAAP, and SEC rules and regulations. We have improved our monitoring and oversight controls for non-recurring and complex transactions. We have also established an internal audit department to enhance internal controls and have engaged an independent advisory firm to assist us in assessing the design and effectiveness of our execution of internal controls in accordance with the compliance requirements under the Sarbanes-Oxley Act of 2002 and in improving our overall internal controls. As of December 31, 2020, based on an assessment performed by our management on the performance of the remediation measures described above, we determined that the material weakness previously identified in our internal control over financial reporting had been remediated. Additionally, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Our independent registered public accounting firm has issued an attestation report included in our annual report on Form 20-F filed with the SEC for the fiscal year ended December 31, 2021, which has concluded that our internal control over financial reporting is effective as of December 31, 2021.

In preparation for the Listing, the Group has engaged an independent third party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting for the period from January 2021 to December 2021 (the "**Internal Control Review**"). The Internal Control Review performed by the Internal Control Consultant constituted a Long Form Report engagement pursuant to the relevant technical bulletin in AATB1 issued by the Hong Kong Institute of Certified Public Accountants. The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity level controls and business process level controls, including revenue and receivables, purchases and payables, inventory, tangible & intangible assets, treasury and investment, R&D and intellectual properties management, financial reporting, payroll, insurance, taxation and general controls of information technology. The Internal Control Consultant did not identify any material deficiencies in our internal control system and did not have any further recommendation as of April 2022.

Legal and Compliance Risk Management

Our business is subject to regulation and supervision by national, provincial and local government authorities with regard to our business operations, which may be subject to changes. For further details on the applicable laws and regulations in relation to our business operations, see "Regulations" of this listing document. We have in place detailed internal procedures to ensure regulatory compliance. Our legal department and government relationship department are responsible for obtaining any requisite governmental pre-approvals or consent, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines and ensuring all necessary application, renewals or filings for trademark, copyright and patent registration have been timely made to the competent authorities.

Internal Control Risk Management

To ensure strict compliance of our business operations with applicable rules and regulations, we have designed and adopted a set of comprehensive internal control policies. We have also established an internal audit department to enhance internal controls and have engaged an independent advisory firm to assist us in assessing the design and effectiveness of our execution of internal controls and in improving our overall internal controls. We continually review our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing, and mitigating risks involved in our business operations. For more information about our audit committee, including the professional qualifications and experiences of its members, see "Directors and Senior Management – Corporate Governance."