
RELATIONSHIP WITH KINGSOFT CORPORATION

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Following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans), Kingsoft Corporation will be interested in 1,423,246,584 Shares, representing approximately [REDACTED]% of the issued share capital of our Company. As a result, following completion of the [REDACTED], Kingsoft Corporation will be our controlling shareholder within the meaning under the Listing Rules after the [REDACTED].

Save as disclosed above, there is no other person who will, immediately following completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), be directly or indirectly interested in 30% or more of the Shares then in issue.

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

Kingsoft Corporation has confirmed that, as of the Latest Practicable Date, none of them or any of its respective close associates had any interest in any business, other than the business of our Group, which competes, or is likely to compete, either directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM KINGSOFT CORPORATION

Immediately prior to our listing on the Nasdaq, our Company is a non-wholly owned subsidiary of Kingsoft Corporation. Following completion of the spin-off and separate listing on May 8, 2020, Kingsoft Cloud ceased to be a subsidiary and has been accounted as an associate of Kingsoft Corporation. For details of the spin-off and separate listing of our Company, see “History, Development and Corporate Structure – Spin-off from Kingsoft Group and Listing on the Nasdaq.”

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently from Kingsoft Corporation after the [REDACTED].

Delineation of Business with Kingsoft Corporation

Our business has a clear delineation with that of Kingsoft Corporation. Kingsoft Corporation and we provide different products and/or services and have different business scopes. We are a comprehensive and reliable cloud service provider with extensive cloud infrastructure, cutting-edge cloud-native products, well-architected industry-specific solutions and end-to-end fulfillment and deployment for customers. Kingsoft Corporation, on the other hand, is principally involved in (i) the research and development of games, and provision of PC games and mobile games services; and (ii) design, research, development as well as sales and marketing of the office software products and services of WPS Office. Additionally, our business operations do not rely on Kingsoft Corporation to gain access to target end users, customers or suppliers. Instead, we have our own business operating systems, which have been in operation and are expected to continue to operate separately and independently from Kingsoft Corporation.

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Management Independence

Our business is managed and conducted by our Board and senior management. Our Board comprises of seven Directors comprising one executive Director, three non-executive Directors and three independent non-executive Directors. For more information, please see the section headed “Directors and Senior Management.”

Our Directors consider that our Board and senior management will function independently of Kingsoft Corporation because:

- (a) as of the Latest Practicable Date, there are only two overlapping directors between Kingsoft Corporation and us, namely Mr. Lei Jun and Mr. Zou Tao. Mr. Lei Jun serves as a non-executive director and chairman of the board of directors of Kingsoft Corporation, while Mr. Zou Tao serves as an executive director and the chief executive officer of Kingsoft Corporation. On the other hand, Mr. Lei Jun serves as our non-executive Director and Chairman and Mr. Zou Tao serves as our non-executive Director and Vice Chairman, and neither of them are responsible for the daily management and operations of our Group. Except for Mr. Lei Jun and Mr. Zou Tao, there are no other overlapping directors or senior management members between Kingsoft Corporation and us during the Track Record Period. For more information, please see the section headed “Directors and Senior Management.”
- (b) each Director is aware of his or her fiduciary duties as a Director which require, among other things, that such Director shall act for the benefit and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his or her other personal interests;
- (c) our daily management and operations are carried out by a senior management team while none of them have overlapping senior management positions at Kingsoft Corporation. All of our senior management members have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (d) we have three independent non-executive Directors, comprising more than one-third of the total members of our Board, who have sufficient knowledge, experience and competence to provide a balance of the potentially interested Directors with a view to promote the interests of our Company and the Shareholders as a whole, and certain matters of our Company must be subject to the review and approval of such independent non-executive Directors. For example, we have established the Audit Committee, which is comprised of independent non-executive Directors only in accordance with the applicable rules and requirements under the U.S. Exchange Act and Nasdaq rules. Additionally, all of our independent non-executive Directors are different and will continue to be different from the independent non-executive

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directors of Kingsoft Corporation, which will also provide checks and balances over the decision-making of the Board on significant transactions, related party transactions and other transactions involving any actual or potential conflicts of interest;

- (e) our Directors are not entitled to vote (nor shall be counted in quorum) in relation to any resolution of the Directors in respect of any contract or arrangement or any other proposal in which such Directors or any of their close associates have any material interest except for certain circumstances as set out in the Articles. For details, see “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III; and
- (f) we have adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and Kingsoft Corporation which would support our independent management in accordance with our Articles, relevant corporate governance policies, the U.S. Exchange Act, Nasdaq rules, the Listing Rules as well as other applicable rules, laws and regulations. Please see the paragraph headed “– Corporate Governance Measures” in this section below for further information.

Operational Independence

Our Group is not operationally dependent on Kingsoft Corporation and our Group is able to continue to operate independently from Kingsoft Corporation after the [REDACTED]. We do not rely on Kingsoft Corporation for the execution of our business strategies, operations of our business systems and platforms, staffing, or engagement in sales and marketing activities. We have and will continue to have a separate management team and separate functional departments including accounting, internal audit, administration, human resources, legal and company secretarial departments, and all of our essential administration and operations will be carried out by a team of staff employed by our Company independently from Kingsoft Corporation. In this regard, our Directors and senior management are responsible for the conduct of our business. Save for certain license arrangements with Kingsoft Corporation, as disclosed in the “Connected Transactions”, we have independent access to our customers and an independent management team to oversee our day-to-day operations. We do not rely on Kingsoft Corporation for any relevant material licenses, intellectual properties and research and development facilities necessary to carry on and operate our business, facilities, or equipment, and we have sufficient operational capacity in terms of capital and employees to operate independently without relying on Kingsoft Corporation. In addition, saved as disclosed in this Document, none of Kingsoft Corporation, Directors or their respective close associates have been our major supplier, which provides any critical services or materials for our operation.

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We have also entered into certain agreements with Kingsoft Corporation, and the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules following the [REDACTED]. For example, we entered into the 2019 License Agreements with Kingsoft Corporation, pursuant to which, we have obtained license from Kingsoft Group to use some of its registered trademarks during their terms of registration, including “金山雲” and “Kingsoft Cloud,” and some of its trademarks, which are still in the process of registration applications, during the period of such applications and the term of the registrations if such trademarks have been registered afterwards. We have also obtained license from Kingsoft Group to use some of its registered patents during their terms of registration. Additionally, we also entered into the Kingsoft Framework Agreement with Kingsoft Corporation, pursuant to which, (i) we will provide cloud services to the Kingsoft Group, including but not limited to the cloud storage, cloud computing services and comprehensive cloud solutions as well as other types of cloud services, and (ii) Kingsoft Group will provide the comprehensive leasing services to us, including but not limited to property management services and other related administrative support for our office space.

Our Directors, including the independent non-executive Directors, are of the view that since (i) the terms of the relevant continuing connected transactions were fair, reasonable and entered into on an arm’s-length and long-term basis with favorable considerations; (ii) the terms were in the best interests of our Group and the Shareholders as a whole; and (iii) the total revenues contributed by Kingsoft Group accounted for approximately 2.8%, 1.8%, 1.7% and 2.2% of our total revenues and the total procurement from Kingsoft Group accounted for 0.5%, 0.2%, 0.1% and 0.2% of our total procurement, which contains the addition of fixed asset and construction in progress and cost of revenue excluding depreciation and amortization costs, respectively, for the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, the Group is therefore not reliant on Kingsoft Corporation despite the relevant continuing connected transactions. For further details, please refer to “Connected Transactions.”

Based on the above, our Directors believe that we are able to operate independently of Kingsoft Corporation.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. We have opened accounts with banks independently and do not share any bank account with Kingsoft Corporation, and we have made tax filings and paid tax independently of Kingsoft Corporation pursuant to applicable laws or regulations. We have adequate internal resources to support our daily operation. More importantly, we have been and are capable of obtaining equity and debt financing from third parties.

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During the Track Record Period, our Group had certain amounts due to related parties including a subsidiary of Kingsoft Corporation. On October 13, 2021, we entered into an entrusted loan agreement with a controlled structured entity of Kingsoft Corporation and such entity agreed to provide a facility of RMB500 million to us to facilitate our daily operational cash flow needs (the “**Shareholder Loan**”). The maturity date of the facility is one year from the date of agreement and the interest rate of the Shareholder Loan is determined as the loan prime rate (LPR) for a one-year RMB benchmark loan, which was published on July 20, 2021, plus 0.8%. As of the Latest Practicable Date, the outstanding balance the loan principal under the Shareholder Loan from Kingsoft Group is RMB500 million. As at May 31, 2022, our total amount due to Kingsoft Group was approximately RMB543.3 million. For further details, please refer to “Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets – Amounts due to related parties.” Notwithstanding the financial assistance received from Kingsoft Group, our Directors believe that we are financially independent from Kingsoft Corporation 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 RMB2,630.4 million (US\$390.0 million) as of May 31, 2022, (ii) our short-term investments amounted to RMB2,800.9 million (US\$415.3 million) as of May 31, 2022; and (iii) our total bank loan facility from independent third party banks amounted to RMB1,605.0 million as of May 31, 2022 while our total unutilized portion amounted to approximately RMB382.1 million, all of which were obtained in the form of unsecured loans with no guarantees provided by Kingsoft Corporation.

Save as disclosed above in this Document, there will be no outstanding financial guarantee/assistance provided by Kingsoft Corporation to our Group and vice versa upon the [REDACTED], nor do we have any share pledges or guarantees provided by Kingsoft Corporation and its respective close associates on our borrowings.

Based on the above, our Directors are of the view that they, as well as the senior management of our Company, are capable of carrying on our business independently of, and will not place undue reliance on, Kingsoft Corporation after the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code which sets out principles of good corporate governance.

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Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interest. We will adopt the following measures to safeguard good corporate governance standards and to avoid potential conflicts of interest between our Group and Kingsoft Corporation:

- (a) where a transaction or arrangement of the Company is subject to Shareholders’ approval under the Listing Rules, if Kingsoft Corporation has a material interest in the transaction or arrangement, Kingsoft Corporation shall abstain from voting on the resolutions approving the transaction or arrangement at the general meeting, and any votes cast by or on behalf of Kingsoft Corporation in contravention of such requirement shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with Kingsoft Corporation or any of its associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interest between our Group and Kingsoft Corporation (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) Kingsoft Corporation will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expense; and
- (g) we have appointed Guotai Junan Capital Limited as our compliance adviser to provide advice and guidance in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage potential conflicts of interest between our Group and Kingsoft Corporation, and to protect minority Shareholders’ interests after the [REDACTED].