You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the notes thereto, included in the Accountants' Report in Appendix IA to this listing document. Our consolidated financial information has been prepared in accordance with U.S. GAAP.

The Stock Exchange has granted us a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19.13 and 19.25A of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules, to allow us to prepare the Accountants' Report set out in Appendix IA in conformity with U.S. GAAP, provided that a reconciliation of such financial information in accordance with IFRS, is included in this listing document. In addition, the Stock Exchange has allowed us to prepare our accounts in accordance with U.S. GAAP after listing for the purposes of our financial reporting required under the Listing Rules, subject to the condition that, among others, our annual consolidated financial statements should include a reconciliation of our financial information in accordance with IFRS in the form and substance adopted in Appendix IA to this listing document.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this listing document. For further details, see "Forward-Looking Statements."

OVERVIEW

We are the fourth largest cloud service provider in China in terms of total revenues with a market share of 3.1% in 2021. Market shares of the top two players in terms of total revenues were 24.7% and 11.1% in 2021. 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 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.

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 use cases 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 in each selected vertical through efficient execution. As we continue to complete featured projects 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 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 a growing number of business needs faced by our customers.

We implement a premium customer strategy, focusing on covering leading enterprises in selected verticals to establish market presence efficiently, with a customer-centric service philosophy. We have amassed a large and solid 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.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Trends in China's economic conditions and development of China's cloud service industry

Our business and results of operations are significantly affected by China's overall economic conditions and the development of China's cloud service industry. The development of the cloud service industry in China is expected to be driven by massive, high-growth demand from internet verticals, increasing penetration in traditional enterprises and public service organizations, the large-scale launching of new technologies, requirement for dedicated industry specific cloud services, favorable government policies, higher requirement on data compliance, data loss prevention and non-conflict of interest, demand for internet infrastructure construction, deepening digitalization accelerated by COVID-19, overseas expansion of Chinese companies, among others. As an established market player, we have captured, and are likely to continue to capture, the various market opportunities brought by the development of China's cloud service industry.

Nevertheless, unfavorable changes in China's overall economy and cloud service industry could negatively affect demand for our services and materially and adversely affect our results of operations. The emerging cloud service industry in China is entering into a new phase of digitalization and there are considerable uncertainties about its future growth. See "Risk Factors – Risks Relating to Our Business and Industry – If our market does not grow as we expect, or if we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, and changing customer needs, requirements and preferences, our products and solutions may become less competitive."

Our ability to retain existing customers and acquire new customers

We have amassed a large, premium and diversified customer base covering a wide spectrum of industry verticals. The total number of our Premium Customers increased from 243 in 2019 to 322 in 2020, and further to 597 in 2021. We have fostered strong loyalty with existing customers as a result of the high-quality cloud products and solutions offered by us, as well as our ability to deliver tangible value to customers by effectively addressing their needs.

We aim to acquire and retain new customers by, among others, further enhancing the quality and efficiency of our existing products and solutions, offering additional innovative products and solutions and implementing effective sales strategies tailored to the verticals in which we operate. In particular, the revenue growth of our enterprise cloud services has been primarily driven by the fast-growing demands of enterprise cloud services and the increase in the number of our Enterprise Cloud Service Premium Customers as a result of more traditional enterprises adopting cloud solutions. We also aim to continue to generate additional revenues from existing customers and seek additional cross-selling opportunities. In 2019, 2020 and 2021 and the six months ended June 30, 2022, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146%, 114% and 88%, respectively.

Historically, in addition to the quality and efficiency of our products and solutions, we may sometimes offer more competitive prices to retain customers. Along with other market players, we will continue to take into considerations of both our profitability, and our ability to retain and acquire premium customers and high quality projects in our product pricing, which may have a negatively impact on our ability to retain customers in the short-term. For example, in the first half of 2022, despite that the pricing competition has started to gradually ease, the net dollar retention rate of our Public Cloud Premium Customers was 88%. The decrease in the net dollar retention rate of our Public Cloud Premium Customers in the first half of 2022 was mainly due to the weaker demand by major customers in the internet sector in the second half of 2021 as discussed above and our proactive scale-down of CDN products. For details, see "– Key Operating Metrics." Such impact will gradually be eased as the pricing competition across the industry is expected to eased.

Our ability to upgrade and optimize our products and solutions

We have benefited from the upgrade and optimization of our products and solutions and have achieved rapid growth. Our future success is significantly dependent on our ability to further enhance the quality and optimize the portfolio of our products and solutions. Furthermore, we seek to improve the breadth and quality of our products and solutions, to develop products and solution that could meet the evolving demands of our customers, and to enhance our brand recognition, which thereby will allow us to capture additional market share, enjoy better economies of scale and improve our profitability.

Our ability to continue to invest in technology and infrastructure

We have invested, and will continue to invest, in resources to enhance the technology, infrastructure and capabilities of our products and solutions. Our ability to improve our existing cloud products and solutions and develop new ones depends on the scale of our infrastructure as well as the technologies we use to develop and deliver high-quality cloud services to customers. It is thus crucial for us to continually invest in technology and infrastructure to expand our resources and enhance capabilities of our products and solutions. We plan to continue to invest in upgrading and expanding our network infrastructure.

Our ability to effectively control our costs and expenses

Our ability to manage and control our costs and expenses is critical to the success of our business. We have invested substantially in developing technology capabilities and infrastructure in order to provide our products and solutions. Also, we have been expanding into new verticals and developing new products and solutions, for example, we are capturing the market opportunity to provide enterprise cloud services to traditional industries and public service organizations. As a result, we expect our costs and expenses would increase along with the increase in our enterprise cloud revenues. While we expect our costs and expenses to increase as our business expands, we also expect them to decrease as a proportion of our revenues as we achieve more economies of scale and higher operating efficiency.

Our ability to compete effectively

Our business and results of operations depend on our ability to compete effectively in the verticals in which we operate. Our competitive position may be affected by, among other things, the scope of our solution offerings, the quality of our solutions and our ability to price our solutions competitively. We believe that our valuable insight and capabilities of enterprise services gained from Kingsoft Group, our neutrality, strong enterprise service capabilities, proprietary advanced technologies and prominent research and development capabilities differentiate us from our competitors and help us establish a high entry barrier difficult for our competitors to surpass. However, we are still subject to competition from a variety of players within our industry. Increased competition could materially and adversely affect our business, financial condition and results of operations.

KEY OPERATING METRICS

We adopt a premium customer strategy, focusing on leading enterprises in selected verticals to establish market presence efficiently. Our total revenues generated from Premium Customers amounted to RMB3,853.3 million, RMB6,449.2 million, RMB8,896.1 million (US$1,396.0 million), RMB3,929.9 million and RMB4,015.0 million in 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively, accounting for 97.4%, 98.1%, 98.2%, 98.6% and 98.4% of our total revenues in the same years, respectively. Specifically, our total revenues generated from Public Cloud Service Premium Customers amounted to RMB3,358.5 million, RMB5,045.4 million and RMB6,043.8 million (US$948.4 million) in 2019, 2020 and 2021, respectively, accounting for 97.1%, 97.6% and 98.1% of our total public cloud service revenues in the same years, respectively. Our total revenues generated from Enterprise Cloud Service Premium Customers amounted to RMB481.0 million, RMB1,366.9 million and RMB2,846.2 million (US$446.6 million) in 2019, 2020 and 2021, respectively, accounting for 98.9%, 99.6% and 98.2% of our total enterprise cloud service revenues in the same years, respectively. Moreover, prior to our acquisition of Camelot Group, Camelot Group's revenues generated from Premium Customers for the period from January 1 to September 3, 2021 amounted to RMB1,247.5 million. Therefore, we believe that a number of key operating metrics in relation to our Premium Customers, instead of total customers, as presented in the table below, are more important and meaningful evaluate our business and measure our performance. We believe that these metrics are indicative of our overall business and performance. The calculation of the key metrics and other measures discussed below may differ from other similarly titled metrics used by other companies, securities analysts or investors.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
Public Cloud Services					
Number of Public Cloud Service Premium Customers	175	191	222	210	196
– Including:					
New customers acquired in the year/period	63	35	50	31	20
Existing customers	112	156	172	179	176
Net dollar retention rate of Public Cloud Service Premium Customers(1)	155%	146%	114%	110%(5)	88%(5)
Average revenues per Public Cloud Service Premium Customers (RMB in million)(3)	19.2	26.4	27.3	13.8(4)	13.4(4)
Enterprise Cloud Services					
Number of Enterprise Cloud Service Premium Customers	67	124	382	76	295

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
– Including:					
New customers acquired in the year/period	57	104	335	58	255
Existing customers	10	20	47	18	40
Average revenues per Enterprise Cloud Services Premium Customers (RMB in million)(3)	7.2	11.0	10.7	13.7(4)(6)	4.7(4)(6)
Total					
Number of Premium Customers(2)	243	322	597	288	488
– Including:					
New customers acquired in the year/period	123	146	383	84	279
Existing customers	120	176	214	204	209
Average revenues per Premium Customer (RMB in million)(3)	15.9	20.0	17.0	13.6(4)(6)	8.2(4)(6)
Number of customers	4,244	3,864	7,951	6,738	4,091
– Including:					
New customers acquired in the year/period	N/A(5)	2,256	5,519	N/A(4)	1,707
Existing customers	N/A(5)	1,608	2,432	N/A(4)	2,384

Notes:

(1) Net dollar retention rate of Public Cloud Service Premium Customers is calculated by dividing the revenues from our Public Cloud Service Premium Customers, who were also our Public Cloud Service Premium Customers in the previous year, in the indicated period by the revenues from all of our Public Cloud Service Premium Customers in the previous corresponding period.

(2) The number of Premium Customers for the year ended December 31, 2021 includes customers of Camelot Group and Shenzhen Yunfan with revenue of over RMB700,000 for the same year. The Premium Customers for the six months ended June 30, 2021 and 2022 refer to customers with revenue of RMB350,000 for the respective period. Premium Customers are determined based on the total revenues from customers, while Public Cloud Premium Customers and Enterprise Cloud Premium Customers are determined based on the revenues from public cloud services and enterprise cloud services, respectively.

(3) Due to the acquisition of Camelot Group in 2021, average revenues per Premium Customer for 2021 is calculated by dividing (i) the sum of (x) consolidated revenues of our Group generated from Premium Customers in 2021 and (y) revenues generated from Premium Customers of Camelot Group for the period from January 1 to September 3, 2021, by (ii) the number of Premium Customers for 2021.

(4) The average revenues per Premium Customer for an interim period are not annualized. The average revenues per Premium Customer for a given half year are calculated by dividing the historical revenues for the given half year from Premium Customers by the number of Premium Customers for the same period.

(5) Net dollar retention rate of Public Cloud Service Premium Customers decreased from 110% for the six months ended June 30, 2021 to 88% for the six months ended June 30, 2022, mainly due to the weaker demand by major customers in the internet sector in the second half of 2021 and our proactive scale-down of CDN products.

(6) 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 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.

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 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.

IMPACT OF COVID-19

On March 11, 2020, the World Health Organization declared the global COVID-19 outbreak a pandemic. Since then, there continues to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the spread and mutation of the virus, the severity of the disease, the possibility of successive waves of outbreaks, actions taken by government authorities, and the scope and length of the resulting economic disruption, among others.

These uncertainties may have impacts to our financial performance, to the extent it affects the general economic status, our customers, suppliers, other business partners, and our own operations. However, as a result of the balance of our businesses with exposure to different verticals and revenue models, such impacts are mixed in direction. On one hand, the pandemic has gradually propelled cloud adoption as: (i) with restrictive measures imposed on transportation in response to the pandemic, people increasingly leverage the internet to fulfill daily activities from work, shopping, education to entertainment, which are increasingly supported by cloud infrastructure; (ii) the healthcare industry in China increasingly tap into cloud technology to meet the challenges of public health events; and (iii) enterprises and organizations experiencing business or operation fluctuations in the pandemic may consider cloud services to obtain better agility and cost control in the mid-to-long run. As a result, our public cloud services have experienced rapid revenue growth from 2019 to 2021, with a year-on-year growth rate of 49.4% from 2019 to 2020 and 19.2%, from 2020 to 2021. To embrace these opportunities and mitigate the pandemic's adverse impact to our business, we have been continuously perfecting our scalable core technologies and products and investing into our solutions of selected verticals, especially in healthcare, financial services and public services, and we expect to bear fruit in the enormous digitalization market in the long run.

On the other hand, (i) travel restriction measures adopted by government authorities may limit our ability to provide on-site services to customers, and negatively affected project bidding process and deployment completion, and (ii) businesses negatively impacted by the pandemic may cut their procurement budget, including cloud budget.

Furthermore, our business and the cloud service market in China in general were negatively impacted in 2022 by the resurgence of COVID-19 and the related measures. The market size of cloud service in China experienced a decrease from RMB152.6 billion for the first half of 2021 to 150.4 billion for the first half of 2022. As a result, our results of operations were negatively affected by the COVID-19, which is evidenced by the decrease in our revenue from Kingsoft Cloud enterprise cloud services, from RMB1,042.2 million in the six months ended June 30, 2021 to RMB271.7 million (US$40.6 million) for the six months ended June 30, 2022. Partially due to the impact of COVID-19, our enterprise cloud service customers (excluding the consolidation of Camelot Group's customers) were 62 for the six months ended June 30, 2022, compared with 76 for the six months ended June 30, 2021. Additionally, the Company's project execution was negatively affected as, among others, (i) we were not able to provide onsite services for some of our projects due to the travel restrictions, which can disrupt the project delivery plans, and (ii) our customers' attention, especially that of our digital health projects including various public service departments and healthcare institutions, was significantly distracted by the resurgence of COVID-19 from time to time, and thus they were not able to cooperate with project execution and acceptance as planned. In response to COVID-19, we have been normalizing the epidemic prevention and control measures in our operations. To deal with difficulties encountered in daily operations and project execution, we have been optimizing the remote collaboration mechanism, increasing the localized deployment efforts to lessen our reliance on travel, and adjusting work plans flexibly to cope with uncertainties in project execution and customers' schedule, among others. We also closely monitor the development of COVID-19 outbreaks across the country, as well as the scope and length of the resulting economic disruption.

The recent trend of easing policies may have a positive impact on our business operations, but the extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives, will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, any resurgence of COVID-19, such as the resurgence of COVID-19 in China in 2022, the actions to contain the disease or treat its impact, related restrictions on travel, and the duration, timing and severity of the impact on customer spending, including any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. See "Risk Factors – Risks Relating to Our Business and Industry – Our business is subject to natural disasters, extreme weather conditions, health epidemics and other catastrophic incidents, and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism."

OUR ACQUISITION 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. Our statement of comprehensive profit or loss from the year ended December 31, 2021 consolidates the results of Camelot Group since September 2021.

Camelot Group offers comprehensive and digitalized solutions such as teller and branch systems, anti-money laundering and fraud prevention software to the financial services industry. For further details of the financial service cloud solutions offered by Camelot Group, please refer to the paragraph headed "Business – Our Products and Solutions – Industry-Specific Solutions – Financial Service Cloud Solutions." By acquiring and integrating with Camelot Group, we expect to benefit from its (i) core senior management's rich experience; (ii) large customer base and long-standing client relationships to cross-sell our products and solutions; (iii) deep vertical know-how for developing industry solutions; and (iv) nationwide fulfillment centers across major cities in China for project deployment with lower costs with enhanced efficiency and increased customer stickiness.

In 2021 (after our acquisition of Camelot Group) and the six months ended June 30, 2022, (i) revenues generated by Camelot Group amounted to RMB818.5 million and RMB1,137.4 million, respectively; (ii) gross profit generated by Camelot Group amounted to RMB170.5 million and RMB169.7 million, respectively; (iii) gross profit margin of Camelot Group was 20.8% and 14.9% respectively; (iv) net profit generated by Camelot Group amounted to RMB55.0 million and RMB1.6 million, respectively; and (v) net profit margin of Camelot Group was 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 of net profit margin was primarily attributable to the decrease of gross profit margin.

The below table sets forth details of contribution from Camelot Group's financial results to the Group's financial performance for the year/period indicated.

	For the Year Ended December 31, 2021			For the Six Months Ended June 30, 2022		
	Group	Camelot Group's financial results	Camelot Group's financial results as % of the Group	Group	Camelot Group's financial results	Camelot Group's financial results as % of the Group
	(RMB in thousands, except for percentages)					
Total revenues	9,060,784	818,528	9.0%	4,080,307	1,137,370	27.9%
Cost of revenues	(8,709,496)	(648,000)	7.4%	(3,935,145)	(967,623)	24.6%
Gross profit	351,288	170,528	48.5%	145,162	169,747	116.9%
Selling and marketing expenses	(518,167)	(22,492)	4.3%	(290,615)	(22,851)	7.9%
General and administrative expenses	(601,702)	(52,830)	8.8%	(471,836)	(94,245)	20.0%
Research and development expenses	(1,043,811)	(27,204)	2.6%	(467,579)	(18,722)	4.0%
Operating (loss)/profit	(1,812,392)	68,002	(3.8%)	(1,084,868)	33,929	(3.1%)
Net (loss)/profit	(1,591,756)	54,964	(3.5%)	(1,365,284)	1,597	(0.1%)

To comply with the requirements of Rule 4.05A of the Listing Rules, as well as to present material information necessary for investors to assess the impact of the acquisition of Camelot Group on our Group, this listing document includes (i) audited historical financial information of Camelot Group for the years ended December 31, 2019, 2020 and for the period from January 1, 2021 to September 3, 2021 (see Note 31 to the Accountants' Report included in Appendix IA); and (ii) a discussion and analysis of the historical financial information of Camelot Group for the years ended December 31, 2019 and 2020 and the period ended September 3, 2021 (see "– Financial Information of Camelot Group").

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this listing document. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

See Note 2 to the Accountants' Report in Appendix IA for a description of other significant accounting policies.

Goodwill

We acquire businesses in purchase transactions that result in the recognition of goodwill. Goodwill is allocated to the reporting units that are expected to benefit from the synergies of the business combination based on the estimated fair value of these reporting units at the date of acquisition. The determination of the fair value of reporting units requires us to make estimates and assumptions.

We test goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (component level) as determined by the availability of discrete financial information that is regularly reviewed by operating segment management or an aggregate of component levels of an operating segment having similar economic characteristics. If the carrying value of a reporting unit (including the value of goodwill) is greater than its estimated fair value, an impairment charge would be recorded for the amount that the carrying amount of the reporting unit exceeded its fair value.

We are permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. For our impairment testing performed, we applied the qualitative assessments for our reporting units. In performing the qualitative assessments, we identified and considered the significance of relevant key factors, events, and circumstances that could affect the fair value of each reporting unit. These factors include such as industry and market considerations, overall financial performance of the reporting units, and other specific information related to the operations. We also assessed changes in each reporting unit's fair value and carrying value since the most recent date a fair value measurement was performed.

As of December 31, 2021, we performed a qualitative assessment for goodwill allocated to the Cloud service and solutions and the Cloud-based digital solution and services reporting units, and concluded that it is not more-likely-than-not that the fair value of the reporting units is less than their carrying amount.

As of June 30, 2022, we performed a qualitative assessment for goodwill allocated to the Cloud-based digital solution and services reporting unit, and concluded that it is not more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. We elected to bypass the qualitative assessment and proceed directly to perform quantitative assessment for the Cloud service and solutions reporting unit. The fair value of this reporting unit has been determined using the income approach based on financial budgets covering a five-year period approved by management. Significant assumptions used included projected revenue growth rates, terminal growth rate, and discount rate. The projected annual revenue growth rates used for each of the first five years are not more than 22.0%. The terminal growth rate beyond the five-year period is 2.3%, and the post-tax discount rate is 15.0%. As of June 30, 2022, as the fair value of the Cloud service and solutions reporting unit amounted to RMB9,069.0 million exceeded its carrying amount of RMB8,173.6 million by RMB895.4 million, no impairment loss was recognized.

A sensitivity analysis of the goodwill impairment shows that, with all other variables hold constant, a reasonably possible change in key parameters would not cause the carrying amount of the Cloud service and solutions reporting unit to exceed its fair value. However, a decrease of 2.55% in the projected annual revenue growth rates to rates of not more than 19.45%, a decrease of 1.25% in the terminal growth rate to 1.05% or an increase of 2.17% in the discount rate to 17.17% would cause the carrying amount of the Cloud services and solutions reporting unit to exceed its fair value.

Impairment of long-lived assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of long-lived assets in an asset group may not be fully recoverable. When these events occur, we evaluate the recoverability of long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available. Significant assumptions used in the future undiscounted cash flows of the asset group included revenue growth rates and operating margin. Future changes to our estimates and assumptions based upon changes in operating results, macro-economic factors or management's intentions may result in future changes to the future cash flows of our long-lived assets. For all periods presented, there was no impairment of any of our long-lived assets.

Level 3 fair value measurements

Our financial assets measured at level 3 fair value hierarchy were mainly equity investments without readily determinable fair value. For equity investments that are measured at level 3 fair value hierarchy, the methodologies that we use to assess the fair value of the equity investments involve a significant degree of management judgment and are inherently uncertain. For details, see Note 2(l) to the Accountants' Report set out in Appendix IA.

Our finance department performs the valuation of level 3 financial instruments for financial reporting purposes, with the support of an independent external valuer. We manage the valuation exercise of the investments on a case by case basis. For equity investments without readily determinable fair value, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Group, with the assistance of an independent third-party valuation firm, determined the estimated fair value of its equity investments using the alternative measurement.

In respect of the assessment of fair value of the equity investments with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors have undertaken the following key actions: (i) considering available information in assessing the assumptions including but not limited to comparable companies' conditions, economic, political and industry conditions; (ii) engaging an independent external valuer to assist our management to assess the fair value; (iii) considering the independence, reputation, capabilities and objectivity of the external valuer to ensure the suitability of such valuer; (iv) reviewing and discussing with our management and the external valuer on the valuation models and approaches; and (v) reviewing the valuation work papers and results prepared by the valuer. Valuation techniques are verified by the independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. In respect of the valuation of our equity investments, details and the quantitative information about the significant unobservable inputs used in level 3 fair value measurements are set forth in Note 2(l) to the Accountants' Report set out in Appendix IA.

For the purposes of the Accountants' Report, the Reporting Accountants have performed audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants to express an opinion on the Group's historical financial information for the Track Record Period as a whole in accordance with the basis of preparation set out in note 2(a) to the historical financial information. The Reporting Accountants' opinion on the historical financial information of the Group for the Track Record Period is set out on pages IA-1 to IA-2-B of Appendix IA to this listing document.

The Joint Sponsors have conducted the following independent due diligence work in relation to the valuation of the Company's Level 3 financial instruments: (i) obtained information on the credentials of the valuer and understand from the valuer the scope of work performed, the key assumptions and methodologies for the valuation of financial assets categorized as level 3 fair value measurements; (ii) obtained and reviewed the valuation report issued by the valuer; (iii) reviewed relevant notes in the Accountant's Report as contained in Appendix I to this listing document; and (iv) discussed with the management of the Company and the Reporting Accountant the work they have performed in relation to the valuation of the level 3 financial instruments for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Having considered the work done by the Company management and the Reporting Accountant, and the relevant due diligence work done as stated above, nothing material has come to the Joint Sponsors' attention that indicates that the Company management have not undertaken sufficient investigation and due diligence, or that the Company management's reliance on the work products of the valuer is unreasonable.

DESCRIPTION OF KEY COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The table below sets forth our consolidated statements of profit or loss for the periods indicated derived from the Accountants' Report included in Appendix IA:

	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)											
Selected Consolidated Statements of Operation:												
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	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
Cost of revenues(1)	(3,948,644)	(99.8)	(6,220,324)	(94.6)	(8,709,496)	(1,366,710)	(96.1)	(3,752,234)	(94.1)	(3,935,145)	(587,502)	(96.4)
Gross (loss)/profit	7,709	0.2	356,983	5.4	351,288	55,125	3.9	234,985	5.9	145,162	21,672	3.6
Operating expenses												
Selling and marketing expenses(1)	(317,426)	(8.0)	(409,211)	(6.2)	(518,167)	(81,312)	(5.7)	(208,884)	(5.2)	(290,615)	(43,388)	(7.1)
General and administrative expenses(1)	(238,648)	(6.0)	(379,892)	(5.8)	(601,702)	(94,420)	(6.6)	(201,814)	(5.1)	(471,836)	(70,443)	(11.6)
Research and development expenses(1)	(595,169)	(15.1)	(775,130)	(11.8)	(1,043,811)	(163,797)	(11.6)	(496,888)	(12.5)	(467,579)	(69,808)	(11.5)
Total operating expenses	(1,151,243)	(29.1)	(1,564,233)	(23.8)	(2,163,680)	(339,529)	(23.9)	(907,586)	(22.8)	(1,230,030)	(183,639)	(30.2)
Operating loss	(1,143,534)	(28.9)	(1,207,250)	(18.4)	(1,812,392)	(284,404)	(20.0)	(672,601)	(16.9)	(1,084,868)	(161,967)	(26.6)
Interest income	78,612	1.9	77,118	1.2	71,942	11,289	0.8	36,673	1.0	38,647	5,770	1.0
Interest expenses	(4,925)	(0.1)	(9,453)	(0.1)	(52,040)	(8,166)	(0.6)	(10,555)	(0.3)	(68,273)	(10,193)	(1.7)
Foreign exchange (loss)/gain	(38,961)	(1.0)	188,800	2.9	37,822	5,935	0.5	22,902	0.6	(247,978)	(37,022)	(6.1)
Other gain/(loss), net	–	–	14,301	0.2	83,606	13,120	0.9	21,139	0.5	(27,966)	(4,175)	(0.7)
Other income/(expense), net	6,612	0.2	(10,810)	(0.2)	95,047	14,915	1.0	6,390	0.2	20,001	2,986	0.5
Loss before income taxes	(1,102,196)	(27.9)	(947,294)	(14.4)	(1,576,015)	(247,311)	(17.4)	(596,052)	(14.9)	(1,370,437)	(204,601)	(33.6)
Income tax (expense)/benefit	(9,003)	(0.2)	(14,904)	(0.2)	(15,741)	(2,470)	(0.2)	(6,755)	(0.2)	5,153	769	0.1
Net loss	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(602,807)	(15.1)	(1,365,284)	(203,832)	(33.5)
Net loss attributable to:												
Kingsoft Cloud Holdings Limited	(1,111,199)	(28.1)	(962,259)	(14.6)	(1,588,712)	(249,303)	(17.5)	(602,818)	(15.1)	(1,356,246)	(202,483)	(33.2)
Non-controlling interests	–	–	61	0.0	(3,044)	(478)	(0.1)	11	0.0	(9,038)	(1,349)	(0.3)
	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(602,807)	(15.1)	(1,365,284)	(203,832)	(33.5)

Note:

(1) Share-based compensation expense was allocated as follows:

	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)						
Cost of revenues	8,509	10,614	17,481	2,743	8,460	6,828	1,019
Selling and marketing expenses	37,808	62,270	72,594	11,392	38,844	42,956	6,413
General and administrative expenses	31,988	169,101	193,886	30,425	70,600	101,833	15,204
Research and development expenses	42,974	88,129	150,389	23,599	81,301	55,122	8,229
Total	121,279	330,114	434,350	68,159	199,205	206,739	30,865

Non-GAAP Financial Measures

In evaluating our business, we consider and use certain non-GAAP measures, including adjusted EBITDA (Non-GAAP Financial Measure), adjusted EBITDA margin (Non-GAAP Financial Measure), adjusted net loss (Non-GAAP Financial Measure) and adjusted net loss margin (Non-GAAP Financial Measure), as supplemental measures to review and assess our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We present these non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. We also believe that the use of these non-GAAP measures facilitates investors' assessment of our operating performance.

These non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. These non-GAAP financial measures have limitations as analytical tools. One of the key limitations of using these non-GAAP financial measures is that they do not reflect all items of income and expense that affect our operations. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited.

We compensate for these limitations by reconciling these non-GAAP financial measures to the nearest U.S. GAAP performance measure, all of which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

Adjusted net loss and adjusted EBITDA (Non-GAAP Financial Measure)

We define adjusted net loss (Non-GAAP Financial Measure) as net loss excluding share-based compensation, which is non-cash in nature, and we define adjusted net loss margin (Non-GAAP Financial Measure) as adjusted net loss (Non-GAAP Financial Measure) as a percentage of revenues. We define adjusted EBITDA (Non-GAAP Financial Measure) as adjusted net loss (Non-GAAP Financial Measure) excluding interest income, interest expense, income tax expense and depreciation and amortization, and we define adjusted EBITDA margin (Non-GAAP Financial Measure) as adjusted EBITDA (Non-GAAP Financial Measure) as a percentage of revenues. The following tables reconcile our adjusted net loss (margin) (Non-GAAP Financial Measure) and adjusted EBITDA (margin) (Non-GAAP Financial Measure) in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP.

Share-based compensation is non-cash expense arising from share-based incentive awards to selected executives, employees and consultants.

	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)				
Net loss	(1,111,199)	(962,198)	(1,591,756)	(249,781)	(602,807)	(1,365,284)	(203,832)
Adjustment:							
Share-based compensation	121,279	330,114	434,350	68,159	199,205	206,739	30,865
Adjusted net loss (Non-GAAP Financial Measure)	**(989,920)**	**(632,084)**	**(1,157,406)**	**(181,622)**	**(403,602)**	**(1,158,545)**	**(172,967)**
Adjusted net loss (Non-GAAP Financial Measure)	**(989,920)**	**(632,084)**	**(1,157,406)**	**(181,622)**	**(403,602)**	**(1,158,545)**	**(172,967)**
Adjustments:							
Interest income	(78,612)	(77,118)	(71,942)	(11,289)	(36,673)	(38,647)	(5,770)
Interest expense	4,925	9,453	52,040	8,166	10,555	68,273	10,193
Income tax expense/(benefit)	9,003	14,904	15,741	2,470	6,755	(5,153)	(769)
Depreciation and amortization	604,581	758,038	855,604	134,263	369,589	578,237	86,329
Adjusted EBITDA (Non-GAAP Financial Measure)	**(450,023)**	**73,193**	**(305,963)**	**(48,012)**	**(53,376)**	**(555,835)**	**(82,984)**

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
			(%)		
Net loss margin	(28.1)	(14.6)	(17.6)	(15.1)	(33.5)
Adjusted net loss margin (Non-GAAP Financial Measure)	(25.0)	(9.6)	(12.8)	(10.1)	(28.4)
Adjusted EBITDA margin (Non-GAAP Financial Measure)	(11.4)	1.1	(3.4)	(1.3)	(13.6)

Listing expenses of approximately RMB92.0 million are expected to be recognized in our consolidated statements of comprehensive loss.

Revenues

We derive our revenues primarily from (i) public cloud services and (ii) enterprise cloud services. The following table sets forth a breakdown of our revenues, in absolute amounts and as percentages of total revenues, 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												
Computing	1,019,182	25.8	1,579,701	24.0	2,083,803	326,994	23.0	994,758	24.9	1,204,597	179,842	29.5
Storage	298,803	7.6	283,770	4.3	266,422	41,807	2.9	137,440	3.4	134,876	20,136	3.3
Delivery	2,140,858	54.0	3,303,380	50.2	3,808,860	597,694	42.0	1,810,412	45.4	1,330,478	198,635	32.7
Total Public Cloud Services Revenues	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												
KC Enterprise Cloud Services	486,308	12.3	1,372,689	20.9	2,079,289	326,286	22.9	1,042,177	26.1	271,713	40,566	6.7
Camelot Group	–	–	–	–	818,528	128,445	9.0	–	–	1,137,370	169,805	27.9

	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)											
Total Enterprise Cloud Services Revenues	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	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

* For public cloud services, revenues of computing, storage and delivery are estimated in proportion to the respective gross billings from such services. For enterprise could services, revenues of Camelot Group are only included since the acquisition in September 2021.

Public cloud services. We offer public cloud services to customers in various verticals, including, among others, video, gaming, electric vehicle, e-commerce, and mobile internet in general. We generally charge our public cloud service customers on a monthly basis based on utilization and duration. We also offer a prepaid subscription package over a fixed subscription period.

Enterprise cloud services. We also offer enterprise cloud services to customers engaging in the financial service, public service and healthcare businesses, among others. We generally charge our enterprise cloud service customers on a project basis based on performance completion.

Others. We also record insignificant revenues from other miscellaneous services that we provide on an ad hoc basis, which has not been and is not expected to be material to our business.

See "Business – Our Products and Solutions" and "Business – Our Products and Solutions – Revenue Model" for details about how we generate our revenues.

Cost of Revenues

Our cost of revenues primarily consist of (i) IDC costs, (ii) depreciation and amortization costs, (iii) fulfillment costs, (iv) solution development and services costs, and (v) other costs.

The following table sets forth a breakdown of our cost of revenues, in absolute amounts and as percentages of total cost of revenues, 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)											
Cost of revenues												
IDC costs	2,856,591	72.3	4,058,848	65.2	5,101,528	800,541	58.6	2,368,700	63.1	2,139,404	319,405	54.4
Depreciation and amortization costs	599,193	15.2	746,245	12.0	785,173	123,211	9.0	357,932	9.5	495,235	73,937	12.6
Fulfillment costs	411,438	10.4	1,206,679	19.4	1,851,342	290,516	21.3	914,082	24.4	209,196	31,232	5.3
Solution development and services costs	43,954	1.2	37,148	0.6	678,178	106,421	7.8	21,000	0.6	965,067	144,081	24.5
Other costs	37,468	0.9	171,404	2.8	293,275	46,021	3.3	90,520	2.4	126,243	18,847	3.2
Total cost of revenues	3,948,644	100.0	6,220,324	100.0	8,709,496	1,366,710	100.0	3,752,234	100.0	3,935,145	587,502	100.0

IDC costs primarily consist of (i) bandwidth costs, which represent the purchase of bandwidth usage rights from telecommunication operators, and (ii) rack costs, which cover fees we pay to the IDC operators for using the rack space, associated utilities and services.

The following table sets forth a breakdown of IDC costs incurred from suppliers with minimum procurement commitment, and others, in absolute amounts and as percentages of total IDC costs, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
Bandwidth costs										
– Committed	179,322	6.3	470,861	11.6	1,000,918	19.6	478,245	20.2	416,093	19.4
– Upfront procurement[(1)]	2,029,932	71.1	2,611,261	64.3	2,675,314	52.4	1,220,504	51.5	973,747	45.5
– Subtotal	2,209,254	77.4	3,082,122	75.9	3,676,232	72.0	1,698,749	71.7	1,389,840	64.9
Rack costs										
– Committed	35,191	1.2	95,755	2.4	315,408	6.2	142,022	6.0	181,392	8.5
– Upfront procurement[(1)]	497,869	17.4	738,512	18.2	646,903	12.7	308,751	13.0	365,714	17.1
– Subtotal	533,060	18.6	834,267	20.6	962,311	18.9	450,773	19.0	547,106	25.6

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)									
Other IDC costs[(2)]	114,277	4.0	142,459	3.5	462,985	9.1	219,178	9.3	202,458	9.5
Total IDC costs	2,856,591	100.0	4,058,848	100.0	5,101,528	100.0	2,368,700	100.0	2,139,404	100.0

Note:

(1) Upfront procurement refers to our procurement for underlying resources before engaging and onboarding client and meeting their demands.

(2) Other IDC costs primarily consisted of costs for network access resources and maintenance, among others.

Depreciation and amortization costs primarily consist of depreciation and amortization of our fixed assets, such as servers, and intangible assets. Fulfillment costs are mainly generated by providing Kingsoft Cloud enterprise cloud services. Fulfillment costs mainly represent purchases of technology components from third parties, such as technology equipment, customized software and services, to fulfill the deployment of solutions. The significant decrease of fulfillment costs from RMB914.1 million (or 22.9% of total revenue) in the six months ended June 30, 2021 to RMB209.2 million (or 5.1% of total revenue) in the same period of 2022 were primarily due to (i) the decrease of revenues from Kingsoft Cloud enterprise cloud services that was due to COVID-19 negative impacts, and (ii) the decrease of fulfillment costs as percentages of total enterprise cloud services revenue due to our strategic focus on selected high quality projects. See "– Impact of COVID-19." Solution development and services costs primarily represent payments to our solution development and services personnel for the development of products and solutions based on customers' needs. The significant increase in solution development and services costs by RMB944.1 million from the six months ended June 30, 2021 to the same period of 2022 was primarily due to our integration with Camelot Group to develop and deliver the end-to-end solutions that our customers increasingly demand. Experience and know-how accumulated from developing such products and solutions may be re-utilized for other customers with similar needs. Other costs consist of other miscellaneous costs associated with our solutions and services.

Gross (loss)/profit

As a result of the foregoing, we had gross profit of RMB7.7 million, RMB357.0 million, RMB351.3 million, RMB235.0 million and RMB145.2 million (US$21.7 million) for 2019, 2020, 2021, the six months ended June 30, 2021 and June 30, 2022, respectively.

The following table sets forth an estimated breakdown of our gross profit (loss) and gross profit (loss) margins by 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	
	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)									
Public Cloud Services										
Computing	71,845	7.0	158,555	10.0	218,135	10.5	162,836	16.4	24,323	2.0
Storage	106,109	35.5	35,379	12.5	13,137	4.9	8,574	6.2	11,716	8.7
Delivery	(238,845)	(11.2)	10,624	0.3	(243,008)	(6.4)	(53,571)	(3.0)	(112,434)	(8.5)
Subtotal	**(60,891)**	**(1.8)**	**204,558**	**4.0**	**(11,736)**	**(0.2)**	**117,839**	**4.0**	**(76,395)**	**(2.9)**
Enterprise Cloud Services										
KC Enterprise Cloud Services	66,697	13.7	148,994	10.9	191,290	9.2	115,218	11.1	50,712	18.7
Camelot Group	–	–	–	–	170,528	20.8	–	–	169,747	14.9
Subtotal	**66,697**	**13.7**	**148,994**	**10.9**	**361,818**	**12.5**	**115,218**	**11.1**	**220,459**	**15.6**
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**

* For public cloud services, revenues of computing, storage and delivery are estimated in proportion to the respective gross billings from such services. For enterprise could services, revenues of Camelot Group are only included since the acquisition in September 2021. In preparing the above table, we have allocated total cost of revenues to public cloud services, enterprise cloud services and others.

For public cloud services, we had gross loss margin of 1.8% in 2019, as compared to gross profit margin of 4.0% in 2020 primarily due to the significantly increased revenue from our customers in the internet sector, such as online video streaming companies who were benefiting from users' increased stay-at-home leisure time in the early stage of COVID-19. The decrease in gross profit margin for public cloud services since the second half of 2021 was primarily because we made upfront procurement for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand over the course of 2021 and first half of 2022 turned out to be weaker than the forecasted amount, mainly resulted from a general demand slowdown in the internet sector of China amid the tightened regulations. Specifically, (i) on the supply side, we need to procure the underlying resources readily available before engaging and onboarding client and meeting their demands. We make procurement typically three to six months before providing services to customers to ensure we have sufficient resources to meet estimated customer demand. At the beginning of 2021, we made significant upfront procurement of IDC resources as we expected the increasing market demand from 2019 to 2020 would continue; and (ii) on the demand side, due to tightened regulations towards the PRC internet sector since the second half of 2021, demand for cloud services declined sharply from such customers. However, we had already made significant upfront procurement of IDC resources and such decline in market demand was due to unforeseeable regulatory changes. To avoid further waste of upfront investment, we had to sell down our cloud products, especially cloud delivery products.

During the early years of the Track Record Period, our gross profit (loss) level of public cloud services was primarily driven by cloud delivery, which accounted for over 60% of total gross billings for public cloud services from 2019 to 2021, and we proactively adjusted down the cloud delivery products in our business portfolio since the first half of 2022 to optimize our profitability. Our cloud computing, given its relatively high technology barrier, has been continuously contributing to our profitability especially in the first half of 2021, with its gross profit margin at 7.0%, 10.0%, 10.5%, 16.4% and 2.0% in 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively. The decrease in gross profit margin for cloud computing products in the first half of 2022 was mainly due to the actual growth in market demand was lower than we anticipated, and our upfront over procurement of IDC resources, which resulted in an increase in depreciation and amortization costs of servers, and, to a lesser extent, a decrease in utilization of bandwidth. Our cloud storage products accounted for a relatively small portion in our public cloud services in the Track Record Period.

In 2019, we had gross loss of RMB60.9 million and gross loss margin of 1.8% for public cloud services, primarily attributable to the loss from cloud delivery products as a result of our then focus on expanding market share and the intensive competition in China's cloud service market. Our gross profit for public cloud services turned positive in 2020, with gross profit of RMB204.6 million and gross profit margin of 4.0%, primarily due to the significantly increased revenue from our customers in the internet sector, who were benefiting from the growth of internet usage in the early stage of COVID-19. In 2021, we had gross loss of RMB11.7 million and gross loss margin of 0.2% for public cloud services, primarily attributable to the loss from cloud delivery products because of the aforesaid upfront procurement for underlying resources and pricing pressure in the cloud industry. Such losses were partially offset by the strong profit from our cloud computing products especially in the first half of 2021. We had gross loss of RMB76.4 million and gross loss margin of 2.9% for public cloud services in the first half of 2022, compared with gross profit of RMB117.8 million and gross profit margin of 4.0% in the first half of 2021, primarily due to the continued negative impact from the aforesaid general demand slowdown and challenging market environment, which affected our cloud delivery products as well as the revenue growth of cloud computing products.

For enterprise cloud services, the gross profit margin remained relatively stable in 2019, 2020 and 2021, being 13.7%, 10.9% and 12.5%, respectively. The increase in gross profit margin from 11.1% in the six months ended June 30, 2021 to 15.6% in the six months ended June 30, 2022 was mainly driven by (i) the consolidation of Camelot Group since September 2021, whose profitability level has been relatively high and stable historically; and (ii) the increase of gross profit margin of KC Enterprise Cloud Services from 11.1% in the first half of 2021 to 18.7% in the first half of 2022, primarily due to our stringent project selection process with a strategic focus on high quality projects to achieve profitability. The gross profit margin of Camelot Group decreased from 20.8% in 2021 (after our acquisition) to 14.9% in the first half of 2022, as Camelot Group's revenue decreased over the same periods primarily due to the negative impacts of COVID-19, while the cost of revenue was relatively fixed and thus remained stable.

Operating Expenses

The following table sets forth a breakdown of our operating expenses, in absolute amounts and as percentages of our total operating expenses, 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)											
Operating expenses												
Research and development expenses	595,169	51.7	775,130	49.5	1,043,811	163,797	48.3	496,888	54.8	467,579	69,808	38.0
Selling and marketing expenses	317,426	27.6	409,211	26.2	518,167	81,312	23.9	208,884	23.0	290,615	43,388	23.6
General and administrative expenses	238,648	20.7	379,892	24.3	601,702	94,420	27.8	201,814	22.2	471,836	70,443	38.4
Total operating expenses	1,151,243	100.0	1,564,233	100.0	2,163,680	339,529	100.0	907,586	100.0	1,230,030	183,639	100.0

Research and development expenses

Research and development expenses consist primarily of (i) staff expenses, including salaries, bonuses and benefits paid to our research and development personnel, (ii) share-based compensation paid to our research and development personnel, and (iii) other miscellaneous expenses, primarily including depreciation and amortization expenses, office rental expenses and information technology expenses. The following table sets forth a breakdown of our research and development expenses 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)											
Research and development Expenses												
Staff expenses (excluding share-based compensation)	483,308	81.2	590,480	76.2	744,697	116,859	71.4	348,791	70.2	345,394	51,566	73.9
Share-based compensation	42,974	7.2	88,129	11.4	150,389	23,599	14.4	81,301	16.4	55,122	8,229	11.8
Other miscellaneous expenses	68,887	11.6	96,521	12.4	148,725	23,339	14.2	66,796	13.4	67,063	10,013	14.3
Total research and development expenses	595,169	100.0	775,130	100.0	1,043,811	163,797	100.0	496,888	100.0	467,579	69,808	100.0

Selling and marketing expenses

Selling and marketing expenses consist primarily of (i) staff expenses, including salaries, commissions, bonuses and benefits paid to sales and marketing personnel, (ii) share-based compensation paid to sales and marketing personnel, (iii) marketing and promotion expenses, (iv) depreciation and amortization expenses, mainly including amortization of intangible assets such as customer relationship, which were primarily acquired from the acquisition of Camelot Group, and (v) other miscellaneous expenses, primarily including office rental expenses. The following table sets forth a breakdown of our selling and marketing expenses 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)											
Selling and Marketing Expenses												
Staff expenses (excluding share-based compensation)	187,908	59.2	261,068	63.8	308,077	48,344	59.5	129,439	62.0	142,792	21,318	49.1
Share-based compensation	37,808	11.9	62,270	15.2	72,594	11,392	14.0	38,844	18.6	42,956	6,413	14.8
Marketing and promotion expenses	29,271	9.2	15,348	3.8	24,039	3,772	4.6	13,104	6.3	4,543	678	1.6
Depreciation and amortization expenses	662	0.2	841	0.2	50,559	7,934	9.8	422	0.2	74,352	11,100	25.6
Other miscellaneous expenses	61,777	19.5	69,684	17.0	62,898	9,870	12.1	27,075	12.9	25,972	3,879	8.9
Total selling and marketing expenses	317,426	100.0	409,211	100.0	518,167	81,312	100.0	208,884	100.0	290,615	43,388	100.0

General and administrative expenses

Our general and administrative expenses consist of (i) staff expenses, including salaries, bonuses and benefits paid to general and administrative personnel, (ii) share-based compensation paid to general and administrative personnel, (iii) credit losses primarily for account receivables and contract assets, and (iv) other miscellaneous expenses, primarily including depreciation and amortization expenses, office rental expenses, general operation expenses and professional service fees. The following table sets forth a breakdown of our general and administrative expenses 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)											
General and Administrative Expenses												
Staff expenses (excluding share-based compensation)	90,154	37.8	79,590	21.0	165,861	26,027	27.6	57,829	28.7	149,164	22,270	31.6
Share-based compensation	31,988	13.4	169,101	44.5	193,886	30,425	32.2	70,600	35.0	101,833	15,204	21.6
Credit losses	61,920	25.9	31,881	8.4	114,124	17,909	19.0	17,677	8.8	140,156	20,925	29.7
Other miscellaneous expenses	54,586	22.9	99,320	26.1	127,831	20,059	21.2	55,708	27.5	80,683	12,044	17.1
Total general and administrative expenses	238,648	100.0	379,892	100.0	601,702	94,420	100.0	201,814	100.0	471,836	70,443	100.0

Interest Income

Our interest income consists primarily of interests earned on cash deposits in banks and short-term investments. In 2019, 2020 and 2021, and the six months ended June 30, 2021 and 2022, we had interest income of RMB78.6 million, RMB77.1 million, RMB71.9 million (US$11.3 million), RMB36.7 million and RMB38.6 million (US$5.8 million), respectively.

Interest Expenses

Our interest expenses consist primarily of interest expenses related to our bank loans and loans due to related parties. In 2019, 2020 and 2021, and the six months ended June 30, 2021 and 2022, we had interest expenses of RMB4.9 million, RMB9.5 million, RMB52.0 million (US$8.2 million), RMB10.6 million and RMB68.3 million (US$10.2 million), respectively.

Foreign Exchange (Loss)/Gain

Our foreign exchange (loss)/gain represents loss or gain resulting from the impact of fluctuations in foreign exchange rates that primarily related to the intercompany loans within our Group that are denominated in U.S. dollar, which are not directly related to our operations. As we anticipate to settle these intercompany loans in the foreseeable future, the foreign currency transaction gains and losses were recognized in the consolidated statements of profit or loss. We had foreign exchange loss of RMB39.0 million in 2019 and foreign exchange gain of RMB188.8 million in 2020, primarily due to the significant appreciation of RMB against U.S. dollar in 2020, compared with the slight depreciation in 2019. Our foreign exchange gain decreased to RMB37.8 million (US$5.9 million) in 2021, primarily due to the slight appreciation of RMB against U.S. dollar in 2021, compared with the significant appreciation in 2020 . We had foreign exchange gain of RMB22.9 million in the six months ended June 30, 2021 and foreign exchange loss of RMB248.0 million (US$37.0 million) in the six months ended June 30, 2022, primarily because of the significant depreciation of RMB against U.S. dollar in the first half of 2022, compared with the slight appreciation in the first half of 2021.

Other Gain/(Loss), Net

Our other gain/(loss), net consists primarily of net gains or losses from changes in fair value of equity investments and purchase consideration of a business acquisition. In 2019, 2020 and 2021, we had other gain, net of nil, RMB14.3 million and RMB83.6 million (US$13.1 million), respectively. In the six months ended June 30, 2021, we had other gain, net of RMB21.1 million, and in the six months ended June 30, 2022, we had other loss, net of RMB28.0 million (US$4.2 million).

Other Income/(Expense), Net

Our other income/(expenses), net consists primarily of reimbursements from the ADR depository bank and government allowances and subsidies, including income due to certain temporary preferential tax treatment. We had other income, net, of RMB6.6 million in 2019, other expense, net, of RMB10.8 million in 2020, other income, net, of RMB95.0 million (US$14.9 million) in 2021, and other income, net of RMB6.4 million and RMB20.0 million (US$3.0 million) for the six months ended June 30, 2021 and 2022, respectively.

Taxation

Cayman Islands

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains in the Cayman Islands. In addition, dividend payments are not subject to withholding tax.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. For the years ended December 31, 2019, 2020 and 2021, we did not make any provisions for Hong Kong profit tax as there were accumulated losses derived from or incurred in Hong Kong for any of the periods presented. Under the Hong Kong tax law, the subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

PRC

Our PRC entities are subject to the statutory income tax rate of 25%, in accordance with the Enterprise Income Tax law (the "**EIT Law**"), which was effective since January 1, 2008. Our certain subsidiaries being qualified as High New Technology Enterprises ("**HNTE**") and Technologically-Advanced Service Enterprise ("**TASE**") are entitled to the preferential income tax rate of 15% and 15%, respectively. See Note 15 and Note 31.2.9 to the Accountants' Report included in Appendix IA. Dividends, interest, rent or royalties payable by our PRC entities to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor's disposition of assets (after deducting the net value of such assets) shall be subject to 10% EIT, namely withholding tax, unless the respective non-PRC resident enterprise's jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

DISCUSSION OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenues

Our revenues increased by 2.3% 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, which was primarily attributable to changes of revenues generated from public cloud services and enterprise cloud services over the same periods as discussed below.

Public cloud services

Our revenues generated from public cloud services were RMB2,670.0 million (US$398.6 million) for the six months ended June 30, 2022, compared with RMB2,942.6 million for the six months ended June 30, 2021. Changes in our revenues generated from public cloud services were primarily due to our proactive scale-down of CDN products 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, and partially offset by the increase of billings from computing and storage products by 20.7% over the same periods.

Enterprise cloud services

Our revenues generated from enterprise cloud services increased by 35.2% from RMB1,042.2 million for the six months ended June 30, 2021 to RMB1,409.1 million (US$210.4 million) for the six months ended June 30, 2022, primarily attributable to the Camelot Group, contributing RMB1,137.4 million (US$169.8 million) of our enterprise cloud services revenues in the six months ended June 30, 2022, partially offset by the decrease of other enterprise cloud services that was negatively impacted by COVID-19. See "– Impact of COVID-19."

Cost of revenues

Our cost of revenues increased by 4.9% from RMB3,752.2 million for the six months ended June 30, 2021 to RMB3,935.1 million (US$587.5 million) for the six months ended June 30, 2022. The increase in cost of revenues was primarily attributable to (i) an increase in solution development and services costs by RMB944.1 million primarily due to our integration with Camelot Group to develop and deliver the end-to-end solutions that our customers increasingly demand, (ii) an increase in depreciation and amortization costs by RMB137.3 million which was largely in line with our property and equipment growth rate as we expanded and optimized our infrastructure to support strategic business growth, partially offset by (i) a decrease of RMB229.3 million of IDC costs mainly due to our proactive scale-down of CDN products and (ii) a decrease of fulfillment costs from RMB914.1 million (or 22.9% of total revenue) to RMB209.2 million (or 5.1% of total revenue) primarily due to (a) the decrease of revenues from Kingsoft Cloud enterprise cloud services that was due to COVID-19 negative impacts, and (b) the decrease of fulfillment costs as percentages of total enterprise cloud services revenue due to our strategic focus on selected high quality projects. See "– Impact of COVID-19." RMB967.6 million (US$144.5 million), or 24.6% of our cost of revenues for the six months ended June 30, 2022 was attributable to Camelot Group. In addition, the amortization expense relating to intangible assets recognized upon acquisition and other acquisition date fair value measures from acquisition of Camelot Group which is record in our cost of revenues in the consolidated financial statements of the Group amounted to RMB6.9 million (US$1.0 million).

Gross (loss)/profit

As a result of the foregoing, our gross profit decreased from RMB235.0 million for the six months ended June 30, 2021 to RMB145.2 million (US$21.7 million), or a gross loss of RMB24.6 million for Kingsoft Cloud, for the six months ended June 30, 2022. Our gross profit margin decreased from 5.9% for the six months ended June 30, 2021 to 3.6%, or a gross loss margin of 0.8% for Kingsoft Cloud, for the six months ended June 30, 2022. The decrease was primarily because we typically need to plan and make upfront procurement for underlying resources including IDC costs and based on the estimated market demand in the future, while 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.

Research and development expenses

Our research and development expenses were RMB467.6 million (US$69.8 million) for the six months ended June 30, 2022, compared with RMB496.9 million for the six months ended June 30, 2021. RMB18.7 million (US$2.8 million), or 4.0% of our research and development expenses for the six months ended June 30, 2022 was attributable to Camelot Group.

Selling and marketing expenses

Our selling and marketing expenses increased by 39.1% from RMB208.9 million for the six months ended June 30, 2021 to RMB290.6 million (US$43.4 million) for the six months ended June 30, 2022. RMB22.9 million (US$3.4 million), or 7.9% of our selling and marketing expenses for the six months ended June 30, 2022 was attributable to Camelot Group. RMB72.7 million (US$10.9 million), or 25.0% of our selling and marketing expenses for the six months ended June 30, 2022, was primarily attributable to the amortization of our trademarks and customer relationship recognized upon acquisition of Camelot Group.

General and administrative expenses

Our general and administrative expenses increased by 133.8% from RMB201.8 million for the six months ended June 30, 2021 to RMB471.8 million (US$70.4 million) for the six months ended June 30, 2022, primarily attributable to (i) an increase in staff expenses paid to our general and administrative personnel (including share-based compensation) from RMB128.4 million to RMB251.0 million (US$37.5 million) and (ii) an increase in credit losses primarily for account receivables and contract assets from RMB17.7 million to RMB140.2 million (US$20.9 million) primarily because we made provisions on account receivables that may have recoverability issues. These provisions were mainly made for individually impaired amounts receivable and contract assets when we identify specific customers with collectivity issues, mostly customers whose cash flows were severely affected by the resurgence of COVID-19 and the associated restrictive measures and downturn of macroeconomics. We made these provisions based on our impairment analysis as of June 30, 2022 by considering historical collectability based on the length of time past due, the age of the accounts receivable and contract assets balances, credit quality of the Group's customers based on ongoing credit evaluations, current macro-economic conditions, outlook of future macro-economic conditions, among others, in accordance with our accounts receivable management policies. We also believe the provisions we made on accounts receivable are sufficient as of each reporting date. For details of the recoverability of our accounts receivables and our relevant management policies, see "Discussion of Selected Items From the Consolidated Balance Sheets – Accounts Receivable, Net of Allowance." RMB94.2 million (US$14.1 million), or 34.9% of the RMB270.0 million increase in our general and administrative expenses from the six months ended June 30, 2021 to the same period in 2022 was attributable to Camelot Group. Specifically, RMB60.2 million (US$9.0 million), or 49.1% of the RMB122.6 million increase of staff expenses, and RMB14.5 million (US$2.2 million), or 11.9% of the RMB122.5 million increase of credit losses were attributable to Camelot Group. Moreover, RMB20.4 million (US$3.0 million) increase were attributable to other acquisition date fair value measures from acquisition of Camelot Group which is record in our general and administrative expenses in the consolidated financial statements of the Group.

Operating loss

As a result of the foregoing, our operating loss increased by 61.3% from RMB672.6 million for the six months ended June 30, 2021 to RMB1,084.9 million (US$162.0 million) for the six months ended June 30, 2022. Our operating loss margin increased from 16.9% for the six months ended June 30, 2021 to 26.6% for the six months ended June 30, 2022.

Interest income

Our interest income increased from RMB36.7 million for the six months ended June 30, 2021 to RMB38.6 million (US$5.8 million) for the six months ended June 30, 2022.

Interest expense

Our interest expense increased from RMB10.6 million for the six months ended June 30, 2021 to RMB68.3 million (US$10.2 million) for the six months ended June 30, 2022, primarily due to (i) the increase of our short-term bank loans, and (ii) loans we obtained from Kingsoft Group and Xiaomi Group in the second half of 2021.

Foreign exchange gain/(loss)

We recorded foreign exchange loss of RMB248.0 million (US$37.0 million) for the six months ended June 30, 2022, as compared to foreign exchange gain of RMB22.9 million for the six months ended June 30, 2021, primarily because of the significant depreciation of RMB against U.S. dollar in the first half of 2022, compared with the slight appreciation in the first half of 2021.

Other gain/(loss), net

We recorded other gain, net of RMB21.1 million for the six months ended June 30, 2021 and other loss, net of RMB28.0 million (US$4.2 million) for the six months ended June 30, 2022, primarily due to the fair value change of equity investments and purchase consideration for business acquisition recognized in 2022.

Other income/(expense), net

Our other income, net increased from RMB6.4 million for the six months ended June 30, 2021 to RMB20.0 million (US$3.0 million) for the six months ended June 30, 2022. The increase was primarily due to individual tax deduction received in 2022.

Income tax expense

We recorded income tax expense of RMB6.8 million for the six months ended June 30, 2021 and income tax benefit of RMB5.2 million (US$0.8 million) for the six months ended June 30, 2022.

Net loss

As a result of the foregoing, our net loss increased by 126.5% from RMB602.8 million for the six months ended June 30, 2021 to RMB1,365.3 million (US$203.8 million) for the six months ended June 30, 2022. Our net loss margin increased from 15.1% for the six months ended June 30, 2021 to 33.5% for the six months ended June 30, 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenues increased by 37.8% from RMB6,577.3 million in 2020 to RMB9,060.8 million (US$1,421.8 million) in 2021, which was attributable to changes of revenues generated from public cloud services and enterprise cloud services over the same years as discussed below.

Public cloud services

Our revenues generated from public cloud services increased by 19.2% from RMB5,166.9 million in 2020 to RMB6,159.1 million (US$966.5 million) in 2021, primarily driven by (i) the increase in the number of our Public Cloud Service Premium Customers from 191 in 2020 to 222 in 2021 due to our expansion and penetration in selected vertical, and (ii) increasing demand for our products and solutions of our Premium Customers, reflected by the increase in our average revenues per Public Cloud Service Premium Customer from RMB26.4 million in 2020 to RMB27.3 million (US$4.3 million) in 2021, as well as our net dollar retention rate of Public Cloud Service Premium Customers of 114% in 2021.

Enterprise cloud services

Our revenues generated from enterprise cloud services increased by 111.1% from RMB1,372.7 million in 2020 to RMB2,897.8 million (US$454.7 million) in 2021, primarily driven by (i) continued strong growth momentum of the overall China non-internet cloud service market; (ii) strong demand for our enterprise cloud services in the verticals we focus on; and (iii) an increase in the number of our Enterprise Cloud Service Premium Customers due to our marketing and customer base expansion efforts. RMB818.5 million, or 53.7% of the RMB1,525.1 million increase in our revenue from 2020 to 2021 was attributable to our consolidation of the financial results of Camelot Group since September 2021.

Cost of revenues

Our cost of revenues increased by 40.0% from RMB6,220.3 million in 2020 to RMB8,709.5 million (US$1,366.7 million) in 2021, primarily driven by (i) an increase in IDC costs from RMB4,058.8 million to RMB5,101.5 million (US$800.5 million) to support our business expansion, (ii) an increase in fulfillment costs from RMB1,206.7 million to RMB1,851.3 million (US$290.5 million), which was in line with the increase in our revenues, and (iii) a significant increase in solution development and services cost from RMB37.1 million to RMB678.2 million (US$106.4 million) as we expanded our solutions and services to meet customers' growing demands for end-to-end solutions. RMB648.0 million, or 26.0% of the RMB2,489.2 million increase in our cost of revenues from 2020 to 2021 was attributable to our consolidation of the financial results of Camelot Group since September 2021. In addition, the amortization expense relating to intangible assets recognized upon acquisition and other acquisition date fair value measures from acquisition of Camelot Group which is record in our cost of revenues in the consolidated financial statements of the Group amounted to RMB4.6 million (US$0.7 million).

Gross (loss)/profit

As a result of the foregoing, our gross profit slightly decreased from RMB357.0 million in 2020 to RMB351.3 million (US$55.1 million) in 2021. Our gross profit margin decreased from 5.4% in 2020 to 3.9% in 2021, primarily because we planned and made upfront procurement for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand over the course of 2021 turned out to be weaker, mainly resulted from a general demand slowdown in the internet sector of China.

Research and development expenses

Our research and development expenses increased by 34.7% from RMB775.1 million in 2020 to RMB1,043.8 million (US$163.8 million) in 2021, primarily driven by an increase of number of our research and development personnel, an increase in share-based compensation expenses and our continuous focus on research and development efforts. RMB27.2 million, or 10.1% of the RMB268.7 million increase in our research and development from 2020 to 2021 was attributable to our consolidation of the financial results of Camelot Group since September 2021.

Selling and marketing expenses

Our selling and marketing expenses increased by 26.6% from RMB409.2 million in 2020 to RMB518.2 million (US$81.3 million) in 2021, primarily driven by (i) an increase in staff expenses from RMB323.3 million to RMB380.7 million (US$59.7 million), mainly driven by an increase in the number of our sales and marketing personnel primarily due to our increased sales and marketing efforts; and (ii) a significant increase in depreciation and amortization expenses from RMB0.8 million to RMB50.6 million (US$7.9 million) primarily due to the amortization of intangible assets related to sales and marketing, such as customer relationship, recorded as a result of our enlarged customer base. RMB22.5 million, or 20.6% of the RMB109.0 million increase in our selling and marketing expenses from 2020 to 2021 was attributable to our consolidation of the financial results of Camelot Group since September 2021, and the amortization expense relating to intangible assets recognized upon acquisition and other acquisition date fair value measures from acquisition of Camelot Group which is record in our selling and marketing expenses in the consolidated financial statements of the Group amounted to RMB49.8 million (US$7.8 million).

General and administrative expenses

Our general and administrative expenses increased by 58.4% from RMB379.9 million in 2020 to RMB601.7 million (US$94.4 million) in 2021, primarily attributable to (i) an increase in staff expenses from RMB248.7 million to RMB359.7 million (US$56.4 million), mainly driven by an increase in the number of our general and administrative personnel; and (ii) an increase in credit losses primarily for account receivables and contract assets from RMB31.9 million to RMB114.1 million (US$17.9 million) primarily as a result of the increase of our account receivables and contract assets due to 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. RMB52.8 million, or 23.8% of the RMB221.8 million increase in our general and administrative expenses from 2020 to 2021 was attributable to our consolidation of the financial results of Camelot Group since September 2021, and other acquisition date fair value measures from acquisition of Camelot Group which is record in our general and administrative expenses in the consolidated financial statements of the Group amounted to RMB13.7 million (US$2.1 million).

Operating loss

As a result of the foregoing, our operating loss increased by 50.1% from RMB1,207.3 million in 2020 to RMB1,812.4 million (US$284.4 million) in 2021. Our operating loss margin increased slightly from 18.4% in 2020 to 20.0% in 2021.

Interest income

Our interest income slightly decreased from RMB77.1 million in 2020 to RMB71.9 million (US$11.3 million) in 2021.

Interest expense

Our interest expense increased from RMB9.5 million in 2020 to RMB52.0 million (US$8.2 million) in 2021, primarily due to (i) the increase of our short-term bank loans, and (ii) loans we obtained from Kingsoft Group and Xiaomi Group in 2021.

Foreign exchange gain/(loss)

Our foreign exchange gain decreased from RMB188.8 million in 2020 to RMB37.8 million (US$5.9 million) in 2021, primarily due to the slight appreciation of RMB against U.S. dollar in 2021, compared with the significant appreciation in 2020.

Other gain, net

Our other gain, net increased from RMB14.3 million in 2020 to RMB83.6 million (US$13.1 million) in 2021, primarily due to increases in fair value of our equity investments.

Other income/(expense), net

We recorded other income, net, of RMB95.0 million (US$14.9 million) in 2021 as compared to other expense, net, of RMB10.8 million in 2020, primarily due to government allowances from certain preferential tax treatment in 2021.

Income tax expense

Our income tax expense increased slightly from RMB14.9 million in 2020 to RMB15.7 million (US$2.5 million) in 2021.

Net loss

As a result of the foregoing, our net loss increased by 65.4% from RMB962.2 million in 2020 to RMB1,591.8 million (US$249.8 million) in 2021. Our net loss margin increased slightly from 14.6% in 2020 to 17.6% in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenues increased by 66.2% from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, which was attributable to an increase by 182.3% in the revenue generated by enterprise cloud services, and an increase by 49.4% in the revenue generated by public cloud services, over the same periods.

Public cloud services

Our revenues generated from public cloud services increased by 49.4% from RMB3,458.8 million in 2019 to RMB5,166.9 million in 2020, primarily driven by (i) increasing demand for our products and solutions of our Premium Customers, reflected by the increase in our average revenues per Public Cloud Service Premium Customer from RMB19.2 million in 2019 to RMB26.4 million in 2020, as well as our net dollar retention rate of Public Cloud Service Premium Customers of 146%, and (ii) to a lesser extent, increase in the number of our Public Cloud Service Premium Customers from 175 in 2019 to 191 in 2020 due to our further penetration in existing verticals and expansion into more verticals.

Enterprise cloud services

Our revenues generated from enterprise cloud services increased by 182.3% from RMB486.3 million in 2019 to RMB1,372.7 million in 2020, primarily driven by (i) the increase in the number of our Enterprise Cloud Service Premium Customers from 67 in 2019 to 124 in 2020 due to our further penetration in existing verticals and expansion into more verticals, and (ii) the increase in the average revenues per Enterprise Cloud Service Premium Customer from RMB7.2 million in 2019 to RMB11.0 million in 2020 as a result of increasing demand for our products and solutions.

Cost of revenues

Our cost of revenues increased by 57.5% from RMB3,948.6 million in 2019 to RMB6,220.3 million in 2020, primarily driven by (i) an increase in IDC costs from RMB2,856.6 million to RMB4,058.8 million to support our business expansion, (ii) a significant increase in fulfillment costs from RMB411.4 million to RMB1,206.7 million, which was primarily in relation to the increase in our revenues, and (iii) an increase in depreciation and amortization from RMB599.2 million in 2019 to RMB746.2 million in 2020 as a result of the significant capital expenditure on our equipment.

Gross (loss)/profit

As a result of the foregoing, our gross profit increased significantly from RMB7.7 million in 2019 to RMB357.0 million in 2020. Our gross profit margin increased from 0.2% to 5.4%, primarily resulting from economies of scale and our enhanced efficiency, specifically attributable to (i) increased sales of standardized cloud products and solutions, and (ii) existing customer renewals and cross-sells. For public cloud services, we had gross loss margin of 1.8% in 2019, as compared to gross profit margin of 4.0% in 2020 primarily due to the significantly increased revenue from our customers in the internet sector, such as online video streaming companies who were benefiting from users' increased stay-at-home leisure time in the early stage of COVID-19. For enterprise cloud services, the gross profit margin remained relatively stable in 2019 and 2020, being 13.7% and 10.9%, respectively.

Research and development expenses

Our research and development expenses increased by 30.2% from RMB595.2 million in 2019 to RMB775.1 million in 2020, mainly attributable to an increase in staff expenses from RMB526.3 million in 2019 to RMB678.6 million in 2020, primarily driven by (i) an increase in share-based compensation expenses in 2020, and (ii) an increase in the number of our research and development personnel to support our business growth.

Selling and marketing expenses

Our selling and marketing expenses increased by 28.9% from RMB317.4 million in 2019 to RMB409.2 million in 2020, mainly attributable to an increase in staff expenses from RMB225.7 million in 2019 to RMB323.3 million in 2020, primarily driven by (i) an increase in share-based compensation expenses in 2020, (ii) an increase in the number of our sales and marketing personnel as we continued to increase our sales and marketing efforts, and (iii) an increase in selling and marketing personnel's compensation level.

General and administrative expenses

Our general and administrative expenses increased by 59.2% from RMB238.6 million in 2019 to RMB379.9 million in 2020, mainly attributable to an increase in staff expenses from RMB122.1 million in 2019 to RMB248.7 million in 2020, primarily driven by (i) an increase in share-based compensation due to the share-based awards subject to accelerated vesting of share awards upon completion of our US IPO in May 2020, and (ii) an increase in the number of our general and administrative personnel to support our business growth.

Operating loss

As a result of the foregoing, our operating loss increased by 5.6% from RMB1,143.5 million in 2019 to RMB1,207.3 million in 2020. Our operating loss margin narrowed significantly from 28.9% in 2019 to 18.4% in 2020.

Interest income

Our interest income slightly decreased by 1.9% from RMB78.6 million in 2019 to RMB77.1 million in 2020.

Interest expense

Our interest expense increased by 93.9% from RMB4.9 million in 2019 to RMB9.5 million in 2020, primarily due to an increase in our bank loans in 2020.

Foreign exchange gain/(loss)

We recorded foreign exchange gain of RMB188.8 million in 2020, as compared to foreign exchange loss of RMB39.0 million in 2019, primarily due to the significant appreciation of RMB against U.S. dollar in 2020, compared with the slight depreciation in 2019.

Other gain, net

Our other gain, net increased from RMB nil in 2019 to RMB14.3 million in 2020, primarily due to the increase in fair value of equity investments.

Other income/(expense), net

We recorded other expense, net, of RMB10.8 million in 2020 as compared to other income, net, of RMB6.6 million in 2019, primarily due to a decrease in grant of government allowances and subsidies.

Income tax expense

Our income tax expense increased by 65.6% from RMB9.0 million in 2019 to RMB14.9 million in 2020, primarily due to the increase in our taxable income for certain profit-making entities.

Net loss

As a result of the foregoing, our net loss decreased by 13.4% from RMB1,111.2 million in 2019 to RMB962.2 million in 2020. Our net loss margin narrowed significantly from 28.1% in 2019 to 14.6% in 2020.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED BALANCE SHEETS

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated, which has been extracted from the Accountants' Report included in Appendix IA:

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
ASSETS						
Total current assets	4,149,739	9,544,718	12,412,816	1,947,841	10,321,276	1,540,925
Total non-current assets[(1)]	1,882,082	2,384,496	8,665,224	1,359,763	8,679,058	1,295,748
Total assets	6,031,821	11,929,214	21,078,040	3,307,604	19,000,334	2,836,673
Net current assets	1,729,748	6,079,119	4,896,936	768,436	2,927,640	437,085
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' (DEFICIT) EQUITY						
Total current liabilities	2,419,991	3,465,599	7,515,880	1,179,405	7,393,636	1,103,840
Total non-current liabilities[(1)]	74,557	223,565	2,069,737	324,787	891,440	133,088
Total liabilities	2,494,548	3,689,164	9,585,617	1,504,192	8,285,076	1,236,928
Net assets	**3,537,273**	**8,240,050**	**11,492,423**	**1,803,412**	**10,715,258**	**1,599,745**
Total mezzanine equity	7,734,532	–	–	–	–	–
Total shareholders' (deficit) equity	(4,197,259)	8,239,989	10,603,949	1,663,991	9,843,171	1,469,546
Non-controlling interests	–	61	888,474	139,421	872,087	130,199
Total liabilities, mezzanine equity and shareholders' (deficit) equity	6,031,821	11,929,214	21,078,040	3,307,604	19,000,334	2,836,673

Note:

(1) On January 1, 2020, we adopted ASC 842, the new lease standard, using the modified retrospective basis and did not restate comparative periods.

Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,				As of June 30,		As of October 31,	
	2019	2020	2021		2022		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*	*RMB*	*US$*
							(unaudited)	
	(in thousands)							
Current assets								
Cash and cash equivalents	2,023,263	3,424,674	4,217,528	661,822	2,732,331	407,926	3,423,476	468,661
Restricted cash	–	–	239,093	37,519	44,439	6,635	16,555	2,266
Accounts receivable, net of allowance	1,347,481	2,334,871	3,570,975	560,364	2,872,904	428,913	2,757,789	377,531
Short-term investments	225,425	2,693,019	2,491,056	390,901	2,619,701	391,111	1,343,616	183,936
Prepayments and other assets	421,938	887,086	1,687,021	264,730	1,694,048	252,914	1,848,041	252,989
Amounts due from related parties	131,632	205,068	207,143	32,505	357,853	53,426	391,278	53,565
Total current assets	4,149,739	9,544,718	12,412,816	1,947,841	10,321,276	1,540,925	9,780,755	1,338,948
Current liabilities								
Accounts payable	1,254,589	2,057,355	2,938,632	461,135	2,409,134	359,674	2,601,590	356,148
Accrued expenses and other current liabilities	949,213	845,374	2,223,840	348,969	2,748,407	410,326	2,787,323	381,574
Short-term bank loans	–	278,488	1,348,166	211,557	1,266,270	189,049	1,059,500	145,042
Long-term bank loan, current portion	100,000	74,351	–	–	–	–	–	–
Income tax payable	11,930	20,564	60,217	9,449	43,163	6,444	38,660	5,292
Amounts due to related parties	104,259	112,998	836,435	131,255	826,042	123,325	575,898	78,838
Current operating lease liabilities	–	76,469	108,590	17,040	100,620	15,022	105,212	14,403
Total current liabilities	2,419,991	3,465,599	7,515,880	1,179,405	7,393,636	1,103,840	7,168,183	981,297
Net current assets	1,729,748	6,079,119	4,896,936	768,436	2,927,640	437,085	2,612,572	357,651

Our net current assets decreased from RMB2,927.6 million (US$437.1 million) as of June 30, 2022 to RMB2,612.6 million (US$357.7 million) as of October 31, 2022, primarily due to (i) a decrease in in our cash and cash equivalents and short-term investments from RMB5,352.0 million to RMB4,767.1 million, mainly attributable to our repayment of loans and repurchase of ordinary shares, (ii) a decrease of accounts receivable (net of allowance) from RMB2,872.9 million to RMB2,757.8 million, primarily as a result of our accounts receivable management efforts, and (iii) an increase of accounts payable from RMB2,409.1 million to RMB2,601.6 million, primarily due to our enhanced liquidity management efforts.

Our net current assets decreased from RMB4,896.9 million (US$768.4 million) as of December 31, 2021 to RMB2,927.6 million (US$437.1 million) as of June 30, 2022, primarily due to (i) a decrease in cash and cash equivalents from RMB4,217.5 million (US$661.8 million) as of December 31, 2021 to RMB2,732.3 million (US$407.9 million) as of June 30, 2022, primarily due to our cash outflows in operating activities and investing activities, and (ii) a decrease in accounts receivable, net from RMB3,571.0 million (US$560.4 million) as of December 31, 2021 to RMB2,872.9 million (US$428.9 million) as of June 30, 2022 primarily due to our accounts receivable management efforts.

Our net current assets decreased from RMB6,079.1 million as of December 31, 2020 to RMB4,896.9 million (US$768.4 million) as of December 31, 2021, primarily due to (i) an increase in accrued expenses and other current liabilities from RMB845.4 million as of December 31, 2020 to RMB2,223.8 million (US$349.0 million) as of December 31, 2021, due to an increase in payables for purchase of property and equipment from RMB181.0 million to RMB759.4 million (US$119.2 million) and an increase in salary and welfare payable from RMB117.5 million to RMB600.8 million (US$94.3 million); (ii) an increase in short-term bank loans from RMB278.5 million as of December 31, 2020 to RMB1,348.2 million (US$211.6 million) as of December 31, 2021. The decrease was partially offset by an increase in accounts receivable (net of allowance) from RMB2,334.9 million as of December 31, 2020 to RMB3,571.0 million (US$560.4 million) as of December 31, 2021, primarily due to our overall business growth.

Our net current assets increased from RMB1,729.7 million as of December 31, 2019 to RMB6,079.1 million as of December 31, 2020, primarily due to (i) an increase in short-term investment from RMB225.4 million as of December 31, 2019 to RMB2,693.0 million as of December 31, 2020, and an increase in cash and cash equivalents from RMB2,023.3 million as of December 31, 2019 to RMB3,424.7 million as of December 31, 2020 primarily attributable to the net proceeds from our US IPO and follow-on offering in 2020, and (ii) an increase in accounts receivable (net of allowance), from RMB1,347.5 million as of December 31, 2019 to RMB2,334.9 million as of December 31, 2020 primarily due to our overall business growth, partially offset by an increase in accounts payable from RMB1,254.6 million as of December 31, 2019 to RMB2,057.4 million as of December 31, 2020, which was in line with our increased IDC costs.

Our net assets decreased from RMB11,492.4 million (US$1,803.4 million) as of December 31, 2021 to RMB10,715.3 million (US$1,599.7 million) as of June 30, 2022 primarily due to an increase of RMB1,365.3 million in accumulated deficit as a result of our net loss for the period, partially offset by increase of RMB382.6 million in the other comprehensive gain due to foreign currency translation adjustments and increase of RMB206.7 million in additional paid-in capital due to recognition of share-based compensation reserve. Our net assets increased from RMB8,240.1 million as of December 31, 2020 to RMB11,492.4 million (US$1,803.4 million) as of December 31, 2021 primarily due to an increase of RMB3,615.5 million in additional paid-in capital and an increase of RMB891.6 million in non-controlling interests mainly as a result of our business acquisition of Camelot Group in 2021, an increase of RMB434.4 million in additional paid-in capital due to recognition of share-based compensation reserve, partially offset by an increase of RMB1,591.8 million in accumulated deficit mainly as a result of our net loss for the year. We recorded net assets of RMB8,240.1 million as of December 31, 2020 as compared to net assets of RMB3,537.3 million as of December 31, 2019, primarily due to an increase of RMB5,752.0 million in additional paid-in capital as a result of issuance of ordinary shares upon our US IPO and follow-on offering in 2020, partially offset by an increase of RMB962.2 million in accumulated deficit mainly as a result of our net loss for the year. Please see the consolidated statements of changes in shareholders' (deficit) equity on pages IA-12 to IA-14 of the Accountants' Report in Appendix IA to this listing document.

Cash and Cash Equivalents

Our cash and cash equivalents consist of cash on hand and time deposits or other highly liquid investments placed with banks or other financial institutions which are unrestricted as to withdrawal or use and have original maturities of less than three months. Our cash and cash equivalents increased from RMB2,023.3 million as of December 31, 2019 to RMB3,424.7 million as of December 31, 2020 primarily attributable to the net proceeds from our US IPO and follow-on offering in 2020, further increased to RMB4,217.5 million (US$661.8 million) as of December 31, 2021 primarily attributable to increases in the proceeds from short-term bank loans and loans from related parties. Our cash and cash equivalents decreased to RMB2,732.3 million (US$407.9 million) as of June 30, 2022, primarily due to our cash outflows in operating activities and investing activities.

Short-term Investments

During the Track Record Period, our short-term investments consisted of cash deposits at fixed rates with original maturities of three to 12 months. Our short-term investments increased from RMB225.4 million as of December 31, 2019 to RMB2,693.0 million as of December 31, 2020 primarily due to our increased deposits of cash at fixed rates, especially upon receipt of proceeds from our US IPO and follow-on offering in 2020. Our short-term investments slightly decreased to RMB2,491.1 million (US$390.9 million) as of December 31, 2021 and increase to RMB2,619.7 million (US$391.1 million) as of June 30, 2022.

We undertake prudent evaluation and approval process in making cash management and investment decisions. With respect to short-term investment, we only allow principal-guaranteed investment in managing our idle fund, and our short-term investments during the Track Record Period all consisted of cash time deposits. Our finance department is responsible for cash management and investment with oversight of our senior management and board of directors. The department is staffed with personnel with adequate knowledge, skills and experiences in finance. Investment of our idle fund as short-term investments is required to be approved by the director of our finance department. If we make any short-term investments involving equity securities or other notifiable transactions for purpose of Chapter 14 of the Listing Rules in the future, including purchase of wealth management products, the investment will be subject to the compliance with the requirements under Chapter 14 of the Listing Rules.

Restricted Cash

Our restricted cash mainly represents the cash reserved in escrow accounts for the purchase consideration in relation to our acquisition of Camelot Group, cash secured for certain payables to suppliers and advances paid by certain customers to guarantee our performance under certain revenue contracts. Our restricted cash was nil, nil, RMB239.1 million (US$37.5 million) and RMB44.4 million (US$6.6 million) as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. Our cash reserved for purchase consideration to acquire Camelot Group was largely released in May 2022.

Accounts Receivable, Net of Allowance

Our accounts receivable (net of allowance) consist primarily of receivables from our customers in consideration for the products and solutions provided by us. Our accounts receivable (net of allowance) increased from RMB1,347.5 million as of December 31, 2019 to RMB2,334.9 million as of December 31, 2020, and further to RMB3,571.0 million (US$560.4 million) as of December 31, 2021, primarily due to our overall business growth. Our accounts receivable (net of allowance) decreased to RMB2,872.9 million (US$428.9 million) as of June 30, 2022.

The following table sets forth the turnover days for our accounts receivable (net of allowance) and contract assets for the periods indicated. For details of our contract assets, see "– Prepayments and Other Assets." The turnover days of accounts receivable (net of allowance) for a period equal the average of the opening and closing accounts receivable (net of allowance), including trade receivables included in amounts due from related parties, divided by the total revenues for that period and multiplied by the number of days in that period. The turnover days of accounts receivable (net of allowance) and contract assets for a period are calculated by the same methodology described, with contract assets included in addition to accounts receivable (net of allowance).

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
			(days)		
Average accounts receivable (net of allowance) turnover days	97	109	126	140	155
Average accounts receivable (net of allowance) and contract assets turnover days	97	109	137	140	179

The aforesaid turnover days increased throughout the Track Record Period, primarily because, with our growing business, we agreed to a more diversified spread of settlement terms with a growing base of customers from a broader range of industry verticals who have different requirements on settlement cycles. The increase of such turnover days from the six months ended June 30, 2021 to the six months ended June 30, 2022 was also attributable to the temporary payment delays caused by the restrictive measures, including lockdowns, of various cities in China, due to the resurgence of COVID-19 in 2022.

The following table sets forth the aging analysis of our accounts receivable (net of allowance) as of the dates indicated.

	As of December 31,				As of June 30,		Subsequent Settlement of accounts receivables as of June 30, 2022, As of November 30,
	2019	2020	2021		2022		2022
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*	*RMB*
				(in thousands)			
Accounts receivable, net of allowance							
Not yet due	1,158,160	979,843	2,411,907	378,481	1,470,283	219,507	(907,449)
Past due by:							
Within 3 months	75,604	1,084,616	478,156	75,033	496,280	74,093	(302,674)

	As of December 31,				As of June 30,		Subsequent Settlement of accounts receivables as of June 30, 2022, As of November 30,
	2019	2020	2021		2022		2022
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*	*RMB*
				(in thousands)			
Between 4 months and 6 months	69,616	118,015	202,060	31,708	235,706	35,190	(69,482)
Between 7 months and 1 year	41,254	135,057	371,200	58,249	538,523	80,399	(145,571)
More than 1 year	2,847	17,340	107,652	16,893	132,112	19,724	(32,476)
Total	1,347,481	2,334,871	3,570,975	560,364	2,872,904	428,913	(1,457,652)

As of November 30, 2022, RMB1,457.7 million, or 50.7% of our accounts receivable (net of allowance) outstanding as of June 30, 2022, had been subsequently settled. Overall, we do not anticipate any material recoverability issue with the accounts receivable, primarily because: (i) throughout the Track Record Period, we have not experienced any material recoverability issues in our accounts receivable; (ii) our accounts receivable are typically derived from reputable customers, and we usually cooperate with them on a long-term basis and are familiar with their credit profile and business performance; (iii) we assess our customers' credit quality carefully on a continuous basis, taking into account their financial position, experience and other factors; (iv) we have in place dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments are made as scheduled; (v) our accounts receivable turnover days during the Track Record Period are in line with the industry norm; (vi) our accounts receivable aged over one year accounted for immaterial portions of our accounts receivables as of each reporting date; (vii) we do not expect any significant concentration of credit risk for the long-aging accounts receivable, since such amounts are owed by various customers with diversified background; (viii) the actual write-offs charged against the allowance were generally less than provisions for expected credit losses during the Track Record Period; and (ix) we monitor the long-aging accounts receivable closely, update the recoverability status in due course and enhance our collection efforts as appropriate. Additionally, we believe sufficient provisions have been made on the accounts receivable that may have recoverability issues. We made provision for expected credit losses of RMB61.7 million, RMB44.7 million, RMB121.7 million, RMB23.1 million and RMB140.9 million for 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively. At each reporting date, we performed an impairment analysis by considering historical collectability based on the length of time past due, the age of the accounts receivable and contract assets balances, credit quality of the

Group's customers based on ongoing credit evaluations, current macro-economic conditions, outlook of future macro-economic conditions, among others. We also made provisions for individually impaired accounts receivable that are related to specific customers with collectability issues. Based on the above, our Directors consider the allowance for expected credit losses of accounts receivable is adequate as of the end of each year or period in the Track Record Period.

Based on the due diligence work conducted by the Joint Sponsors, which includes (i) conducting financial due diligence with the Company and the reporting accountants to understand, among other things, the trend of the trade receivables of the Company during the Track Record Period and particularly noting that the increase in turnover days for the Company's accounts receivable (net of allowance) and contract assets from the six months ended June 30, 2021 to the six months ended June 30, 2022 was caused by the restrictive measures, including lockdowns, of various cities in China, due to the resurgence of COVID-19 in 2022 which is of a temporary nature; (ii) obtaining and reviewing the list of customers with receivables due ("Overdue Customers") as of June 30, 2022 and noting long-aging accounts receivables are owed by various customers with diversified background; (iii) obtaining and reviewing the subsequent settlement as of September 30, 2022 of these Overdue Customers and sampling their payment invoices; (iv) conducting desktop searches relating to the liquidity and solvency of sampled Overdue Customers with receivables remain outstanding as of September 30, 2022; (v) discussing with the Company to understand the basis for determining the recoverability issues of such account receivables and making provisions; (vi) obtaining and reviewing the credit management policy of the Company specifying, among others, customer credit review and assessment, classification, approval, continuous monitoring and follow-up procedures; (vii) discussing and confirming with Frost & Sullivan that the accounts receivable turnover days of the Company during the Track Record Period are in line with the industry norm; and (viii) reviewing the internal control report issued by the internal control consultant of the Company with respect to the credit management control of the Company, nothing has come to the attention of the Joint Sponsors' that would cast doubt on the above Company's view of no material recoverability issue with the accounts receivable.

For the purpose of Accountants' Report, the Reporting Accountants are engaged to express an opinion on the historical financial information of the Group in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institution of Certified Public Accountants and the Reporting Accountants have reported that the historical financial information, for the purpose of the Accountants' Report, gives a true and fair view of the financial position of the Group and the Company as at December 31, 2019, 2020 and 2021 and June 30, 2022 and of the financial performance and cash flows of the Group for each of the Track Record Period in accordance with the basis of preparation set out in note 2(a) to the historical financial information in Accountants' Report as set out in Appendix IA to this listing document. As part of the audit of the Group's historical financial information, the Reporting Accountants have performed audit procedures in accordance with the Hong Kong Standards on Auditing for the provision for expected credit losses and management's assessment of the recoverability of the accounts receivables of the Group. Further details of the opinion of the Reporting Accountants are set out on pages IA-1 to IA-2-B of this listing document.

Prepayments and Other Assets

Our prepayments and other assets primarily consist of VAT prepayments, individual income tax receivable and payments to suppliers. The following table sets forth details of our prepayments and other assets during the Track Record Period:

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
Prepayments and Other Assets, Net						
Current portion:						
Payments to suppliers	15,903	78,621	162,528	25,504	162,998	24,335
Contract costs	12,979	13,882	145,628	22,852	202,629	30,252
Contract assets, net	–	–	550,068	86,318	542,967	81,063
VAT prepayments	360,401	470,567	619,391	97,196	582,751	87,002
Interest receivable	3,114	14,204	21,463	3,368	14,931	2,229
Deferred IPO costs	11,971	–	–	–	24,815	3,705
Individual income tax receivable	–	231,377	48,949	7,681	7,051	1,053
Others	17,570	78,435	138,994	21,811	155,906	23,275
Sub-total	421,938	887,086	1,687,021	264,730	1,694,048	252,914
Non-current portion:						
Prepayments for electronic equipment	33,970	8,978	25,388	3,984	20,372	3,042
Others	2,498	2,846	3,678	577	2,065	308
Sub-total	36,468	11,824	29,066	4,561	22,437	3,350
Total	458,406	898,910	1,716,087	269,291	1,716,485	256,264

Our prepayments and other assets increased by 96.1% from RMB458.4 million as of December 31, 2019 to RMB898.9 million in December 31, 2020, primarily due to (i) an increase in individual income tax receivable from nil to RMB231.4 million, which represents amounts due from certain employees related to their individual income taxes arising from exercise and vesting of share-based awards, and (ii) an increase in VAT prepayments from RMB360.4 million to RMB470.6 million, primarily due to the increased deductible VAT driven by our business growth. Our prepayments and other assets further increased by 90.9% to RMB1,716.1 million (US$269.3 million) as of December 31, 2021, primarily due to (i) a significant increase in contract assets, net from nil to RMB550.1 million (US$86.3 million), which represents our rights to consideration for work completed in relation to our services performed but not billed as of December 31, 2021, primarily incurred by Camelot Group, which we acquired in 2021, (ii) an increase in VAT prepayments from RMB470.6 million to RMB619.4 million (US$97.2 million), primarily due to the increased deductible VAT driven by our overall business growth, and (iii) a significant increase in contract costs from RMB13.9 million to RMB145.6 million (US$22.9 million), which represents the increases of costs incurred in advance of revenue recognition arising from direct and incremental cost related to enterprise cloud services provided, primarily incurred by Camelot Group. Our prepayments and other assets remained stable from December 31, 2021 to June 30, 2022, being RMB1,716.1 million (US$269.3 million) and RMB1,716.5 million (US$256.3 million) as of each date, respectively.

As of November 30, 2022, RMB1,160.6 million, or 67.6% of our prepayments and other assets outstanding as of June 30, 2022, had been subsequently settled.

Property and Equipment, Net

Our property and equipment, net consist primarily of our electronic equipment, construction in progress and data center machinery and equipment. Our property and equipment, net increased from RMB1,721.0 million as of December 31, 2019 to RMB1,956.8 million as of December 31, 2020, and further to RMB2,364.1 million (US$371.0 million) as of December 31, 2021 and RMB2,449.7 million (US$365.7 million) as of June 30, 2022, primarily due to our continued investment in our infrastructure and equipment to support our business growth.

Intangible Assets

Our intangible assets consist primarily of customer relationships, trademarks and domain names, software and copyrights and patents and technologies. The following table sets forth details of our intangible assets during the Track Record Period.

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
Intangible assets						
Customer relationships	–	–	620,100	97,307	620,500	92,638
Patents and technologies	–	–	67,900	10,655	60,900	9,092
Trademarks and domain names	7,041	7,020	497,098	78,006	497,150	74,223
Software and copyrights	6,564	20,807	71,752	11,259	79,726	11,903
Others	4,598	7,469	3,637	571	3,707	553
Sub-total	18,203	35,296	1,260,487	197,798	1,261,983	188,409

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
Less: accumulated amortization						
Customer relationships	–	–	(32,637)	(5,121)	(81,605)	(12,183)
Patents and technologies	–	–	(8,138)	(1,277)	(12,688)	(1,894)
Trademarks and domain names	(2,309)	(3,035)	(20,722)	(3,252)	(45,589)	(6,806)
Software and copyrights	(5,128)	(10,268)	(26,692)	(4,189)	(32,679)	(4,879)
Others	(3,338)	(5,420)	(2,531)	(397)	(2,908)	(435)
Intangible assets, net	7,428	16,573	1,169,767	183,562	1,086,514	162,212

Our net intangible assets increased from RMB7.4 million as of December 31, 2019 to RMB16.6 million as of December 31, 2020, primarily attributable to an increase of software and copyrights from RMB1.4 million to RMB10.5 million, mainly due to our continued investment in technologies to support our business growth. Our net intangible assets further increased to RMB1,169.8 million (US$183.6 million) as of December 31, 2021, primarily attributable to an increase in customer relationship from nil to RMB587.5 million (US$92.2 million) and trademarks and domain names from RMB4.0 million to RMB476.4 million (US$74.8 million), mainly due to our increased intangible assets arising from our acquisition of Camelot Group. Our net intangible assets remained stable from December 31, 2021 to June 30, 2022, being RMB1,169.8 million (US$183.6 million) and RMB1,086.5 million (US$162.2 million) as of each date, respectively.

Goodwill

We recorded goodwill of nil, nil, RMB4,625.1 million (US$725.8 million) and RMB4,605.7 million (US$687.6 million) as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. During the Track Record Period, our goodwill was recognized from Camelot Group acquisition, which we acquired in 2021, with our existing business. See "History, Development and Corporate Structure – Acquisition of Camelot and Camelot Technology" and Note 4 to the Accountants' Report included in Appendix IA.

Goodwill is allocated to the reporting units that are expected to benefit from the synergies of the business combination based on the estimated fair value of these reporting units at the date of acquisition. The determination of the fair value of reporting units requires us to make estimates and assumptions.

We test goodwill for impairment at the reporting unit level. We are permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. For our impairment testing performed, we applied the qualitative assessments for our reporting units. In performing the qualitative assessments, we identified and considered the significance of relevant key factors, events, and circumstances that could affect the fair value of each reporting unit. These factors include such as industry and market considerations, overall financial performance of the reporting units, and other specific information related to the operations. We also assessed changes in each reporting unit's fair value and carrying value since the most recent date a fair value measurement was performed.

As of June 30, 2022, we performed a qualitative assessment for goodwill allocated to the Cloud-based digital solution and services reporting unit, and concluded that it is not more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. We elected to bypass the qualitative assessment and proceed directly to perform quantitative assessment for the Cloud service and solutions reporting unit. The fair value of this reporting unit has been determined using the income approach based on financial budgets covering a five-year period approved by management. Significant assumptions used included projected revenue growth rates, terminal growth rate, and discount rate. The projected annual revenue growth rates used for each of the first five years is not more than 22.0%. The terminal growth rate beyond the five-year period is 2.3%, and the post-tax discount rate is 15.0%. As of June 30, 2022, as the fair value of the Cloud service and solutions reporting unit amounted to RMB9,069.0 million exceeded its carrying amount of RMB8,173.6 million, no impairment loss was recognized.

A sensitivity analysis of the goodwill impairment shows that, with all other variables hold constant, a decrease of 1.0% in the projected annual revenue growth rates would cause the fair value of the Cloud services and solutions reporting unit decrease by RMB362.0 million; a decrease of 0.5% in the terminal growth rate would cause the fair value of the reporting unit decrease by RMB232.0 million; and an increase of 0.5% in the discount rate would cause the fair value of the reporting unit decrease by RMB379.0 million. With all other variables hold constant, a decrease of 2.55% in the projected annual revenue growth rates, a decrease of 1.25% in the terminal growth rate or an increase of 2.17% in the discount rate would cause the carrying amount of the Cloud services and solutions reporting unit to exceed its fair value. For details of the assessment and related sensitivity analysis, please refer to Note 10 to the Accountants' Report in Appendix IA.

Operating lease Liabilities

Our operating leases are mainly related to office space and buildings. Our operating lease liabilities increased from nil as of December 31, 2019 to RMB259.4 million as of December 31, 2020, primarily due to the adoption of ASU No. 2016-02, *Leases*, on January 1, 2020 by modified retrospective method. Our lease liabilities were RMB266.9 million (US$41.9 million) and RMB239.1 million (US$35.7 million) as of December 31, 2021 and June 30, 2022, respectively. The decrease of operating lease liabilities from December 31, 2021 to June 30, 2022 was primarily due to lease payments made by us.

Accounts Payable

Our accounts payable represent payable to suppliers for their goods and services provided, such as IDC expenses. Our accounts payable increased from RMB1,254.6 million as of December 31, 2019 to RMB2,057.4 million as of December 31, 2020 and further to RMB2,938.6 million (US$461.1 million) as of December 31, 2021, primarily due to our increased IDC costs. Our accounts payable decreased to RMB2,409.1 million (US$359.7 million) as of June 30, 2022, primarily due to our settlement of accounts payables. Our suppliers generally offer us credit terms ranging from 30 days to 180 days.

The following table sets forth our accounts payable turnover days for the periods indicated. Accounts payable turnover days for a period equals the average of the opening and closing accounts payable balance including trade payables included in amounts due to related parties divided by the total cost of revenue for that period and multiplied by the number of days in that period. The average accounts payable turnover days increased throughout the Track Record Period.

	For the Year Ended December 31,			**For the Six Months Ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
				(unaudited)	
			(days)		
Average accounts payable turnover days	98	101	107	115	124

The following table sets forth the aging analysis of our accounts payable as of the dates indicated.

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
Accounts payable						
Within 3 months	1,018,064	1,446,965	1,340,662	210,379	741,829	110,752
Between 4 months and 1 year	158,132	449,649	1,209,146	189,741	1,175,698	175,527
More than 1 year	78,393	160,741	388,824	61,015	491,607	73,395
Total	1,254,589	2,057,355	2,938,632	461,135	2,409,134	359,674

As of November 30, 2022, RMB1,443.2 million, or 59.9% of our accounts payable outstanding as of June 30, 2022, had been subsequently settled.

Accrued Expenses and Other Current Liabilities

Our accrued expenses and other current liabilities consist primarily of purchases of property and equipment, salary and welfare payable and customer advances. The following table sets forth the breakdown of accrued expenses and other current liabilities as of the dates indicated:

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
			(in thousands)			
Customer advances	79,608	191,357	378,957	59,467	376,016	56,138
Salary and welfare payable	136,762	117,506	600,775	94,275	573,403	85,607
Purchase of property and equipment	609,363	181,038	759,391	119,165	264,385	39,472
Acquisition of equity investments	15,500	–	–	–	–	–
Accrued expenses	67,027	44,559	116,021	18,206	119,826	17,890
Other tax and surcharges payable	10,608	25,227	91,287	14,325	100,617	15,022
Deferred government grants	7,919	10,321	8,488	1,332	12,257	1,830
Purchase consideration payable	–	–	148,038	23,230	1,219,591	182,080
Individual income tax payable	–	231,377	48,949	7,681	3,801	567
Others	22,426	43,989	71,934	11,288	78,511	11,720
Total	949,213	845,374	2,223,840	348,969	2,748,407	410,326

Our accrued expenses and other current liabilities decreased from RMB949.2 million as of December 31, 2019 to RMB845.4 million as of December 31, 2020, and then increased to RMB2,223.8 million (US$349.0 million) as of December 31, 2021. The increase from December 31, 2020 to December 31, 2021 was primarily attributable to the increased payments made for purchase of property and equipment and staff compensation, as well as the purchase consideration payable for our acquisition of Camelot Group recorded in 2021. Our accrued expenses and other current liabilities further increased to RMB2,748.4 million (US$410.3 million) as of June 30, 2022, primarily due to the reclassification of RMB1,180.5 million purchase consideration payable from our other liabilities as the remaining purchase consideration for our acquisition of Camelot Group will be settled by June 30, 2023 in accordance with the payment arrangement under the acquisition agreement, partially offset by the decrease of our purchase of property and equipment from RMB759.4 million (US$119.2 million) to RMB264.4 million (US$39.5 million) due to settlement of payables for purchase of property and equipment pursuant to the relevant purchase agreements.

Our purchase of property and equipment decreased from RMB609.4 million as of December 31, 2019 to RMB181.0 million as of December 31, 2020, primarily due to our settlement of payables for the purchase of property and equipment pursuant to the relevant purchase agreements. Our purchase of property and equipment increased from RMB181.0 million as of December 31, 2020 to RMB759.4 million (US$119.2 million) as of December 31, 2021, primarily attributable to the purchase of property and equipment due to our business expansion. Our purchase of property and equipment decreased from RMB759.4 million (US$119.2 million) as of December 31, 2021 to RMB264.4 million (US$39.5 million) as of June 30, 2022, primarily due to our settlement of payables for the purchase of property and equipment pursuant to the relevant purchase agreements.

Income Tax Payable

We recorded income tax payable of RMB11.9 million, RMB20.6 million and RMB60.2 million (US$9.4 million) as of December 31, 2019, 2020 and 2021, respectively, primarily due to the increase of our taxable income. Our income tax payable decreased from December 31, 2021 to RMB43.2 million (US$6.4 million) as of June 30, 2022 primarily due to the settlement of our income tax payables.

Related Party Transactions

Amounts due from related parties

Our amounts due from related parties during the Track Record Period primarily consisted of account receivables for cloud services we provided to related parties. We recorded amounts due from related parties of RMB134.0 million, RMB210.8 million, RMB212.9 million (US$33.4 million) and RMB362.7 million (US$54.2 million) as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. The balances of our amount due from related parties are primarily trade in nature.

Amounts due to related parties

We recorded amounts due to related parties of RMB104.3 million, RMB113.0 million, RMB1,309.3 million (US$205.5 million) and RMB1,180.4 million (US$176.2 million) as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. The significant increase from RMB113.0 million as of December 31, 2020 to RMB1,309.3 million (US$205.5 million) as of December 31, 2021 was primarily because (i) we entered into a loan agreement with Kingsoft Group for an aggregate principal amount of RMB500.0 million (US$78.5 million) bearing a fixed annual interest rate of 4.65%, which was fully repaid in November 2022; and (ii) we entered into several loan agreements with Xiaomi Group which are secured by our electronic equipment. As of September 30, 2022, the current portion of the loans was RMB326.0 million, and the non-current portion of the loans were RMB428.2 million, respectively. No subsequent repayment was made since September 30, 2022. Under the terms of these loan agreements with Xiaomi, the Group will repay the loan in fixed quarterly installments over three years and in full by 2024. The balances of our amounts due to related parties primarily related to the aforementioned loans, which are non-trade in nature. These loans will be settled in accordance with the terms of relevant loan agreements, under which they will not be fully settled before Listing. Such transactions will constitute our continuing connected transactions with Xiaomi Group after Listing. See section headed "Connected Transactions – C. Non-exempt Continuing Connected Transactions – 1. Framework Agreement with Xiaomi" for details of such continuing connected transactions with Xiaomi Group. Notwithstanding the financial assistance received from Xiaomi Group, our Directors believe that we are financially independent from Xiaomi Group on the basis that we have a strong financial position and have sufficient funds to operate our business independently, considering that (i) our cash and cash equivalents amounted to RMB3,423.5 million as of October 31, 2022, (ii) our short-term investments amounted to RMB1,343.6 million as of October 31, 2022, which consisted of cash deposits at fixed rates with original maturities within 12 months and provided us with sufficient liquidity and financial security; and (iii) our total bank loan facility from independent third party banks amounted to RMB1,571.0 million (US$234.5 million) as of October 31, 2022 while our total unutilized portion amounted to approximately RMB511.5 million (US$70.0 million), all of which were obtained in the form of unsecured loans with no guarantees provided by Xiaomi Group and were not restricted for any specific purposes by the relevant independent third party banks. Considering (i) the total amount due to Xiaomi Group represented no more than 15% of our total cash and cash equivalent and short-term investments as of June 30, 2022; (ii) we have unutilized bank loan facility of RMB304.7 million (US$45.5 million) from independent third party banks as of June 30, 2022; and (iii) our improving performances on operating cash flow positions as of June 30, 2022, our Directors were of the view that, notwithstanding the recorded net operating cash outflow during the Track Record Period and even if the Company were to repay the amounts due to Xiaomi Group under the relevant loan agreements, we have sufficient working capital for our present requirements and for the next 12 months from the date of this listing document, and that our business will be sustainable without any financial support from Xiaomi Group. All the balances with related parties except for the loans from Xiaomi Group were unsecured.

The below table sets forth the details of our related party balances.

	As of December 31,			As at June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
		(in thousands)		
Amounts due from related parties:				
Trade related:				
Xiaomi Group	63,859	165,568	175,170	280,042
Cheetah Group	1,932	–	–	–
Kingsoft Group	34,800	35,653	26,868	49,498
Others	–	–	–	22,334
Non-trade related:				
Kingsoft Group*	8,916	9,605	10,863	10,868
Senior executives**	24,461	–	–	–
	133,968	210,826	212,901	362,742
Amounts due to related parties:				
Trade related:				
Kingsoft Group	52,625	51,010	15,092	13,272
Xiaomi Group	22,350	32,704	55,853	41,794
Non-trade related:				
Kingsoft Group***	29,284	29,284	529,284	529,284
Xiaomi Group****	–	–	709,088	596,084
	104,259	112,998	1,309,317	1,180,434

* Prior to the Company's IPO on NASDAQ in 2020, the Company was Kingsoft Group's subsidiary. As such, Kingsoft Group had granted restricted shares to the Company's employees in the PRC for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Upon the vesting of the restricted shares which was partially sold out by Kingsoft Group for withholding individual income taxes purpose, the Company's PRC subsidiaries settled the consideration from sales of the awarded shares on behalf of Kingsoft Group. However, due to the foreign currency conversion restrictions in the PRC, the non-trade related balances of RMB8.9 million, RMB9.6 million, RMB10.9 million and RMB10.9 million as of December 31, 2019, 2020, and 2021 and June 30, 2022, respectively, were not settled. We will settle these amounts when the foreign currency conversion restrictions in the PRC are lifted.

** We provided interest bearing loans to senior executives, which were fully settled in February 2020.

*** During 2021, the Group entered into an unsecured loan agreement with Kingsoft Group for an aggregate principal amount of RMB500,000 bearing a fixed annual interest rate of 4.65%. The loan was fully repaid in November 2022.

**** During 2021, the Group entered into several loan agreements with a fixed interest rate of 4.36% with Xiaomi Group which are secured by the Group's electronic equipment. Under the terms of the agreements, the Group will repay in fixed quarterly installments over 3 years.

Other Liabilities

Our other liabilities primarily consist of deferred government grants, purchase consideration payable and others. We recorded other liabilities of nil, RMB40.6 million, RMB1,232.7 million (US$193.4 million) and RMB206.6 million (US$30.8 million) as of December 31, 2019, 2020, 2021, and June 30, 2022, respectively. The significant increase in our other liabilities from December 31, 2020 to December 31, 2021 was primarily due to the increase in the non-current portion of purchase consideration payable from nil to RMB1,180.5 million (US$185.2 million), which represents the purchase consideration to acquire Camelot Group to be settled by June 30, 2023, of which the majority is expected to be settled by ordinary shares. See Note 13 to the Accountants' Report included in Appendix IA. The significant decrease in our other liabilities from December 31, 2021 to June 30, 2022 was primarily due to the reclassification of RMB1,180.5 million purchase consideration payable to accrued expenses and other liabilities as the remaining purchase consideration for our acquisition of Camelot Group will be settled by June 30, 2023, and partially offset by RMB126.0 million (US$18.8 million) of finance lease liabilities.

Bank Loans

Our short-term bank loans increased from nil as of December 31, 2019 to RMB278.5 million as of December 31, 2020, and further increased to RMB1,348.2 million (US$211.6 million) as of December 31, 2021, primarily due to increased bank loans for cash management purposes. Our short-term bank loans decreased from RMB1,348.2 million (US$211.6 million) as of December 31, 2021 to RMB1,266.3 million (US$189.0 million) as of June 30, 2022. All of our short-term bank loans as of December 31, 2019, 2020, 2021, and June 30, 2022 were unsecured. The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2019, 2020, 2021 and June 30, 2022 was nil, 4.28%, 4.59% and 4.44%, respectively.

In June 2016, we entered into a long-term loan facility for an aggregate principal amount of RMB400.0 million with a bank in Beijing bearing a fixed annual interest rate of 90% of the benchmark five-year lending rate published by the PBOC, guaranteed by Kingsoft Group. See "– Material Related Party Transactions." Therefore, we recorded RMB174.4 million of secured and guaranteed long-term bank loans as of December 31, 2019, of which the current portion was RMB100.0 million. As a result of our repayment and due date became within 1 year, we had RMB74.4 million of secured and guaranteed long-term bank loans as of December 31, 2020, all of which were recorded as current liabilities. The interest rate for the long-term bank loan as of December 31, 2019 and 2020, was approximately 4.3% and 4.3%, respectively. We repaid the loan in full on July 19, 2021.

As of June 30, 2022, we had utilized RMB1,266.3 million (US$189.0 million) from our secured banking facilities, and RMB304.7 million (US$45.5 million) remained unutilized under our banking facilities. There are no commitment fees and conditions under which lines may be withdrawn associated with our unused facilities.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	As of or for the year ended December 31,			As of or for the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
Revenue growth	N/A	66.2%	37.8%	N/A	2.3%
Gross profit margin	0.2%	5.4%	3.9%	5.9%	3.6%
Gearing Ratio*	4.9%	7.4%	24.6%	N/A	25.5%
Current Ratio**	1.7	2.8	1.7	N/A	1.4

* Calculated by dividing the sum of bank loans, loans from related parties and lease liabilities by total equity (including total mezzanine equity and total shareholders' (deficit) equity) and multiplied by 100%.

** Calculated by dividing total current assets by total current liabilities.

As a result of our continuous business expansion, our revenue growth rate was 66.2% in 2020 compared to 2019, 37.8% in 2021 compared to 2020 and 2.3% for the six months ended June 30, 2022 compared to the same period in 2021.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of liquidity primarily consist of net proceeds from the sale and issuance of our shares, including the net proceeds we received from our US IPO and follow-on offering in 2020, and proceeds from financing facilities such as bank loans and related party loans, which have historically been sufficient to meet our working capital and capital expenditure requirements. As of the Latest Practicable Date, we have utilized a total of US$633 million of the net proceeds we received from our US IPO and follow-on offering in 2020. Our cash and cash equivalents consist of cash on hand and time deposits placed with banks which are unrestricted as to withdrawal or use and have original maturities of less than three months. As of October 31, 2022, we had RMB4,767.1 million (US$652.6 million) in cash and cash equivalents and short-term investment, which included cash deposits at fixed rates. As of October 31, 2022, substantially all of our cash and cash equivalents were located in the PRC and Hong Kong. As of October 31, 2022, we had RMB511.5 million (US$70.0 million) unutilized banking facilities.

We intend to finance our future working capital requirements and capital expenditures from cash generated from operating activities and funds raised from financing activities. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to issue debt or equity securities or obtain additional credit facilities. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. Issuance of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer. See "Risk Factors – Risks Relating to Our Business and Industry – We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, or at all, our business, financial condition and results of operations may be materially and adversely affected."

Additionally, we have historically been loss-making, and we had been generating net operating cash outflows during the Track Record Period. We generated net loss of RMB1,111.2 million, RMB962.2 million and RMB1,591.8 million (US$249.8 million) in 2019, 2020 and 2021, respectively, and RMB602.8 million and RMB1,365.3 million (US$203.8 million) during six months ended June 30, 2021 and 2022, respectively. As of June 30, 2022, we had an accumulated deficit of RMB8,815.0 million (US$1,316.0 million). We recorded net operating cash outflows of RMB439.1 million, RMB290.4 million, RMB708.9 million (US$111.2 million) and RMB282.4 million (US$42.2 million) in 2019, 2020, 2021 and six months ended June 30, 2022, respectively. If we are unable to achieve and sustain profitability, or if we experience net operating cash outflows again in the future, our business, liquidity, financial condition and results of operations may be materially and adversely affected. 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."

Working Capital

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, and (iii) our plans to continue to enhance our financial performance, details of which are set out in "Business – Business Sustainability and Path to Profitability," 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.

Cash Flows

The following table presents our consolidated cash flow data for the periods presented.

	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)			
Operating cash flows before movements in working capital	(325,807)	9,109	(283,269)	(44,451)	(34,006)	(147,296)	(21,991)
Changes in operating assets and liabilities	(113,325)	(299,542)	(425,600)	(66,785)	(726,795)	(135,105)	(20,170)
Net cash used in operating activities	(439,132)	(290,433)	(708,869)	(111,236)	(760,801)	(282,401)	(42,161)
Net cash generated from/ (used in) investing activities	883,247	(4,314,003)	(421,623)	(66,162)	(294,546)	(1,257,570)	(187,750)
Net cash generated from financing activities	64,507	6,124,153	2,212,487	347,187	601,302	(214,796)	(32,069)
Net increase/(decrease) in cash, cash equivalents and restricted cash	508,622	1,519,717	1,081,995	169,789	(454,045)	(1,754,767)	(261,980)
Cash, cash equivalents and restricted cash at beginning of the year/period	1,507,071	2,023,263	3,424,674	537,406	3,424,674	4,456,621	665,356
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,570	(118,306)	(50,048)	(7,854)	(16,010)	74,916	11,185
Cash, cash equivalents and restricted cash at end of the year/period	2,023,263	3,424,674	4,456,621	699,341	2,954,619	2,776,770	414,561

During the Track Record Period and up to the Latest Practicable Date, our principal sources of liquidity have been cash generated from financing activities.

Operating Activities

Net cash used in operating activities was RMB282.4 million (US$42.2 million) during the six months ended June 30, 2022. The difference between our net loss of RMB1,365.3 million (US$203.8 million) and the net cash used in operating activities was mainly due to (i) the depreciation and amortization of RMB578.2 million (US$86.3 million), (ii) an increase of accounts receivable of RMB564.5 million (US$84.3 million), (iii) share-based compensation of RMB206.7 million (US$30.9 million) and (iv) foreign exchange loss of RMB248.0 million (US$37.0 million), partially offset by a decrease in accounts payable of RMB504.8 million (US$75.4 million).

Net cash used in operating activities was RMB708.9 million (US$111.2 million) in 2021. The difference between our net loss of RMB1,591.8 million (US$249.8 million) and the net cash used in operating activities was mainly due to (i) depreciation and amortization of RMB855.6 million (US$134.3 million) primarily in connection with our property and equipment, (ii) an increase in accounts payable of RMB593.4 million (US$93.1 million), which was in line with our increased cost of revenues, and (iii) share-based compensation of RMB434.4 million (US$68.2 million) to our employees, partially offset by an increase in accounts receivable of RMB947.8 million (US$148.7 million) primarily due to our overall business growth.

Net cash used in operating activities was RMB290.4 million in 2020. The difference between our net loss of RMB962.2 million and the net cash used in operating activities was mainly due to (i) an increase in accounts payable of RMB804.2 million, which was in line with our increased IDC costs, (ii) depreciation and amortization of RMB758.0 million primarily in connection with our property and equipment and (iii) share-based compensation of RMB330.1 million to our employees, partially offset by an increase in accounts receivable of RMB1,024.1 million primarily due to our overall business growth.

Net cash used in operating activities was RMB439.1 million in 2019. The difference between our net loss of RMB1,111.2 million and the net cash used in operating activities was mainly due to (i) depreciation and amortization of RMB604.6 million primarily attributable to our increased investment in property and equipment, (ii) an increase in accounts payable of RMB533.8 million, which was in line with our increased IDC costs, and (iii) share-based compensation of RMB121.3 million to our employees, partially offset by an increase in accounts receivable of RMB823.0 million primarily due to our overall business growth.

Our ability to improve our net operating cash flow is largely dependent on our ability to improve profitability. For details of our plan to improve our financial performance, see "Business – Business Sustainability and Path to Profitability." With our improving profitability, we also expect our operating cash flow to improve concurrently. Moreover, we plan to enhance our working capital management efficiency to improve our net operating cash outflow positions. 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. 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. 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. 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, respectively. 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.

Investing Activities

Net cash used in investing activities was RMB1,257.6 million (US$187.8 million) during the six months ended June 30, 2022, which was mainly attributable to (i) purchase of short-term investments of RMB2,222.9 million (US$331.9 million) and (ii) purchase of property and equipment of RMB1,062.1 million (US$158.6 million), partially offset by proceeds from maturities of short-term investments RMB2,218.9 million (US$331.3 million).

Net cash used in investing activities was RMB421.6 million (US$66.2 million) in 2021, which was mainly attributable to (i) purchase of short-term investments of RMB2,568.3 million (US$403.0 million) and (ii) purchase of property and equipment of RMB723.3 million (US$113.5 million), partially offset by proceeds from maturities of short-term investments of RMB2,720.2 million (US$426.9 million).

Net cash used in investing activities in 2020 was RMB4,314.0 million, which was mainly attributable to (i) purchase of short-term investments of RMB5,607.7 million and (ii) purchase of property and equipment of RMB1,559.9 million, partially offset by proceeds from maturities of short-term investments of RMB2,891.6 million.

Net cash generated from investing activities in 2019 was RMB883.2 million, which was mainly attributable to the proceeds from maturities of short-term investments of RMB3,107.6 million, partially offset by (i) purchases of short-term investments of RMB1,112.0 million and (ii) the purchase of property and equipment of RMB999.5 million.

Financing Activities

Net cash used in financing activities was RMB214.8 million (US$32.1 million) during the six months ended June 30, 2022, which was mainly attributable to (i) repayment of short-term bank loans of RMB573.2 million (US$85.6 million), and (ii) repayment of loans due to a related party of RMB110.5 million (US$16.5 million), partially offset by proceeds from short-term bank loans of RMB491.3 million (US$73.4 million).

Net cash generated from financing activities was RMB2,212.5 million (US$347.2 million) in 2021, which was mainly attributable to (i) proceeds from short-term bank loans of RMB1,540.2 million (US$241.7 million), (ii) proceeds from loans due to related parties of RMB1,192.5 million (US$187.1 million), partially offset by repayment of short-term bank loans of RMB496.7 million (US$77.9 million).

Net cash generated from financing activities in 2020 was RMB6,124.2 million, which was mainly attributable to (i) proceeds from our US IPO, net of offering costs of RMB3,933.4 million, (ii) proceeds from follow-on offering, net of offering costs of RMB1,876.3 million, partially offset by repayment of long-term bank loans of RMB100.0 million, (iii) proceeds from short-term bank loans of RMB278.5 million, and (iv) proceeds from redeemable convertible preferred shares, net of issuance costs of RMB124.7 million.

Net cash generated from financing activities in 2019 was RMB64.5 million, which was mainly attributable to the proceeds from redeemable convertible preferred shares, net of issuance costs, of RMB349.4 million, partially offset by (i) the repayment of a loan due to Kingsoft Group of RMB225.0 million and (ii) the repayment of a long-term bank loan of RMB80.8 million.

CAPITAL EXPENDITURES

Our capital expenditures are incurred primarily in connection with purchases of property and equipment and intangible assets. Our capital expenditures were RMB999.7 million, RMB1,591.6 million, RMB735.4 million (US$115.4 million), RMB435.2 million and RMB1,073.2 million (US$160.2 million) in 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively. Our purchases of property and equipment were RMB999.5 million, RMB1,559.9 million, RMB723.3 million (US$113.5

million), RMB430.8 million and RMB1,062.1 million (US$158.6 million), accounting for 100.0%, 98.0%, 98.4%, 99.0% and 99.0% of our capital expenditures in 2019, 2020, 2021, the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively. For our future commitments for capital expenditure, see "— Contractual Obligations." We intend to fund our future capital expenditures with an existing cash balance and cash generated from operating activities. We will continue to make capital expenditures to meet the expected growth of our business.

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

It should be noted that the consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. The effects of material differences between our Historical Financial Information prepared under U.S. GAAP and IFRS are as follows:

Reconciliation of net loss attributable to ordinary shareholders of Kingsoft Cloud Holdings Limited in the consolidated statements of comprehensive profit or loss

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	
			(in thousands)		
Net loss attributable to ordinary shareholders as reported under U.S. GAAP	(1,160,924)	(982,027)	(1,588,712)	(602,818)	(1,356,246)
IFRS adjustments					
Preferred Shares	(612,234)	(286,270)	–	–	–
Operating leases	(230)	(7,401)	(5,217)	(2,833)	(1,691)
Equity investments	(4,825)	(11,033)	(46,156)	779	(9,310)
Share-based compensation	11,385	16,728	6,561	1,792	4,891
Issuance costs	(8,920)	(11,745)	–	–	(21,273)
Provision for credit losses	6,634	(4,645)	–	–	–
Net loss attributable to ordinary shareholders as reported under IFRS	(1,769,114)	(1,286,393)	(1,633,524)	(603,080)	(1,383,629)

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB	*RMB*	*RMB*	*RMB*
		(in thousands)		
Total shareholders' (deficit) equity as reported under U.S. GAAP	(4,197,259)	8,240,050	11,492,423	10,715,258
IFRS adjustments				
Preferred Shares	794,689	–	–	–
Operating leases	(223)	(7,629)	(12,842)	(14,539)
Equity investments	(4,825)	(15,858)	(62,014)	(71,324)
Share-based compensation	–	–	–	–
Issuance costs	(9,003)	–	–	(21,862)
Provision for credit losses	(1,039)	(5,684)	–	–
Total shareholders' (deficit) equity as reported under IFRS	(3,417,660)	8,210,879	11,417,567	10,607,533

Preferred shares

Under U.S. GAAP, SEC guidance provides for mezzanine-equity (temporary equity) category for financial instruments that are not mandatorily redeemable in addition to the financial liability and permanent equity categories. The Company classified the convertible preferred shares and redeemable convertible preferred shares as mezzanine equity in the consolidated balance sheets, net of issuance costs, and recognized accretion to the respective redemption value.

Under IFRSs, the redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortized cost for the host financial liability; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity.

Under U.S. GAAP, the Company does not recognize a receivable for share subscription before these proceeds are received, while under IFRSs, the Company recognizes a receivable upon issuance of the shares.

Operating leases

Under U.S. GAAP, the Group adopted ASC 842 from January 1, 2020, while under IFRSs, the Group adopted IFRS 16 from January 1, 2019. Accordingly, the reconciliation represents timing difference in the operating leases to reflect the effect of adoption of IFRS 16 in the year ended December 31, 2019.

Under ASC 842, the Group remeasures lease liabilities for operating leases at the present value of the remaining lease payments, while right-of-use assets are remeasured at the amount of the lease liability, adjusted for the remaining balance of any lease incentives received, cumulative prepaid or accrued rents, unamortized initial direct costs and any impairment. This treatment under U.S. GAAP results in straight line expense being incurred over the lease term.

Under IFRS 16, the amortization of right-of-use assets is on a straight-line basis while interest expenses related to lease liabilities are measured on the basis that the lease liabilities are measured at amortized cost, which would generally result in more expense recorded in the earlier years of the lease.

Equity investments

Equity investments primarily comprise of investments that are not in-substance common stock. Under U.S. GAAP, if such investments do not have readily determinable fair value and do not qualify for the existing practical expedient in ASC 820 to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Group elected to use the measurement alternative to measure all its investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

Under IFRSs, investments over which the Group is in a position to exercise significant influence or has joint control are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Share-based compensation

Under U.S. GAAP, the Group elected to account for forfeitures as they occur.

Under IFRSs, the share-based compensation expenses for the share options and restricted share units that have satisfied the service condition were recorded with the likelihood of the conditions being met and assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest.

Under U.S. GAAP, the service inception date usually is the grant date, but may precede the grant date only if (1) an award is authorized, (2) service begins before a mutual understanding of the key terms and conditions of a share-based payment award is reached, and (3) either (a) the award's terms do not include a substantive future requisite service condition that exists at the grant date or (b) the award contains a market or performance condition that if not satisfied during the service period preceding the grant date and following the inception of the arrangement results in forfeiture of the award. The service inception date related with the Group's share-based awards is the grant date.

Under IFRSs, the service inception date usually is the grant date, but may precede the grant date if services are received prior to the grant date. In this situation, the Group estimated the grant date fair value of the equity instruments to recognize the services received during the period between the service inception date and the grant date, and revised the earlier estimate once the grant date has been established so that the amounts recognized for services received are ultimately based on the grant date fair value of the equity instruments.

Issuance costs

Under U.S. GAAP, specific incremental issuance costs directly attributable to a proposed or actual offering of securities may be deferred and charged against the gross proceeds from the offering.

Under IFRSs, such issuance costs apply different criteria for capitalization when the listing involves both existing shares and a concurrent issuance of new shares of the Company in the capital market, and were allocated proportionately between the existing and new shares. As a result, the Group recorded issuance costs associated with the listing of existing shares in profit or loss.

Provision for credit losses

Under U.S. GAAP, the Group adopted ASC 326 from January 1, 2021, while under IFRSs, the Group has adopted IFRS 9 from January 1, 2018. Accordingly, the reconciliation represents timing difference in the credit losses to reflect the effect of IFRS 9 in the year ended December 31, 2019 and 2020.

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of (i) bank loans, (ii) loans from related parties, (iii) operating lease liabilities, (iv) finance lease liability, and (v) other indebtedness representing the purchase consideration payable to acquire Camelot Group. The following table sets forth details of our indebtedness as of the dates indicated:

	As of December 31,				As of June 30,		As of October 31,	
	2019	2020	2021		2022		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*	*RMB*	*US$*
							(unaudited)	
	(in thousands)							
Borrowings:								
Bank loans	174,351	352,839	1,348,166	211,557	1,266,270	189,049	1,059,500	145,042
Loans from related parties	–	–	1,209,088	189,732	1,096,084	163,641	907,910	124,290
Operating lease liabilities	–	259,427	266,879	41,879	239,053	35,690	236,905	32,431
Finance lease liability	–	–	–	–	125,984	18,809	128,480	17,588
Purchase consideration payable to acquire Camelot Group	–	–	1,328,508	208,472	1,219,591	182,080	1,204,160	164,845

Borrowings

Our short-term bank loans were RMB174.4 million, RMB352.8 million, RMB1,348.2 million (US$211.6 million), RMB1,266.3 million (US$189.0 million) and RMB1,059.5 million (US$145.0 million) as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively. See "– Discussion of Selected Items from the Consolidated Balance Sheets – Bank Loans." As of October 31, 2022, we had utilized RMB1,059.5 million (US$145.0 million) from our secured banking facilities, and RMB511.5 million (US$70.0 million) remained unutilized under our banking facilities.

Our loans from related parties were nil, nil, RMB1,209.1 million (US$189.7 million), RMB1,096.1 million (US$163.6 million) and RMB907.9 million (US$124.3 million) as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022, respectively, which were recorded as amounts due to related parties. See "– Discussion of Selected Items from the Consolidated Balance Sheets – Related Party Transactions – Amounts due to related parties."

Operating lease Liabilities

As of June 30, 2022 and October 31, 2022, our operating lease liabilities were RMB239.1 million (US$35.7 million) and RMB236.9 million (US$32.4 million). See "– Discussion of Selected Items from the Consolidated Balance Sheets – Operating lease Liabilities."

Finance lease liability

As of June 30, 2022 and October 31, 2022, our finance lease liabilities were RMB126.0 million (US$18.8 million) and RMB128.5 million (US$17.6 million). See "– Discussion of Selected Items from the Consolidated Balance Sheets – Other liabilities."

Other Indebtedness

As of December 31, 2021, June 30, 2022 and October 31, 2022, the purchase consideration payable to acquire Camelot Group were RMB1,328.5 million (US$208.5 million), RMB1,219.6 million (US$182.1 million) and RMB1,204.2 million (US$164.8 million), respectively.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022.

Save as otherwise disclosed under sections headed "– Indebtedness" and "– Contractual Obligations," we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of October 31, 2022, being the latest practicable date for our indebtedness statement.

CONTRACTUAL OBLIGATIONS

As of December 31, 2019, we had commitments for the construction of an exhibition hall of RMB21.6 million, which were scheduled to be paid within one year. As of December 31, 2020, we had commitments for the construction of a data center of RMB110.8 million, which were scheduled to be paid within one year. As of December 31, 2021, we had commitments for the construction of such data center of RMB46.4 million (US$7.3 million), which were scheduled to be paid within one year. As of June 30, 2022, we had commitments for the construction of such data center of RMB34.3 million (US$5.1 million), which were scheduled to be paid within one year.

As of June 30, 2022 and October 31, 2022, our outstanding purchase commitments for IDC services amounted to RMB1,052.2 million (US$157.1 million) and RMB513.1 million, respectively. These commitments arise from two non-cancelable one-year internet data center service agreements that we entered on May 23, 2022 and June 9, 2022, pursuant to which we have contractual minimum purchase commitments amounting to RMB1,250.0 million. We entered into such IDC service agreements with minimum purchase commitments in order to secure IDC resources and obtain favorable prices from suppliers. The committed minimum purchase amount is estimated based on our historical usage and expected business development strategies, while still ensuring the flexibility of procurement. The length of period covered by such agreements is consistent with our past practice and industry norm. We plan to settle the remaining purchase commitment using (i) our cash resources and (ii) our future operating cash flow.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 21 to the Accountants' Report included in Appendix IA was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance. For details of the balances with related parties categorized based on trade and non-trade nature, see Note 21 to the Accountants' Report included in Appendix IA.

HOLDING COMPANY STRUCTURE

Kingsoft Cloud Holdings Limited is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries and our Consolidated Affiliated Entities. As a result, our ability to pay dividends depends upon dividends paid by our subsidiaries. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

In addition, our subsidiaries in China are permitted to pay dividends to us only out of their retained earnings. In accordance with PRC company laws, our Consolidated Affiliated Entities and PRC subsidiaries in China must make appropriations from their after-tax profit to fund certain statutory reserve funds until such reserve funds reach 50% of their respective registered capital. In addition, each of our PRC subsidiaries and Consolidated Affiliated Entities may allocate a portion of its after-tax profits to a discretionary surplus fund at its discretion. Remittance of dividends by our PRC subsidiaries out of China is subject to examination by the banks designated by SAFE.

As an offshore holding company, we are permitted under PRC laws and regulations to provide funding from the proceeds of our offshore fundraising activities to our PRC subsidiaries only through loans or capital contributions, and to our Consolidated Affiliated Entities only through loans, in each case subject to the satisfaction of the applicable government registration and approval requirements. See "Risk Factors – Risks Relating to Doing Business in China – PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay us from using the proceeds of our offshore offerings to make loans or additional capital contributions to our PRC subsidiaries and from making loans to our Consolidated Affiliated Entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business" in this listing document. As a result, there is uncertainty with respect to our ability to provide prompt financial support to our PRC subsidiaries and Consolidated Affiliated Entities when needed. Notwithstanding the foregoing, our PRC subsidiaries may use their own retained earnings (rather than Renminbi converted from foreign currency denominated capital) to provide financial support to our consolidated affiliated entity either through entrustment loans from our PRC subsidiaries to our Consolidated Affiliated Entities or direct loans to such consolidated affiliated entity's nominee shareholders, which would be contributed to the consolidated variable entity as capital injections. Such direct loans to the nominee shareholders would be eliminated in our consolidated financial statements against the consolidated affiliated entity's share capital.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Concentration of Credit Risk

Assets that potentially subject us to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, and contract assets. We expect that there is no significant credit risk associated with cash and cash equivalents, restricted cash, and short-term investments, which were held by reputable financial institutions in the jurisdictions where we, our subsidiaries and Consolidated Affiliated Entities are located. We believe that it is not exposed to unusual risks as these financial institutions have high credit quality.

Accounts receivable and contract assets are typically unsecured and are derived from revenues earned from reputable customers. As of December 31, 2019, 2020 and 2021, we had two customers, with accounts receivable balances exceeding 10% of the total accounts receivable balances. As of June 30, 2022, we had one customer accounted for more than 10% of the total accounts receivable balance. As of December 31, 2021, we had one customer, with contract asset balance exceeding 10% of the total contract assets balance. As of June 30, 2022, we had no customer, with a contract asset balance exceeding 10% of the total contract assets balance. The risks with respect to accounts receivable and contract assets are mitigated by credit evaluations we perform on our customers and its ongoing monitoring process of outstanding balances.

Business, Customer, Political, Social and Economic Risks

We participate in a dynamic and competitive high technology industry and believe that changes in any of the following areas could have a material adverse effect on our future financial position, results of operations or cash flows: changes in the overall demand for services; competitive pressures due to existing competitors; new trends in new technologies and industry standards; control of telecommunications infrastructures by local regulators and industry standards; changes in certain strategic relationships or customer relationships; regulatory considerations; and risks associated with our ability to attract and retain employees necessary to support our growth. Our operations could be adversely affected by significant political, economic and social uncertainties in the PRC.

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 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our largest customer in each year/period during the Track Record Period accounted for 30.9%, 28.1%, 21.9% and 19.3% of our total revenue for 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Currency Convertibility Risk

We transact a majority of our business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the PBOC. However, the unification of the exchange rates does not imply that the RMB may be readily convertible into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

Foreign Currency Exchange Rate Risk

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For the RMB against the U.S. dollar, there was depreciation of approximately 1.3% during the year ended December 31, 2019, and appreciation of approximately 6.3% and 2.3% during the years ended December 31, 2020 and 2021, respectively, and there were appreciation of approximately 1.0% during the six months ended June 30, 2021 and depreciation of approximately 5.1% during the six months ended June 30, 2022, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

FINANCIAL INFORMATION OF CAMELOT GROUP

In September 2021, we completed the acquisition of Camelot Group, which mainly engaged in digital solutions and services for enterprise customers. The acquisition is expected to further develop our enterprise cloud services. The total purchase consideration was RMB5,290.6 million (US$830.2 million), which consisted of cash consideration of RMB752.0 million (US$118.0 million) and equity consideration of RMB4,538.6 million (US$712.2 million). See Note 4(c) to the Accountants' Report included in Appendix IA.

Set out below is selected pre-acquisition financial information of Camelot Group for the years ended December 31, 2019 and 2020, and the period from January 1, 2021 to September 3, 2021 in accordance with U.S. GAAP.

Principal Components of Statement of Comprehensive Income

The following table summarizes the statement of comprehensive income of Camelot Group for the periods indicated:

	For the year ended December 31,		For the period from January 1 to September 3,
	2019	2020	2021
	(RMB in thousands)		
Revenue	1,647,644	1,676,022	1,288,720
Cost of revenue	(1,277,463)	(1,261,748)	(1,016,439)
Gross profit	**370,181**	**414,274**	**272,281**
Selling and marketing expenses	(43,835)	(66,275)	(37,646)
General and administrative expenses	(131,462)	(143,968)	(133,535)
Research and development expenses	(82,860)	(87,535)	(40,148)
Operating income	**112,024**	**116,496**	**60,952**
Interest income	1,434	2,034	2,105
Interest expense	(3,669)	(2,584)	(476)
Foreign exchange gain (loss)	7,530	(5,275)	(18,787)
Other income, net	10,117	12,741	6,018
Profit before income taxes	**127,436**	**123,412**	**49,812**
Income tax expense	(17,652)	(14,228)	(4,528)
Net income	109,784	109,184	45,284

Revenue

Leveraging its research and development capabilities, Camelot Group primarily offers enterprises digital solutions and related services, which are categorized under enterprise cloud services after our consolidation of Camelot Group's results. Camelot Group generally charges its customers service fees on a project basis based on performance completion. In 2019, 2020 and the period from January 1 to September 3, 2021, Camelot Group's revenues were generally stable, being RMB1,647.6 million, RMB1,676.0 million and RMB1,288.7 million, respectively.

Cost of Revenue

Camelot Group's cost of revenue primarily represents staff compensation incurred to provide enterprises digital solutions and related services to its customers. In 2019, 2020 and the period from January 1 to September 3, 2021, Camelot Group's cost of revenue generally remained stable, being RMB1,277.5 million, RMB1,261.7 million and RMB1,016.4 million, respectively, in line with the revenues.

Selling and marketing expenses

Camelot Group's selling and marketing expenses primarily consisted of staff expenses, including salaries, commissions, bonuses and benefits paid to sales and marketing personnel, share-based compensation, and miscellaneous expenses related to sales and marketing activities. Camelot Group's selling and marketing expenses were RMB43.8 million, RMB66.3 million and RMB37.6 million in 2019, 2020 and the period from January 1 to September 3, 2021. The increase of selling and marking expenses from 2019 to 2020 was primarily because of the increase in staff compensation to sales and marketing personnel.

General and administrative expenses

Camelot Group's general and administrative expenses primarily consisted of staff expenses, including salaries, commissions, bonuses and benefits paid to general and administrative personnel, share-based compensation, and miscellaneous expenses such as lease expenses for office space. Camelot Group's general and administrative expense were RMB131.5 million, RMB144.0 million and RMB133.5 million in 2019, 2020 and the period from January 1 to September 3, 2021. The increase of general and administrative expenses from 2019 to 2020 was primarily because of the increase in staff expenses to general and administrative personnel.

Research and development expenses

Camelot Group's research and development expenses primarily consisted of staff costs and technology service fees paid to third-parties. Camelot Group's research and development expenses were RMB82.9 million, RMB87.5 million and RMB40.1 million in 2019, 2020 and the period from January 1 to September 3, 2021.

Operating income

As a result of the foregoing, Camelot Group had operating income of RMB112.0 million, RMB116.5 million and RMB61.0 million in 2019, 2020 and the period from January 1 to September 3, 2021, respectively.

Net income

Camelot Group had net income of RMB109.8 million, RMB109.2 million and RMB45.3 million, in 2019, 2020 and the period from January 1 to September 3, 2021, respectively. The difference between Camelot Group's operating income and net income was primarily attributable to foreign exchange gain (loss) and income tax expense.

Camelot Group had foreign exchange gain of RMB7.5 million in 2019, foreign exchange loss of RMB5.3 million and RMB18.8 million in 2020 and the period from January 1 to September 3, 2021, respectively. The fluctuations in Camelot Group's foreign exchange gain (loss) were primarily due to the fluctuations in exchange rates. Camelot Group had income tax expense of RMB17.7 million, RMB14.2 million, and RMB4.5 million in 2019, 2020 and the period from January 1 to September 3, 2021, respectively.

Liquidity and Capital Resources

In 2019, 2020 and the period from January 1 to September 3, 2021, Camelot Group had funded its working capital primarily from cash generated from its business operations. As of December 31, 2019, 2020 and September 2021, Camelot Group's cash and cash equivalents were RMB474.2 million, RMB674.4 million and RMB618.4 million, respectively.

Cash flows

The following table sets forth selected cash flow statement information of Camelot Group for the periods indicated:

	For the year ended December 31, 2019	For the year ended December 31, 2020	For the period from January 1 to September 3, 2021
	(RMB in thousands)		
Net cash generated from (used in) operating activities	110,329	245,993	(47,481)
Net cash used in investing activities	(5,837)	(2,850)	(3,199)
Net cash (used in) generated from financing activities	(25,045)	(31,032)	10,000
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	6,673	(7,586)	(18,676)
Net increase (decrease) in cash and cash equivalents, and restricted cash	79,447	212,111	(40,680)

	For the year ended December 31, 2019	2020	For the period from January 1 to September 3, 2021
	(RMB in thousands)		
Cash and cash equivalents, and restricted cash at beginning of year/period	388,276	474,396	678,921
Cash and cash equivalents, and restricted cash at end of year/period	**474,396**	**678,921**	**619,565**

Cash flows from operating activities

For the year ended December 31, 2019, Camelot Group had net cash flows generated from operating activities of RMB110.3 million, which was primarily attributable to its net income of RMB109.8 million for the same period, adjustments for non-cash and non-operating items, and changes in operating assets and liabilities. The adjustments for non-cash and non-operating items primarily reflected share-based compensation of RMB12.7 million, partially offset by RMB7.5 million of foreign exchange gain. Changes in operating assets and liabilities primarily reflected (i) a decrease in accounts receivable of RMB34.6 million, and (ii) an increase in accrued expenses and other current liabilities of RMB34.1 million, partially offset by (i) an increase of prepayment and other assets of RMB20.9 million, (ii) a decrease of accounts payable of RMB23.5 million, and (iii) a decrease of amounts due to related parties of RMB28.0 million.

For the year ended December 31, 2020, Camelot Group had net cash flows generated from operating activities of RMB246.0 million, which was primarily attributable to its net income of RMB109.2 million for the same period, adjustments for non-cash and non-operating items, and changes in operating assets and liabilities. The adjustments for non-cash and non-operating items primarily reflected share-based compensation of RMB49.7 million. Changes in operating assets and liabilities primarily reflected (i) a decrease in accounts receivable of RMB55.3 million, (ii) an increase in accrued expenses and other current liabilities of RMB58.0 million, partially offset by (i) an increase in prepayment and other assets of RMB24.4 million, and (ii) a decrease in accounts payable of RMB12.4 million.

For the period from January 1 to September 3, 2021, Camelot Group had net cash flow used in operating activities of RMB47.5 million, which was primarily attributable to its net income of RMB45.3 million for the same period, adjustments for non-cash and non-operating items, and changes in operating assets and liabilities. The adjustments for non-cash and non-operating items primarily reflected (i) foreign exchange loss of RMB18.8 million, (ii) non-cash operating lease expense of RMB9.9 million, and (iii) provision for credit losses of RMB10.4 million, partially offset by deferred taxes of RMB11.5 million. Changes in operating assets and liabilities primarily reflected (i) an increase in prepayment and other assets of RMB105.5 million primarily due to the increase of contract assets as a result of Camelot Group's business growth, and (ii) an increase in accounts receivable of RMB36.3 million, partially offset by an increase in accrued expenses and other current liabilities of RMB54.4 million.

Cash flows from investing activities

Camelot Group's net cash flows used in investing activities were RMB5.8 million, RMB2.9 million and RMB3.2 million in 2019, 2020 and the period from January 1 to September 3, 2021, respectively, primarily attributable to purchases of property and equipment, being RMB4.9 million, RMB2.9 million and RMB2.8 million in the same periods, respectively.

Cash flows from financing activities

Camelot Group's net cash flows used in financing activities were RMB25.0 million and RMB31.0 million in 2019 and 2020, respectively, primarily reflecting its repayment of short-term bank loans of RMB110.0 million and RMB107.9 million, partially offset by proceeds from short-term bank loans of RMB85.0 million and RMB69.0 million, for the same years, respectively. Camelot Group's net cash flows generated from financing activities were RMB10.0 million for the period from January 1 to September 3, 2021, primarily reflecting its proceeds from short-term bank loans of RMB20.0 million, offset by repayment of short-term bank loans of RMB10.0 million in the same period.

Current Assets and Liabilities

The following table sets forth the components of Camelot Group's current assets and liabilities as of the dates indicated:

	As of December 31,		**As of September 3,**
	2019	**2020**	**2021**
	(RMB in thousands)		
Current assets			
Cash and cash equivalents	474,185	674,444	618,439
Restricted cash	211	4,477	1,126
Accounts receivable, net of allowance	289,241	233,734	260,877
Prepayments and other current assets	538,848	551,843	652,609
Total current assets	**1,302,485**	**1,464,498**	**1,533,051**

	As of December 31, 2019	As of December 31, 2020	As of September 3, 2021
	(RMB in thousands)		
Current liabilities			
Accounts payable	139,678	127,312	110,142
Accrued expenses and other liabilities	542,258	598,546	651,755
Short-term bank loans	48,930	10,000	20,000
Income tax payable	7,495	16,836	13,427
Amounts due to related parties	27,952	25,432	16,345
Current operating lease liabilities	–	9,911	12,168
Total current liabilities	**766,313**	**788,037**	**823,837**
Net current assets	**536,172**	**676,461**	**709,214**

Camelot Group's net current assets increased from RMB536.2 million as of December 31, 2019 to RMB676.5 million as of December 31, 2020, primarily attributable to (i) an increase in cash and cash equivalents from RMB474.2 million to RMB674.4 million, and (ii) a decrease in short-term bank loans from RMB48.9 million to RMB10.0 million, partially offset by (i) a decrease in net accounts receivable from RMB289.2 million to RMB233.7 million, and (ii) an increase in accrued expenses and other liabilities from RMB542.3 million to RMB598.5 million.

Camelot Group's net current assets increased from RMB676.5 million as of December 31, 2020 to RMB709.2 million as of September 3, 2021, primarily attributable to (i) an increase in prepayments and other assets from RMB551.8 million to RMB652.6 million, (ii) an increase in net accounts receivable from RMB233.7 million to RMB260.9 million, partially offset by (i) a decrease in cash and cash equivalents from RMB674.4 million to RMB618.4 million, and (ii) an increase in accrued expenses and other liabilities from RMB598.5 million to RMB651.8 million.

Cash and cash equivalents

Camelot Group's cash and cash equivalents primarily consisted of cash on hand and time deposits. As of December 31, 2019 and 2020 and September 3, 2021, Camelot Group's cash and cash equivalents were RMB474.2 million, RMB674.4 million and RMB618.4 million, respectively. The increase of cash and cash equivalents from December 31, 2019 to December 31, 2020 was primarily attributable to Camelot Group's increase of net cash flows generated from operating activities from RMB110.3 million to RMB246.0 million as of the same dates, respectively.

Restricted cash

Camelot Group's restricted cash primarily consisted of advances paid by certain customers to guarantee Camelot Group's performance under certain revenue contracts. As of December 31, 2019 and 2020 and September 3, 2021, Camelot Group's restricted cash were RMB0.2 million, RMB4.5 million and RMB1.1 million, respectively.

Accounts receivables

Camelot Group's accounts receivables primarily consisted of receivables from Camelot Group's customers in consideration for the solutions and services provided. As of December 31, 2019 and 2020 and September 3, 2021, Camelot Group's net accounts receivables were RMB289.2 million, RMB233.7 million and RMB260.9 million, respectively.

Prepayments and other assets

Camelot Group's prepayments and other assets primarily consisted of (i) contract assets, representing Camelot Group's rights to consideration for work completed in relation to its services performed but not billed at the report date, and (ii) contract costs, representing costs incurred in advance of revenue recognition arising from direct and incremental costs related to enterprise digital solution services provided. As of December 31, 2019, 2020 and September 3, 2021, Camelot Group's prepayments and other assets were RMB538.8 million, RMB551.8 million and RMB652.6 million, respectively.

Accounts payable

Camelot Group's accounts payable represent payable to suppliers for their services provided. As of December 31, 2019 and 2020 and September 3, 2021, Camelot Group's accounts payable was RMB139.7 million, RMB127.3 million and RMB110.1 million, respectively.

Accrued expenses and other liabilities

Camelot Group's accrued expenses and other liabilities primarily consisted of (i) salary and welfare payable, (ii) customer advances, representing contract liabilities for rendering services, and (iii) accrued expenses. As of December 31, 2019, 2020 and September 3, 2021, Camelot Group's accrued expenses and other liabilities were RMB542.3 million, RMB598.5 million and RMB651.8 million, respectively.

Short-term bank loans

Camelot Group's short-term bank loans were RMB48.9 million, RMB10.0 million and RMB20.0 million as of December 31, 2019 and 2020 and September 3, 2021, respectively.

In July, September and October 2019, Camelot Group entered into three short-term bank loans facilities with a bank in Beijing for an aggregate principle amount of RMB48.9 million. The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2019 was 5.22%. Camelot Group fully repaid the loans on April 13, 2020, July 13, 2020 and August 18, 2020, respectively.

In August and September 2020, Camelot Group entered into two short-term bank loans facilities with a bank in Beijing for an aggregate principle amount of RMB10.0 million. The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2020 was 4.79%. Camelot Group fully repaid the loans on January 12, 2021.

In March 2021, Camelot Group entered into one short-term bank loan facility with a bank in Beijing for an aggregate principle amount of RMB20.0 million. The weighted average interest rate for the outstanding short-term bank loan as of September 3, 2021 was 4.79%.

Income tax payable

Camelot Group's income tax payables were RMB7.5 million, RMB16.8 million and RMB13.4 million as of December 31, 2019 and 2020 and September 3, 2021, respectively.

Accounts due to related parties

Camelot Group's accounts due to related parties were RMB28.0 million, RMB25.4 million and RMB16.3 million as of December 31, 2019 and 2020 and September 3, 2021, respectively.

Current operating lease liabilities

Camelot Group's current operating lease liabilities consisted of liabilities for lease contracts for office spaces and buildings due within 12 months as of the relevant dates. As of December 31, 2019 and 2020 and September 3, 2021, Camelot Group's current operating lease liabilities were nil, RMB9.9 million and RMB12.2 million, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

For detailed discussion on recent accounting pronouncements, see Note 2 to the Accountants' Report included in Appendix IA.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we did not have any distributable reserves.

LISTING EXPENSES

Listing expenses of approximately RMB92.0 million, including fees and expenses of legal advisers and accountants of approximately RMB46.9 million and other fees and expenses of approximately RMB45.1 million, are expected to be recognized in our consolidated statements of comprehensive loss.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared in accordance with rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purpose only, and is set out below to illustrate the effect of the Listing on the consolidated net tangible assets attributable to the shareholders of the Company as at June 30, 2022 as if the Listing had taken place on June 30, 2022.

The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the shareholders of the Company had the Listing been completed as at June 30, 2022 or any future date. It is prepared based on the consolidated net tangible assets attributable to the shareholders of the Company as at June 30, 2022 as set out in the Accountants' Report as set out in Appendix IA to this listing document and adjusted as described below.

	Consolidated net tangible assets attributable to the shareholders of the Company as at June 30, 2022	Estimated listing expenses	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share		Unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Company per ADS	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*	*RMB*	*HK$*
	(Note 1)	*(Notes 2, 5)*		*(Note 3)*	*(Note 5)*	*(Note 4)*	*(Note 5)*
Based on 3,663,417,840 Shares in issue and outstanding immediately prior to the Introduction	4,150,933	(91,965)	4,058,968	1.11	1.24	16.65	18.67

Notes:

(1) The consolidated net tangible assets attributable to the shareholders of the Company as at June 30, 2022 is extracted from the Accountants' Report set out in Appendix IA to this listing document, which is based on the audited consolidated net assets attributable to the shareholders of the Company of RMB9,843,171,000 after deducting the goodwill of RMB4,605,724,000 and intangible assets, net of RMB1,086,514,000 as at June 30, 2022.

(2) In relation to the Introduction, the Company expects to incur listing expenses in an aggregate amount of approximately RMB92.0 million which mainly include professional fees to the professional parties.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 3,663,417,840 Shares in issue and outstanding immediately upon the completion of the Introduction, assuming that the Introduction has been completed on June 30, 2022 for the purpose of the pro forma financial information, and does not take into account of 205,777,227 Shares which may be issued pursuant to the share-based compensation plans including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase of Shares by the Company.

(4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents 15 shares.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the estimated net proceeds from the Introduction are converted from Hong Kong dollars into Renminbi ("RMB") at an exchange rate of HK$1.00 to RMB0.8917 and the unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is converted from RMB to Hong Kong dollars at the same exchange rate. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of the Listing Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2022, the end of the period reported on the audited consolidated financial information included in Appendix IA.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.