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 and the unaudited interim condensed consolidated financial information set out in Appendix IB to this 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 and 4.11 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 and the unaudited interim condensed consolidated financial information set out in Appendix IB in conformity with U.S. GAAP, provided that a reconciliation of such financial information in accordance with IFRS, is included in this document. In addition, the Stock Exchange has allowed us to prepare our accounts in accordance with U.S. GAAP after [**REDACTED**] *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 and the unaudited interim condensed consolidated financial information set out in Appendix IB to this 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 document. For further details, see "Forward-Looking Statements."

OVERVIEW

We are the largest independent cloud service provider in China in terms of revenue in 2021, according to Frost & Sullivan. We offer comprehensive, reliable and trusted cloud service to customers in strategically selected verticals. With extensive cloud infrastructure, cutting-edge cloud-native products based on our vigorous cloud technology R&D capabilities, well-architected industry-specific solutions and end-to-end fulfillment and deployment for customers, we achieved superior 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 leadership by addressing customers' comprehensive needs. We provide a full suite of cloud products combining unified IaaS infrastructure and PaaS middleware, and tailored business applications which support a wide range of use cases that enable our customers' diverse business objectives. 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 as an early mover and have established a strong market presence in each selected vertical through efficient execution. As we continuously to complete lighthouse projects with vertical leaders, we have accumulated proprietary industry know-how and formed in-depth view of each selected vertical, which enables us to stay forefront of 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 loyal 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 RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US$342.9 million) for the three months ended March 31, 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 a market leader, 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, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively.

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, talent 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. Moreover, we plan to continue to invest in talent recruitment and training in the fields of cloud computing, big data, and others to strengthen our technological advantage.

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 comprehensive 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 "To-B service DNA" inherited from Kingsoft Group, our neutrality, superior enterprise service capabilities, proprietary cutting-edge 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 and RMB8,896.1 million (US$1,396.0 million) in 2019, 2020 and 2021, respectively, accounting for 97.4%, 98.1% and 98.2% 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, Camelot's revenues generated from Premium Customers for the period from January 1 to September 3, 2021 amounted to RMB1,247.5 million. Therefore, we regularly review a number of key operating metrics in relation to our Premium Customers as presented in the table below to 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,		
	2019	2020	2021
Public Cloud Services			
Number of Public Cloud Service Premium Customers	175	191	222
Net dollar retention rate of Public Cloud Service Premium Customers(1)	155%	146%	114%
Average revenues per Public Cloud Service Premium Customers (RMB in million)(3)	19.2	26.4	27.3
Enterprise Cloud Services			
Number of Enterprise Cloud Service Premium Customers	67	124	382
Average revenues per Enterprise Cloud Services Premium Customers (RMB in million)(3)	7.2	11.0	10.7
Total			
Number of Premium Customers(2)	243	322	597
Average revenues per Premium Customer (RMB in million)(3)	15.9	20.0	17.0

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 and Shenzhen Yunfan with revenue of over RMB700,000 for the same year.

(3) 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 for the period from January 1 to September 3, 2021, by (ii) the number of Premium Customers for 2021.

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 diverse verticals and revenue models, such impacts are mixed in direction. On one hand, (i) travel restriction measures adopted by government authorities may limit our ability to provide on-site services to customers and delay project deployment completion, and (ii) businesses negatively impacted by the pandemic may cut their procurement budget, including cloud budget.

On the other hand, the pandemic accelerated 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; and (ii) the healthcare industry in China increasingly tap into cloud technology to meet the challenges of public health events, and enterprises experiencing business fluctuations in the pandemic may consider cloud services to obtain better agility and cost control in the mid-to-long run.

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

We completed the acquisition of Camelot 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 since September 2021.

Camelot 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, please refer to the paragraph headed "Business – Our Products and Solutions – Industry Specific Solutions – Financial Service Cloud Solutions." By acquiring and integrating with Camelot, 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.

To comply with the requirements of Rule 4.05A of the Listing Rules, as well as to present material information necessary for [**REDACTED**] to assess the impact of the acquisition of Camelot on our Group, this Document includes (i) audited historical financial information of Camelot 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 for the years ended December 31, 2019 and 2020 and the period ended September 3, 2021 (see "– Financial Information of Camelot").

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 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 and Note 2 to the unaudited interim condensed consolidated financial information included in Appendix IB 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 annual 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 a result of the qualitative assessments performed, we concluded that it is more likely than not that the fair value of each of these reporting units exceeded its respective carrying value and therefore, no additional quantitative impairment testing was performed.

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.

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 and the unaudited interim condensed consolidated financial information set out in Appendix IB:

	For the Year Ended December 31,							For the Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	1,391,833	76.7	1,380,807	217,817	63.5
Enterprise cloud services	486,308	12.3	1,372,689	20.9	2,897,817	454,731	32.0	420,032	23.2	792,509	125,015	36.5
Others	11,202	0.3	37,767	0.6	3,882	609	0.0	1,667	0.1	493	78	0.0
Total revenues	3,956,353	100.0	6,577,307	100.0	9,060,784	1,421,835	100.0	1,813,532	100.0	2,173,809	342,910	100.0
Cost of revenues(1)	(3,948,644)	(99.8)	(6,220,324)	(94.6)	(8,709,496)	(1,366,710)	(96.1)	(1,697,029)	(93.6)	(2,093,851)	(330,297)	(96.3)
Gross (loss)/profit	7,709	0.2	356,983	5.4	351,288	55,125	3.9	116,503	6.4	79,958	12,613	3.7
Operating expenses												
Selling and marketing expenses(1)	(317,426)	(8.0)	(409,211)	(6.2)	(518,167)	(81,312)	(5.7)	(112,826)	(6.2)	(144,405)	(22,779)	(6.6)
General and administrative expenses(1)	(238,648)	(6.0)	(379,892)	(5.8)	(601,702)	(94,420)	(6.6)	(91,177)	(5.0)	(221,763)	(34,982)	(10.2)
Research and development expenses(1)	(595,169)	(15.1)	(775,130)	(11.8)	(1,043,811)	(163,797)	(11.6)	(264,636)	(14.6)	(246,633)	(38,905)	(11.4)
Total operating expenses	(1,151,243)	(29.1)	(1,564,233)	(23.8)	(2,163,680)	(339,529)	(23.9)	(468,639)	(25.8)	(612,801)	(96,666)	(28.2)
Operating loss	(1,143,534)	(28.9)	(1,207,250)	(18.4)	(1,812,392)	(284,404)	(20.0)	(352,136)	(19.4)	(532,843)	(84,053)	(24.5)
Interest income	78,612	1.9	77,118	1.2	71,942	11,289	0.8	17,746	1.0	21,157	3,337	1.1
Interest expenses	(4,925)	(0.1)	(9,453)	(0.1)	(52,040)	(8,166)	(0.6)	(3,866)	(0.2)	(34,066)	(5,374)	(1.6)
Foreign exchange (loss)/gain	(38,961)	(1.0)	188,800	2.9	37,822	5,935	0.5	(48,375)	(2.7)	(18,741)	(2,956)	(0.9)
Other gain/(loss), net	–	–	14,301	0.2	83,606	13,120	0.9	5,782	0.3	(12,035)	(1,898)	(0.6)
Other income/(expense), net	6,612	0.2	(10,810)	(0.2)	95,047	14,915	1.0	1,926	0.1	20,038	3,161	0.9
Loss before income taxes	(1,102,196)	(27.9)	(947,294)	(14.4)	(1,576,015)	(247,311)	(17.4)	(378,923)	(20.9)	(556,490)	(87,783)	(25.6)
Income tax (expense)/benefit	(9,003)	(0.2)	(14,904)	(0.2)	(15,741)	(2,470)	(0.2)	(3,286)	(0.2)	1,670	263	0.1
Net loss	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(382,209)	(21.1)	(554,820)	(87,520)	(25.5)
Net loss attributable to:												
Kingsoft Cloud Holdings Limited	(1,111,199)	(28.1)	(962,259)	(14.6)	(1,588,712)	(249,303)	(17.5)	(382,464)	(21.1)	(553,249)	(87,272)	(25.4)
Non-controlling interests	–	–	61	0.0	(3,044)	(478)	(0.1)	255	0.0	(1,571)	(248)	(0.1)
	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(382,209)	(21.1)	(554,820)	(87,520)	(25.5)

Note:

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

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2019	**2020**	**2021**		**2021**	**2022**	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*RMB*	*US$*
					(unaudited)	*(unaudited)*	
	(in thousands)						
Cost of revenues	8,509	10,614	17,481	2,743	5,499	3,619	571
Selling and marketing expenses	37,808	62,270	72,594	11,392	29,343	16,806	2,651
General and administrative expenses	31,988	169,101	193,886	30,425	25,627	47,783	7,537
Research and development expenses	42,974	88,129	150,389	23,599	62,644	24,974	3,940
Total	121,279	330,114	434,350	68,159	123,113	93,182	14,699

Non-GAAP Financial Measures

In evaluating our business, we consider and use certain non-GAAP measures, including adjusted gross (loss)/profit, adjusted gross margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net loss and adjusted net loss margin, 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 [**REDACTED**] 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 Gross (Loss)/Profit and Adjusted Gross Margin (Non-GAAP Measures)

We define non-GAAP adjusted gross profit as gross profit excluding share-based compensation, which is non-cash in nature, allocated in the cost of revenues, and we define non-GAAP adjusted gross margin as non-GAAP adjusted gross profit as a percentage of revenues. The following tables reconcile our non-GAAP adjusted gross profit (margin) in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022 to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP.

	For the Year Ended December 31,				**For the Three Months Ended March 31,**		
	2019	**2020**	**2021**		**2021**	**2022**	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*RMB*	*US$*
					(unaudited)	*(unaudited)*	
	(in thousands)						
Gross profit	7,709	356,983	351,288	55,125	116,503	79,958	12,613
Adjustments:							
Share-based compensation (allocated in cost of revenues)	8,509	10,614	17,481	2,743	5,499	3,619	571
Adjusted gross profit	16,218	367,597	368,769	57,868	122,002	83,577	13,184

	For the Year Ended December 31,			**For the Three Months Ended March 31,**	
	2019	**2020**	**2021**	**2021**	**2022**
	(%)				
Gross margin	0.2	5.4	3.9	6.4	3.7
Adjusted gross margin	0.4	5.6	4.1	6.7	3.8

Adjusted net loss and adjusted EBITDA (non-GAAP measures)

We define non-GAAP adjusted net loss as net loss excluding (i) share-based compensation, which is non-cash in nature, and (ii) foreign exchange (gain)/loss, other (gain)/loss, net (primarily consisting of net gains or losses from changes in fair value of equity investments and purchase consideration of a business acquisition) and other (income)/expense, net (primarily consisting of reimbursements from the ADR depository bank and government allowances and subsidies), which are not directly indicative of our business operations, and we define non-GAAP adjusted net loss margin as adjusted net loss as a percentage of revenues. We define non-GAAP adjusted EBITDA as non-GAAP adjusted net loss excluding interest income, interest expense, income tax expense and depreciation and amortization, and we define non-GAAP adjusted EBITDA margin as non-GAAP adjusted EBITDA as a percentage of revenues. The following tables reconcile our non-GAAP adjusted net loss (margin) and non-GAAP adjusted EBITDA (margin) in 2019, 2020 and 2021 and the three months ended March 31, 2021 and 2022 to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP.

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2019	**2020**	**2021**		**2021**	**2022**	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*RMB*	*US$*
					(unaudited)	*(unaudited)*	
	(in thousands)						
Net loss	(1,111,199)	(962,198)	(1,591,756)	(249,781)	(382,209)	(554,820)	(87,520)
Adjustment:							
Share-based compensation	121,279	330,114	434,350	68,159	123,113	93,182	14,699
Foreign exchange loss/(gain)	38,961	(188,800)	(37,822)	(5,935)	48,375	18,741	2,956
Other (gain)/loss, net	–	(14,301)	(83,606)	(13,120)	(5,782)	12,035	1,898
Other (income)/expense, net	(6,612)	10,810	(95,047)	(14,915)	(1,926)	(20,038)	(3,161)
Adjusted net loss	(957,571)	(824,375)	(1,373,881)	(215,592)	(218,429)	(450,900)	(71,128)
Adjusted net loss	(957,571)	(824,375)	(1,373,881)	(215,592)	(218,429)	(450,900)	(71,128)
Adjustments:							
Interest income	(78,612)	(77,118)	(71,942)	(11,289)	(17,746)	(21,157)	(3,337)
Interest expense	4,925	9,453	52,040	8,166	3,866	34,066	5,374
Income tax expense/(benefit)	9,003	14,904	15,741	2,470	3,286	(1,670)	(263)
Depreciation and amortization	604,581	758,038	855,604	134,263	180,466	287,481	45,349
Adjusted EBITDA	(417,674)	(119,098)	(522,438)	(81,982)	(48,557)	(152,180)	(24,005)

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2019	2020	2021	2021	2022
			(%)		
Net loss margin	(28.1)	(14.6)	(17.6)	(21.1)	(25.5)
Adjusted net loss margin	(24.2)	(12.5)	(15.2)	(12.0)	(20.7)
Adjusted EBITDA margin	(10.6)	(1.8)	(5.8)	(2.7)	(7.0)

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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(unaudited)*		
	(in thousands, except for percentages)											
Revenues												
Public cloud services	3,458,843	87.4	5,166,851	78.5	6,159,085	966,495	68.0	1,391,833	76.7	1,380,807	217,817	63.5
Enterprise cloud services	486,308	12.3	1,372,689	20.9	2,897,817	454,731	32.0	420,032	23.2	792,509	125,015	36.5
Others	11,202	0.3	37,767	0.6	3,882	609	0.0	1,667	0.1	493	78	0.0
Total Revenues	3,956,353	100.0	6,577,307	100.0	9,060,784	1,421,835	100.0	1,813,532	100.0	2,173,809	342,910	100.0

Public cloud services. We offer public cloud services to customers in various verticals, including, among others, video, gaming, intelligent mobility, 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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	1,112,712	65.6	1,110,345	175,153	53.0
Depreciation and amortization costs	599,193	15.2	746,245	12.0	785,173	123,211	9.0	174,815	10.3	246,140	38,828	11.8
Fulfillment costs	411,438	10.4	1,206,679	19.4	1,851,342	290,516	21.3	358,955	21.2	184,499	29,104	8.8
Solution development and services costs	43,954	1.2	37,148	0.6	678,178	106,421	7.8	9,534	0.6	475,956	75,080	22.7
Other costs	37,468	0.9	171,404	2.8	293,275	46,021	3.3	41,013	2.3	76,911	12,132	3.7
Total cost of revenues	3,948,644	100.0	6,220,324	100.0	8,709,496	1,366,710	100.0	1,697,029	100.0	2,093,851	330,297	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. Depreciation and amortization costs primarily consist of depreciation and amortization of our fixed assets, such as servers, and intangible assets. Fulfillment costs mainly represent purchases of technology components from third parties to fulfill the deployment of solutions. 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. 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.

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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	264,636	56.4	246,633	38,905	40.2
Selling and marketing expenses	317,426	27.6	409,211	26.2	518,167	81,312	23.9	112,826	24.1	144,405	22,779	23.6
General and administrative expenses	238,648	20.7	379,892	24.3	601,702	94,420	27.8	91,177	19.5	221,763	34,982	36.2
Total operating expenses	1,151,243	100.0	1,564,233	100.0	2,163,680	339,529	100.0	468,639	100.0	612,801	96,666	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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	171,162	64.8	187,576	29,589	76.1
Share-based compensation	42,974	7.2	88,129	11.4	150,389	23,599	14.4	62,644	23.7	24,974	3,940	10.1
Other miscellaneous expenses	68,887	11.6	96,521	12.4	148,725	23,339	14.2	30,830	11.5	34,083	5,376	13.8
Total research and development expenses	595,169	100.0	775,130	100.0	1,043,811	163,797	100.0	264,636	100.0	246,633	38,905	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, 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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	63,635	56.4	74,357	11,730	51.5
Share-based compensation	37,808	11.9	62,270	15.2	72,594	11,392	14.0	29,343	26.0	16,806	2,651	11.6
Marketing and promotion expenses	29,271	9.2	15,348	3.8	24,039	3,772	4.6	5,181	4.6	3,201	505	2.2
Depreciation and amortization expenses	662	0.2	841	0.2	50,559	7,934	9.8	216	0.2	37,105	5,853	25.7
Other miscellaneous expenses	61,777	19.5	69,684	17.0	62,898	9,870	12.1	14,451	12.8	12,936	2,040	9.0
Total selling and marketing expenses	317,426	100.0	409,211	100.0	518,167	81,312	100.0	112,826	100.0	144,405	22,779	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 Three Months Ended March 31,				
	2019		2020		2021			2021		2022		
	RMB	*%*	*RMB*	*%*	*RMB*	*US$*	*%*	*RMB*	*%*	*RMB*	*US$*	*%*
								(unaudited)		*(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	26,925	29.5	66,416	10,477	29.9
Share-based compensation	31,988	13.4	169,101	44.5	193,886	30,425	32.2	25,627	28.1	47,783	7,537	21.5
Credit losses	61,920	25.9	31,881	8.4	114,124	17,909	19.0	10,125	11.1	66,431	10,479	30.0
Other miscellaneous expenses	54,586	22.9	99,320	26.1	127,831	20,059	21.2	28,500	31.3	41,133	6,489	18.6
Total general and administrative expenses	238,648	100.0	379,892	100.0	601,702	94,420	100.0	91,177	100.0	221,763	34,982	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 three months ended March 31, 2021 and 2022, we had interest income of RMB78.6 million, RMB77.1 million, RMB71.9 million (US$11.3 million), RMB17.7 million and RMB21.2 million (US$3.3 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 three months ended March 31, 2021 and 2022, we had interest expenses of RMB4.9 million, RMB9.5 million, RMB52.0 million (US$8.2 million), RMB3.9 million and RMB34.1 million (US$5.4 million), respectively.

Foreign Exchange (Loss)/Gain

Our foreign exchange (loss)/gain represents loss or gain resulting from the fluctuations in foreign exchange rates. We had foreign exchange loss of RMB39.0 million in 2019, foreign exchange gain of RMB188.8 million in 2020, foreign exchange gain of RMB37.8 million (US$5.9 million) in 2021, foreign exchange loss of RMB48.4 million in the three months ended March 31, 2021 and foreign exchange loss of RMB18.7 million (US$3.0 million) in the three months ended March 31, 2022.

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 three months ended March 31, 2021, we had other gain, net of RMB5.8 million, and in the three months ended March 31, 2022, we had other loss, net of RMB12.0 million (US$1.9 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 RMB1.9 million and RMB20.0 million (US$3.2 million) for the three months ended March 31, 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

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Revenues

Our revenues increased by 19.9% from RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US$342.9 million) for the three months ended March 31, 2022, which was primarily attributable to the solid growth of our core cloud offerings, such as cloud computing services and enterprise cloud services.

Public cloud services

Our revenues generated from public cloud services were RMB1,380.8 million (US$217.8 million) for the three months ended March 31, 2022, compared with RMB1,391.8 million for the three months ended March 31, 2021. Changes in our revenues generated from public cloud services were primarily due to the growth of our core cloud offerings, such as cloud computing services, offset by our strategic adjustment to downsize our CDN services.

Enterprise cloud services

Our revenues generated from enterprise cloud services increased by 88.7% from RMB420.0 million for the three months ended March 31, 2021 to RMB792.5 million (US$125.0 million) for the three months ended March 31, 2022, primarily driven by continued strong digitalization demand from enterprises and organizations for our enterprise cloud services, as well as our enhanced end-to-end solutions capabilities in meeting such needs.

Cost of revenues

Our cost of revenues increased by 23.4% from RMB1,697.0 million for the three months ended March 31, 2021 to RMB2,093.9 million (US$330.3 million) for the three months ended March 31, 2022. The increase in cost of revenues was primarily attributable to (i) an increase in depreciation and amortization costs by RMB71.3 million as we expanded and optimized our infrastructure to support strategic business growth, as well as (ii) an increase in solution development and services costs by RMB466.4 million as we develop and deliver end-to-end solutions that our customers increasingly demand.

Gross (loss)/profit

As a result of the foregoing, our gross profit decreased from RMB116.5 million for the three months ended March 31, 2021 to RMB80.0 million (US$12.6 million) for the three months ended March 31, 2022. Our gross profit margin decreased from 6.4% for the three months ended March 31, 2021 to 3.7% for the three months ended March 31, 2022. The decrease was primarily because we planned and committed to costs for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand in the first quarter of 2022 remained to be weaker than expected, mainly as a result of a general demand slowdown in the internet sector of China.

Research and development expenses

Our research and development expenses remained stable at RMB246.6 million (US$38.9 million) for the three months ended March 31, 2022, compared with RMB264.6 million for the three months ended March 31, 2021.

Selling and marketing expenses

Our selling and marketing expenses increased by 28.0% from RMB112.8 million for the three months ended March 31, 2021 to RMB144.4 million (US$22.8 million) for the three months ended March 31, 2022. Specifically, the increase was primarily attributable to increased staff expenses paid to sales team in line with our revenue growth, as well as an increase in depreciation and amortization expenses as a result of customer relationship amortization from our expanded customer base.

General and administrative expenses

Our general and administrative expenses increased by 143.2% from RMB91.2 million for the three months ended March 31, 2021 to RMB221.8 million (US$35.0 million) for the three months ended March 31, 2022, primarily attributable to (i) an increase in staff expenses paid to our general and administrative personnel from RMB52.6 million to RMB114.2 million (US$18.0 million), and (ii) an increase in credit losses primarily for account receivables and contract assets from RMB10.1 million to RMB66.4 million (US$10.5 million) as a result of the increase of our account receivables and contract assets due to our business growth.

Operating loss

As a result of the foregoing, our operating loss increased by 51.3% from RMB352.1 million for the three months ended March 31, 2021 to RMB532.8 million (US$84.1 million) for the three months ended March 31, 2022. Our operating loss margin increased from 19.4% for the three months ended March 31, 2021 to 24.5% for the three months ended March 31, 2022.

Interest income

Our interest income increased from RMB17.7 million for the three months ended March 31, 2021 to RMB21.2 million (US$3.3 million) for the three months ended March 31, 2022.

Interest expense

Our interest expense increased from RMB3.9 million for the three months ended March 31, 2021 to RMB34.1 million (US$5.4 million) for the three months ended March 31, 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 2021.

Foreign exchange loss

Our foreign exchange loss decreased from RMB48.4 million for the three months ended March 31, 2021 to RMB18.7 million (US$3.0 million) for the three months ended March 31, 2022, primarily because of fluctuations of the exchange rates.

Other gain/(loss), net

We recorded other gain, net of RMB5.8 million for the three months ended March 31, 2021 and other loss, net of RMB12.0 million (US$1.9 million) for the three months ended March 31, 2022, primarily due to the fair value change of purchase consideration for business acquisition recognized in 2022.

Other income/(expense), net

Our other income, net increased from RMB1.9 million for the three months ended March 31, 2021 to RMB20.0 million (US$3.2 million) for the three months ended March 31, 2022. The increase was primarily due to individual tax deduction received in 2022.

Income tax expense

We recorded income tax expense of RMB3.3 million for the three months ended March 31, 2021 and income tax benefit of RMB1.7 million (US$0.3 million) for the three months ended March 31, 2022.

Net loss

As a result of the foregoing, our net loss increased by 45.2% from RMB382.2 million for the three months ended March 31, 2021 to RMB554.8 million (US$87.5 million) for the three months ended March 31, 2022. Our net loss margin increased from 21.1% for the three months ended March 31, 2021 to 25.5% for the three months ended March 31, 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 an increase by 111.1% in the revenue generated by enterprise cloud services, and an increase by 19.2% in the revenue generated by public cloud services over the same periods.

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.

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 to support our business expansion, (ii) an increase in fulfillment costs from RMB1,206.7 million to RMB1,851.3 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 as we expanded our solutions and services to meet customers' growing demands for end-to-end solutions.

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 committed to costs 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.

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.

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.

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 because of fluctuations of the exchange rates.

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.

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 fluctuation of exchange rates.

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 and the unaudited interim condensed consolidated financial information set out in Appendix IB:

	As of December 31,				As of March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
ASSETS						
Total current assets	4,149,739	9,544,718	12,412,816	1,947,841	11,272,750	1,778,234
Total non-current assets	1,882,082	2,384,496	8,665,224	1,359,763	8,663,105	1,366,571
Total assets	6,031,821	11,929,214	21,078,040	3,307,604	19,935,855	3,144,805
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' (DEFICIT) EQUITY						
Total current liabilities	2,419,991	3,465,599	7,515,880	1,179,405	6,893,033	1,087,350
Total non-current liabilities	74,557	223,565	2,069,737	324,787	2,026,431	319,662
Total liabilities	2,494,548	3,689,164	9,585,617	1,504,192	8,919,464	1,407,012
Total mezzanine equity	7,734,532	–	–	–	–	–
Total shareholders' (deficit) equity	(4,197,259)	8,239,989	10,603,949	1,663,991	10,134,504	1,598,679
Total liabilities, mezzanine equity and shareholders' (deficit) equity	6,031,821	11,929,214	21,078,040	3,307,604	19,935,855	3,144,805

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 March 31,		As of May 31,	
	2019	2020	2021		2022		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)		*(unaudited)*	
				(in thousands)				
Current assets								
Cash and cash equivalents	2,023,263	3,424,674	4,217,528	661,822	3,219,414	507,850	2,630,372	389,968
Restricted cash	–	–	239,093	37,519	163,025	25,717	40,330	5,979
Accounts receivable, net of allowance	1,347,481	2,334,871	3,570,975	560,364	3,525,311	556,104	3,085,924	457,506
Short-term investments	225,425	2,693,019	2,491,056	390,901	2,384,549	376,153	2,800,941	415,256
Prepayments and other assets	421,938	887,086	1,687,021	264,730	1,669,145	263,303	1,647,752	244,289
Amounts due from related parties	131,632	205,068	207,143	32,505	311,306	49,107	341,070	50,566
Total current assets	4,149,739	9,544,718	12,412,816	1,947,841	11,272,750	1,778,234	10,546,389	1,563,564
Current liabilities								
Accounts payable	1,254,589	2,057,355	2,938,632	461,135	2,580,718	407,098	2,490,682	369,258
Accrued expenses and other current liabilities	949,213	845,374	2,223,840	348,969	1,843,193	290,757	1,716,455	254,474
Short-term bank loans	–	278,488	1,348,166	211,557	1,491,144	235,222	1,222,904	181,303
Long-term bank loan, current portion	100,000	74,351	–	–	–	–	–	–
Income tax payable	11,930	20,564	60,217	9,449	41,482	6,544	32,845	4,869
Amounts due to related parties	104,259	112,998	836,435	131,255	824,737	130,099	826,595	122,547
Current operating lease liabilities	–	76,469	108,590	17,040	111,759	17,630	112,014	16,607
Total current liabilities	2,419,991	3,465,599	7,515,880	1,179,405	6,893,033	1,087,350	6,401,495	949,058
Net current assets	1,729,748	6,079,119	4,896,936	768,436	4,379,717	690,884	4,144,894	614,506

Our net current assets decreased from RMB4,379.7 million (US$690.9 million) as of March 31, 2022 to RMB4,144.9 million (US$614.5 million) as of May 31, 2022, mainly due to a decrease in accounts receivables, net of allowance from RMB3,525.3 million (US$556.1 million) to RMB3,085.9 million (US$457.5 million) primarily due to the settlement of our account receivables, partially offset by a decrease of our short-term bank loans from RMB1,491.1 million (US$235.2 million) to RMB1,222.9 million (US$181.3 million) primarily due to our partial repayment of bank loans during the interim period.

Our net current assets decreased from RMB4,896.9 million (US$768.4 million) as of December 31, 2021 to RMB4,379.7 million (US$690.9 million) as of March 31, 2022, primarily due to a decrease in cash and cash equivalents from RMB4,217.5 million (US$661.8 million) as of December 31, 2021 to RMB3,219.4 million (US$507.9 million) as of March 31, 2022, primarily due to our cash outflows in operating activities and investing activities, partially offset by (i) a decrease in accrued expenses and other current liabilities from RMB2,223.8 million (US$349.0 million) as of December 31, 2021 to RMB1,843.2 million (US$290.8 million) as of March 31, 2022 primarily due to our settlement of payables for the purchase of property and equipment, and (ii) a decrease in accounts payable from RMB2,938.6 million (US$461.1 million) as of December 31, 2021 to RMB2,580.7 million (US$407.1 million) as of March 31, 2022, primarily driven by our settlement of accounts payables.

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.

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 RMB3,219.4 million (US$507.9 million) as of March 31, 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 to RMB2,348.5 million (US$376.2 million) as of March 31, 2022.

Restricted Cash

Our restricted cash mainly represents the cash reserved in escrow accounts for the purchase consideration in relation to our acquisition of Camelot, 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 RMB163.0 million (US$25.7 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively. Our cash reserved for purchase consideration to acquire Camelot that 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 slightly decreased to RMB3,525.3 million (US$556.1 million) as of March 31, 2022.

The following table sets forth our accounts receivable, net of allowance turnover days for the periods indicated. Accounts receivable, net of allowance turnover days for a period equals the average of the opening and closing accounts receivable including trade receivables included in amounts due from related parties, net of allowance balance divided by the total revenues for that period and multiplied by the number of days in that period.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(days)		
Average accounts receivable, net of allowance turnover days	97	109	126	135	157

The average accounts receivable, net of allowance turnover days increase 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 three months ended March 31, 2021 to the three months ended March 31, 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 March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
Accounts receivable, net of allowance						
Not yet due	1,158,160	979,843	2,411,907	378,481	1,698,240	267,891
Past due by:						
Within 3 months	75,604	1,084,616	478,156	75,033	403,263	63,613
Between 4 months and 6 months	69,616	118,015	202,060	31,708	944,644	149,014
Between 7 months and 1 year	41,254	135,057	371,200	58,249	308,565	48,675
More than 1 year	2,847	17,340	107,652	16,893	170,599	26,911
Total	1,347,481	2,334,871	3,570,975	560,364	3,525,311	556,104

As of June 30, 2022, RMB1,535.8 million, or 44% of our accounts receivable, net of allowance outstanding as of March 31, 2022, had been subsequently settled. Throughout the Track Record Period, we have not experienced material recoverability issues for our accounts receivable. We assess our customers' credit quality carefully, taking into account their financial position, past experience and other factors. 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 as scheduled.

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 March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
Prepayments and Other Assets, Net						
Current portion:						
Payments to suppliers	15,903	78,621	162,528	25,504	158,622	25,022
Contract costs	12,979	13,882	145,628	22,852	151,153	23,844
Contract assets, net	–	–	550,068	86,318	528,691	83,399
VAT prepayments	360,401	470,567	619,391	97,196	670,080	105,704
Interest receivable	3,114	14,204	21,463	3,368	18,027	2,844
Deferred [**REDACTED**] costs	11,971	–	–	–	3,313	523
Individual income tax receivable	–	231,377	48,949	7,681	5,669	894
Others	17,570	78,435	138,994	21,811	133,590	21,073
Sub-total	421,938	887,086	1,687,021	264,730	1,669,145	263,303
Non-current portion:						
Prepayments for electronic equipment	33,970	8,978	25,388	3,984	20,965	3,307
Others	2,498	2,846	3,678	577	2,852	450
Sub-total	36,468	11,824	29,066	4,561	23,817	3,757
Total	458,406	898,910	1,716,087	269,291	1,692,962	267,060

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, 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. Our prepayments and other assets remained stable from December 31, 2021 to March 31, 2022, being RMB1,716.1 million (US$269.3 million) and RMB1,693.0 million (US$267.1 million) as of each date, respectively.

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 RMB2,421.2 million (US$381.9 million) as of March 31, 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 March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB* (unaudited)	*US$*
			(in thousands)			
Intangible assets						
Customer relationships	–	–	620,100	97,307	620,833	97,934
Patents and technologies	–	–	67,900	10,655	60,900	9,607
Trademarks and domain names	7,041	7,020	497,098	78,006	497,043	78,407
Software and copyrights	6,564	20,807	71,752	11,259	77,800	12,273
Others	4,598	7,469	3,637	571	3,147	496
Sub-total	18,203	35,296	1,260,487	197,798	1,259,723	198,717
Less: accumulated amortization						
Customer relationships	–	–	(32,637)	(5,121)	(57,146)	(9,016)
Patents and technologies	–	–	(8,138)	(1,277)	(10,150)	(1,601)
Trademarks and domain names	(2,309)	(3,035)	(20,722)	(3,252)	(33,093)	(5,220)
Software and copyrights	(5,128)	(10,268)	(26,692)	(4,189)	(35,042)	(5,528)
Others	(3,338)	(5,420)	(2,531)	(397)	(2,474)	(390)
Intangible assets, net	7,428	16,573	1,169,767	183,562	1,121,818	176,962

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 acquisition of Camelot. Our net intangible assets remained stable from December 31, 2021 to March 31, 2022, being RMB1,169.8 million (US$183.6 million) and RMB1,121.8 million (US$177.0 million) as of each date, respectively.

Goodwill

We recorded goodwill of nil, nil, RMB4,625.1 million (US$725.8 million) and RMB4,609.8 million (US$727.2 million) as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. During the Track Record Period, our goodwill was recognized from Camelot acquisition, which we acquired in 2021, with our existing business. See "History, Development and Corporate Structure – Acquisition of Camelot" and Note 4 to the Accountants' Report included in Appendix IA.

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), RMB285.4 million (US$45.0 million) and RMB401.6 million (US$59.5 million) as of December 31, 2021, March 31, 2022 and May 31, 2022, respectively. The increase of lease liabilities from March 31, to May 31, 2022 was primarily due to obtaining new leases.

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 RMB2,580.7 million (US$407.1 million) as of March 31, 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 Three Months Ended March 31,	
	2019	**2020**	**2021**	**2021**	**2022**
			(days)		
Average accounts payable turnover days	98	101	107	119	120

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

	As of December 31,				As of March 31,	
	2019	**2020**	**2021**		**2022**	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
Accounts payable						
Within 3 months	1,018,064	1,446,965	1,340,662	210,379	1,070,161	168,814
Between 4 months and 1 year	158,132	449,649	1,209,146	189,741	1,084,889	171,137
More than 1 year	78,393	160,741	388,824	61,015	425,668	67,147
Total	1,254,589	2,057,355	2,938,632	461,135	2,580,718	407,098

As of June 30, 2022, RMB1,219.1 million, or 47% of our accounts payable outstanding as of March 31, 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 March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB* (*unaudited*)	*US$*
			(in thousands)			
Customer advances	79,608	191,357	378,957	59,467	341,712	53,904
Salary and welfare payable	136,762	117,506	600,775	94,275	534,855	84,371
Purchase of property and equipment	609,363	181,038	759,391	119,165	524,581	82,751
Acquisition of equity investments	15,500	–	–	–	–	–
Accrued expenses	67,027	44,559	116,021	18,206	101,039	15,939
Other tax and surcharges payable	10,608	25,227	91,287	14,325	83,455	13,165
Deferred government grants	7,919	10,321	8,488	1,332	5,339	842
Purchase consideration payable	–	–	148,038	23,230	147,399	23,252
Individual income tax payable	–	231,377	48,949	7,681	2,418	381
Others	22,426	43,989	71,934	11,288	102,395	16,152
Total	949,213	845,374	2,223,840	348,969	1,843,193	290,757

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 recorded in 2021 due to our acquisition of Camelot. Our accrued expenses and other current liabilities then decreased to RMB1,843.2 million (US$290.8 million) as of March 31, 2022, primarily due to our settlement of payables for the purchase of property and equipment.

Income Tax Payable

We recorded income tax payable of RMB11.9 million, RMB20.6 million, RMB60.2 million (US$9.4 million) and RMB41.5 million (US$6.5 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively, primarily due to the increase of our taxable income.

Related Party Transactions

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 RMB1,238.9 million (US$195.4 million) as of December 31, 2019, 2020, 2021 and March 31, 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 will be repaid in November 2022; and (ii) we entered into several loan agreements with Xiaomi Group which are secured by our electronic equipment. All the balances with related parties except for the loans from Xiaomi Group were unsecured.

The below table sets forth the details of our amounts due to related parties.

	As of December 31,				As of March 31,	
	2019	**2020**	**2021**		**2022**	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
Amounts due to related parties						
– Kingsoft Group						
– Current portion	81,909	80,294	544,376	85,425	543,330	85,708
– Non-current portion	–	–	–	–	–	–
– Xiaomi Group						
– Current portion	22,350	32,704	292,059	45,830	281,407	44,391
– Non-current portion	–	–	472,882	74,206	414,152	65,331
Total	104,259	112,998	1,309,317	205,461	1,238,889	195,430

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 RMB317.1 million (US$50.0 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively.

	As of December 31,				As of March 31,	
	2019	2020	2021		2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*US$*
					(unaudited)	
			(in thousands)			
Amounts due from related parties						
Xiaomi Group	63,859	165,568	175,170	27,488	270,138	42,613
Cheetah Group*	1,932	–	–	–	–	–
Kingsoft Group	43,716	45,258	37,731	5,921	46,926	7,402
Senior executives**	24,461	–	–	–	–	–
Total	133,968	210,826	212,901	33,409	317,064	50,015

Note:

* Cheetah Group ceased to be our related party since 2020.

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

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 RMB1,239.7 million (US$195.6 million) as of December 31, 2019, 2020, 2021, and March 31, 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 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.

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 remained stable thereafter, being RMB1,491.1 million (US$235.2 million) and RMB1,222.9 million (US$181.3 million) as of March 31, 2022 and May 31, 2022, respectively. All of our short-term bank loans as of December 31, 2019, 2020, 2021, March 31 and May 31, 2022 were unsecured. The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2019, 2020, 2021 and March 31, 2022 was nil, 4.28%, 4.59% and 4.59%, 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 May 31, 2022, we had utilized RMB1,222.9 million from our secured banking facilities, and RMB382.1 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.

	For the year ended December 31,			For the Three Months Ended March 31,	
	2019	2020	2021	2021	2022
	%	%	%	%	%
Revenue growth	*N/A*	*66.2*	*37.8*	*N/A*	*19.9*
Gross profit margin	0.2	5.4	3.9	6.4	3.7
Adjusted gross profit margin (Non-GAAP)*	0.4	5.6	4.1	6.7	3.8

* For reconciliation of adjusted gross profit margin (Non-GAAP) to gross profit margin, see "– Non-GAAP Financial Measure."

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 19.9% for three months ended March 31, 2022 compared to the same period in 2021. Our adjusted gross profit margin (non-GAAP) increased significantly from 0.4% in 2019 to 5.6% in 2020, 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. Our adjusted gross profit margin (non-GAAP) decreased from 5.6% in 2020 to 4.1% in 2021 primarily because we planned and committed to costs 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. Our adjusted gross profit margin (non-GAAP) decreased from 6.7% for the three months ended March 31, 2021 to 3.8% for the three months ended March 31, 2022, primarily because we planned and committed to costs for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand in the first quarter of 2022 remained to be weaker than expected, which mainly resulted from a general demand slowdown in the internet sector of China.

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. 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 March 31, 2022, we had RMB5,604.0 million (US$884.0 million) in cash and cash equivalents and short-term investment, which included cash deposits at fixed rates. As of March 31, 2022, substantially all of our cash and cash equivalents were located in the PRC and Hong Kong.

We intend to finance our future working capital requirements and capital expenditures from cash generated from operating activities and funds raised from financing activities, including the net [**REDACTED**] we expected to receive from the [**REDACTED**]. 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 RMB382.2 million and RMB554.8 million (US$87.5 million) during three months ended March 31, 2021 and March 31, 2022, respectively. As of March 31, 2022, we had an accumulated deficit of RMB8,012.0 million (US$1,263.9 million). We recorded net operating cash outflows of RMB439.1 million, RMB290.4 million, RMB708.9 million (US$111.2 million) and RMB626.0 million (US$98.8 million) in 2019, 2020, 2021 and three months ended March 31, 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 RMB5,431.3 million cash resources as of May 31, 2022 (that include cash and cash equivalents and short-term investments), (ii) the portion of the estimated net [**REDACTED**] from the [**REDACTED**] expected to be used for working capital and general corporate purposes, (iii) currently available financing facilities and our ability to obtain additional financing facilities, and (iv) 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 Document.

Cash Flows

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

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2019	2020	2021		2021	2022	
	RMB	*RMB*	*RMB*	*US$*	*RMB*	*RMB*	*US$*
		(in thousands)			*(unaudited)*	*(unaudited)*	
Net cash used in operating activities	(439,132)	(290,433)	(708,869)	(111,236)	(497,151)	(626,008)	(98,750)
Net cash generated from/(used in) investing activities	883,247	(4,314,003)	(421,623)	(66,162)	(238,180)	(524,766)	(82,780)
Net cash generated from financing activities	64,507	6,124,153	2,212,487	347,187	98,854	97,609	15,397
Net increase/(decrease) in cash, cash equivalents and restricted cash	508,622	1,519,717	1,081,995	169,789	(636,477)	(1,053,165)	(166,133)
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	703,015
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,570	(118,306)	(50,048)	(7,854)	5,251	(21,017)	(3,315)
Cash, cash equivalents and restricted cash at end of the year/period	2,023,263	3,424,674	4,456,621	699,341	2,793,448	3,382,439	533,567

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 RMB626.0 million (US$98.8 million) during the three months ended March 31, 2022. The difference between our net loss of RMB554.8 million (US$87.5 million) and the net cash used in operating activities was mainly due to (i) a decrease in accounts payable of RMB339.3 million (US$53.5 million) primarily driven by our settlement of accounts payables, (ii) a decrease in accrued expenses and other liabilities of RMB138.2 million (US$21.8 million) primarily due to our settlement of payables for purchase of property and equipment, and (iii) a decrease in amounts due from related parties of RMB104.2 million (US$16.4 million) mainly as a result of our related parties increased payments to settle such amounts, partially offset by the depreciation and amortization of RMB287.5 million (US$45.3 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.

Investing Activities

Net cash used in investing activities was RMB524.8 million (US$82.8 million) during the three months ended March 31, 2022, which was mainly attributable to (i) purchase of short-term investments of RMB861.0 million (US$135.8 million) and (ii) purchase of property and equipment of RMB621.0 million (US$98.0 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 generated from financing activities was RMB97.6 million (US$15.4 million) during the three months ended March 31, 2022, which was mainly attributable to proceeds from short-term bank loans of RMB173.0 million (US$27.3 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), RMB213.4 million and RMB622.4 million (US$98.2 million) in 2019, 2020, 2021, the three months ended March 31, 2021 and the three months ended March 31, 2022, respectively. Our purchases of property and equipment were RMB999.5 million, RMB1,559.9 million, RMB723.3 million (US$113.5 million), RMB212.2 million and RMB621.0 million (US$98.0 million), accounting for 100.0%, 98.0%, 98.4%, 99.4% and 99.8% of our capital expenditures in 2019, 2020, 2021, the three months ended March 31, 2021 and the three months ended March 31, 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, cash generated from operating activities, expected net [**REDACTED**] from the [**REDACTED**]. 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 Three Months Ended March 31,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	*(unaudited)*
			(in thousands)		
Net loss attributable to ordinary shareholders as reported under U.S. GAAP	(1,160,924)	(982,027)	(1,588,712)	(382,464)	(553,249)
IFRS adjustments					
Preferred Shares	(612,234)	(286,270)	–	–	–
Operating leases	(230)	(7,401)	(5,217)	(3,935)	(894)
Equity investments	(4,825)	(11,033)	(46,156)	2,238	(5,484)
Share-based compensation	11,385	16,728	6,561	1,180	(167)
Issuance costs	(8,920)	(11,745)	–	–	(2,949)
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)	(382,981)	(562,743)

	As of December 31,			As of March 31,	
	2019	2020	2021	2021	2022
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	*(unaudited)*
			(in thousands)		
Total shareholders' (deficit) equity as reported under U.S. GAAP	(4,197,259)	8,240,050	11,492,423	8,050,216	11,016,391
IFRS adjustments					
Preferred Shares	794,689	–	–	–	–
Operating leases	(223)	(7,629)	(12,842)	(11,564)	(13,735)
Equity investments	(4,825)	(15,858)	(62,014)	(13,620)	(67,498)
Share-based compensation	–	–	–	–	–
Issuance costs	(9,003)	–	–	–	(2,945)
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	8,025,032	10,932,213

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 IFRS, 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 IFRS, 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.

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 [**REDACTED**] 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

Borrowings

For our loans from banks, see "– Discussion of Selected Items from the Consolidated Balance Sheets – Bank Loans."

Our loans from related parties were nil, nil, RMB1,209.1 million (US$189.7 million), RMB1,152.7 million (US$181.8 million) and RMB1,105.7 million (US$163.9 million) as of December 31, 2019, 2020, 2021 and March 31, 2022 and May 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."

Lease Liabilities

See "– Discussion of Selected Items from the Consolidated Balance Sheets – Lease Liabilities."

Other Indebtedness

As of December 31, 2021, March 31, 2022 and May 31, 2022, the purchase consideration payable to acquire Camelot were RMB1,328.5 million (US$208.5 million), RMB1,334.8 million (US$210.6 million) and RMB1,217.1 million (US$180.4 million), respectively.

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021, March 31, 2022 and May 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 May 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 March 31, 2022, we had commitments for the construction of such data center of RMB34.3 million (US$5.4 million), which were scheduled to be paid within one year.

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 and Note 19 the unaudited interim condensed consolidated financial information set out in Appendix IB 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 20 to the Accountants' Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB.

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 [**REDACTED**] of the [**REDACTED**] 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 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, 2021 and March 31, 2022, we had two customers with a receivable balance exceeding 10% of the total accounts receivable balance, respectively. As of December 31, 2021, we had one customer, with a contract asset balance exceeding 10% of the total contract asset balance. As of March 31, 2022, no individual customer accounted for more than 10% of the total contract assets balance. The risk with respect to accounts receivable and contract assets is mitigated by credit evaluations we perform on our customers and our 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 aggregate accounted for 65.7%, 61.5%, 50.5% and 48.2% of our total revenues in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. Our largest customer in each year during the Track Record Period accounted for proximately 30.9%, 28.1%, 21.9% and 17.9% of our total revenue for 2019, 2020, 2021 and the three months ended March 31, 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, appreciation of approximately 6.3%, 2.3% and 0.5% during the years ended December 31, 2020, 2021 and the three months ended March 31, 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

In September 2021, we completed the acquisition of Camelot, 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 Accountant's Report included in Appendix IA.

Set out below is selected pre-acquisition financial information of Camelot 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 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 primarily offers enterprises digital solutions and related services, which are categorized under enterprise cloud services after our consolidation of Camelot's results. Camelot 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's revenues were generally stable, being RMB1,647.6 million, RMB1,676.0 million and RMB1,288.7 million, respectively.

Cost of Revenue

Camelot'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'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'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'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'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'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's research and development expenses primarily consisted of staff costs and technology service fees paid to third-parties. Camelot'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 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 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's operating income and net income was primarily attributable to foreign exchange gain (loss) and income tax expense.

Camelot 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's foreign exchange gain (loss) were primarily due to the fluctuations in exchange rates. Camelot 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 had funded its working capital primarily from cash generated from its business operations. As of December 31, 2019, 2020 and September 2021, Camelot'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 for the periods indicated:

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

Accounts receivables

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

Prepayments and other assets

Camelot's prepayments and other assets primarily consisted of (i) contract assets, representing Camelot'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's prepayments and other assets were RMB538.8 million, RMB551.8 million and RMB652.6 million, respectively.

Accounts payable

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

Accrued expenses and other liabilities

Camelot'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's accrued expenses and other liabilities were RMB542.3 million, RMB598.5 million and RMB651.8 million, respectively.

Short-term bank loans

Camelot'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 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 fully repaid the loans on April 13, 2020, July 13, 2020 and August 18, 2020, respectively.

In August and September 2020, Camelot 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 fully repaid the loans on January 12, 2021.

In March 2021, Camelot 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'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'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'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'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 and Note 2 to the unaudited interim condensed consolidated financial information set out in Appendix IB.

DISTRIBUTABLE RESERVES

As of March 31, 2022, we did not have any distributable reserves.

[REDACTED] EXPENSES

Based on the [**REDACTED**] of HK$[**REDACTED**], the total [**REDACTED**] expenses (including [**REDACTED**] commissions) payable by our Company are estimated to be approximately RMB[**REDACTED**] million (equivalent to approximately US$[**REDACTED**] million), including (i) [**REDACTED**] related expenses of approximately RMB[**REDACTED**] million, and (ii) non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**] million, which consist of fees and expenses of legal advisers and accountants of approximately RMB[**REDACTED**] million and other fees and expenses of approximately RMB[**REDACTED**] million, assuming the [**REDACTED**] is not exercised. These [**REDACTED**] expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the [**REDACTED**], for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**].

As of March 31, 2022, we have incurred RMB[**REDACTED**] (US$[**REDACTED**]) of [**REDACTED**] expenses for the [**REDACTED**], of which [**REDACTED**] was charged to our consolidated statements of comprehensive income and RMB[**REDACTED**] (US$[**REDACTED**]) was recorded as prepayment in the consolidated balance sheets will be accounted for as a deduction from our equity upon the [**REDACTED**]. We estimate that an additional [**REDACTED**] expenses of RMB[**REDACTED**] (US$[**REDACTED**]) (including [**REDACTED**] commissions of RMB[**REDACTED**] (US$[**REDACTED**]), assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of [**REDACTED**]) will be further incurred, of which RMB[**REDACTED**] (US$[**REDACTED**]) is expected to be charged to our consolidated statement of comprehensive income and RMB[**REDACTED**] (US$[**REDACTED**]) is expected to be charged against equity upon the [**REDACTED**].

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 [**REDACTED**] on the consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 as if the [**REDACTED**] had taken place on March 31, 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 [**REDACTED**] been completed as of March 31, 2022 or any future date. It is prepared based on the consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 as set out in the unaudited interim condensed consolidated financial information as set out in Appendix IB to the document, and adjusted as described below.

	Consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022	Estimated net [REDACTED] from the [REDACTED]	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 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 the indicative [REDACTED] of [REDACTED]	4,402,839	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 is extracted from the unaudited interim condensed consolidated financial information set out in Appendix IB, which is based on the unaudited consolidated net assets attributable to the shareholders of the Company of RMB10,134,504,000 after deducting the goodwill of RMB4,609,847,000 and intangible assets, net of RMB1,121,818,000 as of March 31, 2022.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on the [**REDACTED**] of [**REDACTED**], after deduction of the [**REDACTED**] fees and other related expenses payable by the Group and does not take into account of any shares which may be issued upon the exercise of the [**REDACTED**].

(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 [**REDACTED**] in issue immediately upon the completion of the [**REDACTED**], assuming that the [**REDACTED**] has been completed on March 31, 2022 for the purpose of the pro forma financial information, and does not take into account of any Shares which may be issued upon the exercise of the [**REDACTED**], the Shares to be issued pursuant to the share-based compensation plans including 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 [**REDACTED**] from the [**REDACTED**] are converted from Hong Kong dollars into Renminbi ("RMB") at an exchange rate of HK$1.00 to RMB0.8593 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 March 31, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the Latest Practicable Date, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since March 31, 2022, the end of the period reported on the unaudited interim condensed consolidated financial information included in Appendix IB.

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.