[To insert the firm's letterhead]

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KINGSOFT CLOUD HOLDINGS LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED AND UBS SECURITIES HONG KONG LIMITED

Introduction

We report on the historical financial information of Kingsoft Cloud Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages IA-3 to IA-101, which comprises the consolidated statements of comprehensive loss, statements of changes in shareholders' (deficit) equity and statements of cash flows of the Group for each of the years ended December 31, 2019, 2020 and 2021 (the "Relevant Periods"), and the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2019, 2020 and 2021 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-3 to IA-101 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [**REDACTED**] (the "Document") in connection with the [**REDACTED**] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2(a) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2(a) to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at December 31, 2019, 2020 and 2021 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IA-3 have been made.

Dividends

We refer to note 25 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

[●]
Certified Public Accountants
Hong Kong
[Date]

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued financial statements of the Group for the Relevant Periods. The previously issued financial statements were audited by Ernst & Young Hua Ming LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") (the "Historical Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for number of shares and per share data)

		As at December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
ASSETS					
Current assets					
Cash and cash equivalents		2,023,263	3,424,674	4,217,528	661,822
Restricted cash		–	–	239,093	37,519
Accounts receivable, net of allowance for credit losses of RMB22,894, RMB15,770 and RMB32,265 as of December 31, 2019, 2020 and 2021, respectively	*6*	1,347,481	2,334,871	3,570,975	560,364
Short-term investments		225,425	2,693,019	2,491,056	390,901
Prepayments and other assets	*7*	421,938	887,086	1,687,021	264,730
Amounts due from related parties	*21*	131,632	205,068	207,143	32,505
Total current assets		**4,149,739**	**9,544,718**	**12,412,816**	**1,947,841**
Non-current assets					
Property and equipment, net	*8*	1,720,974	1,956,790	2,364,103	370,979
Intangible assets, net	*9*	7,428	16,573	1,169,767	183,562
Goodwill	*10*	–	–	4,625,115	725,781
Prepayments and other assets	*7*	36,468	11,824	29,066	4,561
Equity investments	*2(k)*	114,876	126,583	207,166	32,509
Amounts due from related parties	*21*	2,336	5,758	5,758	904
Deferred tax assets	*15*	–	–	7,798	1,224
Operating lease right-of-use assets	*2(y), 11*	–	266,968	256,451	40,243
Total non-current assets		**1,882,082**	**2,384,496**	**8,665,224**	**1,359,763**
Total assets		**6,031,821**	**11,929,214**	**21,078,040**	**3,307,604**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

		As at December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
LIABILITIES, MEZZANINE EQUITY, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' (DEFICIT) EQUITY					
Current liabilities					
Accounts payable (including accounts payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB1,236,706, RMB2,013,428 and RMB2,733,487 as of December 31, 2019, 2020 and 2021, respectively)	*12*	1,254,589	2,057,355	2,938,632	461,135
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB780,991, RMB521,307 and RMB1,208,868 as of December 31, 2019, 2020 and 2021, respectively)	*13*	949,213	845,374	2,223,840	348,969
Short-term bank loans (including short-term bank loans of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB278,488 and RMB1,348,166 as of December 31, 2019, 2020 and 2021, respectively)	*14*	–	278,488	1,348,166	211,557
Long-term bank loan, current portion (including long-term bank loan, current portion of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB100,000, RMB74,351 and RMB nil as of December 31, 2019, 2020 and 2021, respectively)	*14*	100,000	74,351	–	–
Income tax payable (including income tax payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB45 and RMB1,026 as of December 31, 2019, 2020 and 2021, respectively)	*15*	11,930	20,564	60,217	9,449

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

		As at December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB50,472, RMB56,795 and RMB797,731 as of December 31, 2019, 2020 and 2021, respectively)	*21*	104,259	112,998	836,435	131,255
Current operating lease liabilities (including current operating lease liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB56,261 and RMB70,672 as of December 31, 2019, 2020 and 2021, respectively)	*2(y), 11*	–	76,469	108,590	17,040
Total current liabilities		**2,419,991**	**3,465,599**	**7,515,880**	**1,179,405**
Non-current liabilities					
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB nil and RMB472,882 as of December 31, 2019, 2020 and 2021, respectively)	*21*	–	–	472,882	74,206
Other liabilities (including other liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB7,020 and RMB6,975 as of December 31, 2019, 2020 and 2021, respectively)	*13*	–	40,578	1,232,677	193,434
Long-term bank loan (including long-term bank loan of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB74,351, RMB nil and RMB nil as of December 31, 2019, 2020 and 2021, respectively)	*14*	74,351	–	–	–

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

		As at December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB206, RMB29 and RMB nil as of December 31, 2019, 2020 and 2021, respectively)	*15*	206	29	205,889	32,308
Non-current operating lease liabilities (including non-current operating lease liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil, RMB146,012 and RMB121,057 as of December 31, 2019, 2020 and 2021, respectively)	*2(y), 11*	–	182,958	158,289	24,839
Total non-current liabilities		**74,557**	**223,565**	**2,069,737**	**324,787**
Total liabilities		**2,494,548**	**3,689,164**	**9,585,617**	**1,504,192**
Commitments and contingencies	*22*				
Mezzanine equity					
Series B convertible preferred shares (par value of US$0.001 per share; 153,603,600, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	*16*	337,268	–	–	–
Series C redeemable convertible preferred shares (par value of US$0.001 per share; 185,665,192, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	*16*	1,043,147	–	–	–
Series D redeemable convertible preferred shares (par value of US$0.001 per share; 842,738,782, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	*16*	5,965,273	–	–	–

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

		As at December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Series D+ redeemable convertible preferred shares (par value of US$0.001 per share; 77,125,997, nil and nil shares authorized, 55,089,998, nil and nil shares issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	*16*	388,844	–	–	–
Total mezzanine equity		**7,734,532**	**–**	**–**	**–**
Shareholders' (deficit) equity					
Series A convertible preferred shares (par value of US$0.001 per share; 458,116,000, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	*16*	123,186	–	–	–
Ordinary shares (par value of US$0.001 per share; 1,282,750,429, 4,000,000,000 and 40,000,000,000 shares authorized, 1,077,086,304, 3,546,124,955 and 3,805,284,810 shares issued, 894,711,200, 3,339,618,633 and 3,646,381,840 shares outstanding as of December 31, 2019, 2020 and 2021, respectively)	*20*	5,558	22,801	24,782	3,889
Additional paid-in capital		91,746	14,149,984	18,245,801	2,863,164
Accumulated deficit		(4,902,097)	(5,864,356)	(7,458,752)	(1,170,441)
Accumulated other comprehensive income (loss)	*23*	484,348	(68,440)	(207,882)	(32,621)
Total Kingsoft Cloud Holdings Limited shareholders' (deficit) equity		**(4,197,259)**	**8,239,989**	**10,603,949**	**1,663,991**
Non-controlling interests		–	61	888,474	139,421
Total (deficit) equity		**(4,197,259)**	**8,240,050**	**11,492,423**	**1,803,412**
Total liabilities, mezzanine equity, non-controlling interests and shareholders' (deficit) equity		**6,031,821**	**11,929,214**	**21,078,040**	**3,307,604**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands, except for number of shares and per share data)

		For the year ended December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Revenues					
Public cloud services (including related party amounts of RMB688,187, RMB777,287 and RMB905,755 for the years ended December 31, 2019, 2020 and 2021, respectively)	*5, 21*	3,458,843	5,166,851	6,159,085	966,495
Enterprise cloud services (including related party amounts of RMB nil, RMB nil and RMB23,695 for the years ended December 31, 2019, 2020 and 2021, respectively)	*5, 21*	486,308	1,372,689	2,897,817	454,731
Others (including related party amounts of RMB120, RMB82 and RMB74 for the years ended December 31, 2019, 2020 and 2021, respectively)	*5, 21*	11,202	37,767	3,882	609
Total revenues		**3,956,353**	**6,577,307**	**9,060,784**	**1,421,835**
Cost of revenues (including related party amounts of RMB660, RMB988 and RMB980 for the years ended December 31, 2019, 2020 and 2021, respectively)	*21*	(3,948,644)	(6,220,324)	(8,709,496)	(1,366,710)
Gross profit		**7,709**	**356,983**	**351,288**	**55,125**
Operating expenses					
Selling and marketing expenses		(317,426)	(409,211)	(518,167)	(81,312)
General and administrative expenses		(238,648)	(379,892)	(601,702)	(94,420)
Research and development expenses		(595,169)	(775,130)	(1,043,811)	(163,797)
Total operating expenses		**(1,151,243)**	**(1,564,233)**	**(2,163,680)**	**(339,529)**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (continued)

(All amounts in thousands, except for number of shares and per share data)

		For the year ended December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Operating loss		**(1,143,534)**	**(1,207,250)**	**(1,812,392)**	**(284,404)**
Interest income		78,612	77,118	71,942	11,289
Interest expense		(4,925)	(9,453)	(52,040)	(8,166)
Foreign exchange (loss) gain		(38,961)	188,800	37,822	5,935
Other gain, net		–	14,301	83,606	13,120
Other income (expense), net		6,612	(10,810)	95,047	14,915
Loss before income taxes		**(1,102,196)**	**(947,294)**	**(1,576,015)**	**(247,311)**
Income tax expense	*15*	(9,003)	(14,904)	(15,741)	(2,470)
Net loss		**(1,111,199)**	**(962,198)**	**(1,591,756)**	**(249,781)**
Less: net income (loss) attributable to non-controlling interests		–	61	(3,044)	(478)
Net loss attributable to Kingsoft Cloud Holdings Limited		**(1,111,199)**	**(962,259)**	**(1,588,712)**	**(249,303)**
Net loss attributable to Kingsoft Cloud Holdings Limited		**(1,111,199)**	**(962,259)**	**(1,588,712)**	**(249,303)**
Accretion to redemption value of redeemable convertible preferred shares	*16*	(49,725)	(19,768)	–	–
Net loss attributable to ordinary shareholders		**(1,160,924)**	**(982,027)**	**(1,588,712)**	**(249,303)**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (continued)

(All amounts in thousands, except for number of shares and per share data)

	Notes	For the year ended December 31, 2019	2020	2021	2021
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Net loss per share:					
Basic and diluted	*19*	(1.31)	(0.41)	(0.46)	(0.07)
Shares used in the net loss per share computation:					
Basic and diluted	*19*	889,521,200	2,400,874,197	3,441,729,444	3,441,729,444
Other comprehensive income (loss), net of tax of nil:					
Foreign currency translation adjustments		64,598	(552,788)	(139,575)	(21,902)
Comprehensive loss		**(1,046,601)**	**(1,514,986)**	**(1,731,331)**	**(271,683)**
Less: Comprehensive income (loss) attributable to non-controlling interests		–	61	(3,177)	(499)
Comprehensive loss attributable to Kingsoft Cloud Holdings Limited shareholders		**(1,046,601)**	**(1,515,047)**	**(1,728,154)**	**(271,184)**
Accretion to redemption value of redeemable convertible preferred shares		(49,725)	(19,768)	–	–
Comprehensive loss attributable to ordinary shareholders		**(1,096,326)**	**(1,534,815)**	**(1,728,154)**	**(271,184)**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY

(All amounts in thousands, except for number of shares and per share data)

Year ended December 31, 2019

		Series A convertible preferred shares		Ordinary shares					
	Notes	**Number of shares**	**Amount**	**Number of shares**	**Amount**	**Additional paid-in capital**	**Accumulated other comprehensive income**	**Accumulated deficit**	**Total shareholders' deficit**
			RMB		*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of January 1, 2019		458,116,000	123,186	793,430,000	4,851	–	419,750	(3,790,898)	(3,243,111)
Net loss for the year		–	–	–	–	–	–	(1,111,199)	(1,111,199)
Other comprehensive income		–	–	–	–	–	64,598	–	64,598
Share-based compensation	*17*	–	–	–	–	121,279	–	–	121,279
Exercise and vesting of share-based awards	*17*	–	–	101,281,200	707	20,192	–	–	20,899
Accretion to redemption value of redeemable convertible preferred shares	*16*	–	–	–	–	(49,725)	–	–	(49,725)
Balance as of December 31, 2019		458,116,000	123,186	894,711,200	5,558	91,746	484,348	(4,902,097)	(4,197,259)

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY (continued)

(All amounts in thousands, except for number of shares and per share data)

Year ended December 31, 2020

	Notes	Series A convertible preferred shares Number of shares	Series A convertible preferred shares Amount	Ordinary shares Number of shares	Ordinary shares Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total Kingsoft Cloud Holdings Limited shareholders' (deficit) equity	Non-controlling interests	Total shareholders' (deficit) equity
			RMB		*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of December 31, 2019		458,116,000	123,186	894,711,200	5,558	91,746	484,348	(4,902,097)	(4,197,259)	–	(4,197,259)
Net (loss) profit for the year		–	–	–	–	–	–	(962,259)	(962,259)	61	(962,198)
Accretion to redemption value of redeemable convertible preferred shares	*16*	–	–	–	–	(19,768)	–	–	(19,768)	–	(19,768)
Repurchase of ordinary shares	*20*	–	–	(5,475,254)	(38)	(26,662)	–	–	(26,700)	–	(26,700)
Issuance of ordinary shares upon initial public offering ("IPO") on Nasdaq ("IPO on Nasdaq")	*20*	–	–	517,500,000	3,663	3,871,731	–	–	3,875,394	–	3,875,394
Conversion of Series A convertible preferred shares into ordinary shares	*20*	(458,116,000)	(123,186)	458,116,000	3,243	119,943	–	–	–	–	–
Conversion of Series B convertible preferred shares and Series C, Series D and Series D+ redeemable convertible preferred shares into ordinary shares	*20*	–	–	1,259,133,571	8,913	7,880,202	–	–	7,889,115	–	7,889,115
Issuance of ordinary shares upon follow-on offering on Nasdaq	*20*	–	–	138,750,000	945	1,880,288	–	–	1,881,233	–	1,881,233
Other comprehensive loss		–	–	–	–	–	(552,788)	–	(552,788)	–	(552,788)
Share-based compensation	*17*	–	–	–	–	330,114	–	–	330,114	–	330,114
Exercise and vesting of share-based awards	*17*	–	–	76,883,116	517	22,390	–	–	22,907	–	22,907
Balance as of December 31, 2020		–	–	3,339,618,633	22,801	14,149,984	(68,440)	(5,864,356)	8,239,989	61	8,240,050

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY (continued)

(All amounts in thousands, except for number of shares and per share data)

Year ended December 31, 2021

		Ordinary shares							
	Notes	Number of shares*	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total Kingsoft Cloud Holdings Limited shareholders' equity	Non-controlling interests	Total shareholders' equity
			RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of December 31, 2020		3,339,618,633	22,801	14,149,984	(68,440)	(5,864,356)	8,239,989	61	8,240,050
Adoption of Accounting Standards Codification ("ASC") 326, *Credit Losses* ("ASC 326")		–	–	–	–	(5,684)	(5,684)	–	(5,684)
Net loss for the year		–	–	–	–	(1,588,712)	(1,588,712)	(3,044)	(1,591,756)
Business acquisition		247,475,446	1,598	3,615,485	–	–	3,617,083	891,590	4,508,673
Other comprehensive loss		–	–	–	(139,442)	–	(139,442)	(133)	(139,575)
Share-based compensation	*17*	–	–	434,350	–	–	434,350	–	434,350
Exercise and vesting of share-based awards	*17*	59,287,761	383	45,982	–	–	46,365	–	46,365
Balance as of December 31, 2021		3,646,381,840	24,782	18,245,801	(207,882)	(7,458,752)	10,603,949	888,474	11,492,423
Balance as of December 31, 2021, in US$	*Note 2(e)*	3,646,381,840	3,889	2,863,164	(32,621)	(1,170,441)	1,663,991	139,421	1,803,412

* As of December 31, 2019, 2020 and 2021, 182,375,104, 206,506,322 and 158,902,970 ordinary shares, respectively, were issued in relation to the share awards. These shares are legally issued but not outstanding.

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for number of shares and per share data)

		For the year ended December 31,			
	Notes	**2019**	**2020**	**2021**	**2021**
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Cash flows from operating activities					
Net loss:		(1,111,199)	(962,198)	(1,591,756)	(249,781)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	*8, 9*	604,581	758,038	855,604	134,263
Share-based compensation	*17*	121,279	330,114	434,350	68,159
Provision for credit losses		20,645	31,881	112,013	17,577
Gain on disposal of property and equipment		(74)	(2,242)	(5,814)	(912)
Changes in fair value of equity investments	*2(k)*	–	(14,301)	(82,492)	(12,945)
Gain on disposal of equity investments		–	–	(10,363)	(1,626)
Changes in fair value of purchase consideration of a business acquisition		–	–	9,249	1,451
Changes in fair value of contingent consideration of a business acquisition		–	–	(7,034)	(1,104)
Issuance costs expensed for follow-on offering on Nasdaq		–	3,727	–	–
Foreign exchange loss (gain)		38,961	(188,800)	(37,822)	(5,935)
Deferred income tax		–	–	(11,852)	(1,860)
Non-cash operating lease expense	*11*	–	52,890	52,648	8,262
Changes in operating assets and liabilities:					
Accounts receivable		(823,033)	(1,024,113)	(947,790)	(148,727)
Prepayments and other assets		(5,883)	(356,761)	30,883	4,846
Amounts due from related parties		84,981	(75,315)	(2,075)	(326)
Accounts payable		533,771	804,198	593,410	93,119
Accrued expenses and other liabilities		103,276	381,001	(91,018)	(14,283)
Operating lease liabilities		–	(45,748)	(31,791)	(4,989)
Amounts due to related parties		(11,163)	8,739	2,064	324
Income tax payable		4,726	8,457	20,717	3,251
Net cash used in operating activities		**(439,132)**	**(290,433)**	**(708,869)**	**(111,236)**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(All amounts in thousands, except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2019	2020	2021	2021
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Cash flows from investing activities					
Purchases of property and equipment		(999,538)	(1,559,946)	(723,285)	(113,500)
Disposal of property and equipment		–	1,363	8,319	1,305
Purchases of intangible assets		(115)	(16,865)	(12,106)	(1,900)
Purchases of short-term investments		(1,111,968)	(5,607,690)	(2,568,325)	(403,026)
Proceeds from maturities of short-term investments		3,107,623	2,891,597	2,720,186	426,857
Purchases of land use rights		–	(14,832)	–	–
Acquisition of equity investments		(94,376)	(14,650)	(52,493)	(8,237)
Disposal of equity investments		–	–	63,476	9,961
Acquisition of business, net of cash acquired		–	–	139,350	21,867
Asset-related government grants received		5,000	7,020	3,255	511
Loans to senior executives		(23,379)	–	–	–
Net cash generated from (used in) investing activities		**883,247**	**(4,314,003)**	**(421,623)**	**(66,162)**
Cash flows from financing activities					
Repayment of long-term bank loan		(80,787)	(100,000)	(74,351)	(11,667)
Repayment of short-term bank loans		–	–	(496,707)	(77,944)
Proceeds from short-term bank loans		–	278,487	1,540,166	241,685
Proceeds from IPO on Nasdaq, net of offering costs	*20*	–	3,933,393	–	–
Proceeds from follow-on offering on Nasdaq, net of offering costs	*20*	–	1,876,316	–	–
Proceeds from loans due to related parties		–	–	1,192,455	187,122
Repayment of loans due to a related party		(225,000)	–	–	–
Proceeds from exercise of options		20,899	11,227	50,924	7,991
Proceeds from redeemable convertible preferred shares, net of issuance costs		349,395	124,730	–	–
Net cash generated from financing activities		**64,507**	**6,124,153**	**2,212,487**	**347,187**

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(All amounts in thousands, except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2019	2020	2021	2021
		RMB	*RMB*	*RMB*	*US$*
					Note 2(e)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash		7,570	(118,306)	(50,048)	(7,854)
Net increase in cash, cash equivalents, and restricted cash		508,622	1,519,717	1,081,995	169,789
Cash, cash equivalents, and restricted cash at beginning of year		1,507,071	2,023,263	3,424,674	537,406
Cash, cash equivalents, and restricted cash at end of year		**2,023,263**	**3,424,674**	**4,456,621**	**699,341**
Supplemental disclosures of cash flow information:					
Restricted cash		–	–	239,093	37,519
Income taxes paid		4,277	6,270	6,874	1,079
Interest expense paid		24,143	9,206	45,844	7,194
Cash payments for operating leases		–	60,273	35,214	5,526
Non-cash investing and financing activities:					
Purchases of property and equipment included in accrued expenses and other liabilities	*13*	609,363	181,038	759,391	119,165
Acquisitions of equity investments included in accrued expenses and other liabilities	*13*	15,500	–	–	–
Purchase consideration included in accrued expenses and other liabilities	*13*	–	–	1,328,508	208,472
Settlement of senior executive loans by repurchase of ordinary shares	*20*	–	26,700	–	–
Right-of-use assets obtained in exchange for operating lease liabilities		–	195,890	6,915	1,085
Series D+ redeemable convertible preferred shares issuance costs included in accrued expenses and other liabilities		10,276	–	–	–
Non-cash acquisition of business	*4*	–	–	3,617,083	567,599

I HISTORICAL FINANCIAL INFORMATION (continued)

COMPANY'S BALANCE SHEETS

(All amounts in thousands, except for number of shares and per share data)

	As at December 31,			
	2019	2020	2021	2021
	RMB	*RMB*	*RMB*	*US$*
				Note 2(e)
Assets				
Current assets:				
Cash and cash equivalents	540,361	68,012	69,393	10,889
Short-term investments	–	217,448	1,029,472	161,547
Prepayments and other assets	31,132	266,280	53,618	8,414
Amounts due from subsidiaries	2,974,463	7,983,060	5,508,311	864,374
Amounts due from related parties	24,061	–	–	–
Total current assets	**3,570,017**	**8,534,800**	**6,660,794**	**1,045,224**
Non-current assets:				
Investments in subsidiaries	–	–	5,328,424	836,146
Total non-current assets	**–**	**–**	**5,328,424**	**836,146**
Total assets	**3,570,017**	**8,534,800**	**11,989,218**	**1,881,370**
Liabilities, mezzanine equity and shareholders' (deficit) equity				
Current liabilities:				
Accrued expenses and other liabilities	30,188	256,630	182,075	28,572
Income tax payable	2,514	2,524	3,307	519
Amounts due to subsidiaries	7	1,692	4,846	760
Amounts due to related parties	35	407	829	130
Total current liabilities	**32,744**	**261,253**	**191,057**	**29,981**
Non-current liabilities:				
Other liabilities	–	33,558	1,194,212	187,398
Total non-current liabilities	**–**	**33,558**	**1,194,212**	**187,398**
Total liabilities	**32,744**	**294,811**	**1,385,269**	**217,379**

I HISTORICAL FINANCIAL INFORMATION (continued)

COMPANY'S BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

	As at December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*US$*
				Note 2(e)
Commitments and contingencies				
Mezzanine equity:				
Series B convertible preferred shares (par value of US$0.001 per share; 153,603,600, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	337,268	–	–	–
Series C redeemable convertible preferred shares (par value of US$0.001 per share; 185,665,192, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	1,043,147	–	–	–
Series D redeemable convertible preferred shares (par value of US$0.001 per share; 842,738,782, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	5,965,273	–	–	–
Series D+ redeemable convertible preferred shares (par value of US$0.001 per share; 77,125,997, nil and nil shares authorized, 55,089,998, nil and nil shares issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	388,844	–	–	–
Total mezzanine equity	**7,734,532**	**–**	**–**	**–**
Shareholders' (deficit) equity:				
Series A convertible preferred shares (par value of US$0.001 per share; 458,116,000, nil and nil shares authorized, issued and outstanding as of December 31, 2019, 2020 and 2021, respectively)	123,186	–	–	–

I HISTORICAL FINANCIAL INFORMATION (continued)

COMPANY'S BALANCE SHEETS (continued)

(All amounts in thousands, except for number of shares and per share data)

	As at December 31,			
	2019	2020	2021	2021
	RMB	*RMB*	*RMB*	*US$*
				Note 2(e)
Ordinary shares (par value of US$0.001 per share; 1,282,750,429, 4,000,000,000 and 40,000,000,000 shares authorized, 1,077,086,304, 3,546,124,955 and 3,805,284,810 shares issued, 894,711,200, 3,339,618,633 and 3,646,381,840 shares outstanding as of December 31, 2019, 2020 and 2021, respectively)	5,558	22,801	24,782	3,889
Additional paid-in capital	91,746	14,149,984	18,245,801	2,863,164
Accumulated deficit	(4,902,097)	(5,864,356)	(7,458,752)	(1,170,441)
Accumulated other comprehensive income (loss)	484,348	(68,440)	(207,882)	(32,621)
Total Kingsoft Cloud Holdings Limited shareholders' (deficit) equity	**(4,197,259)**	**8,239,989**	**10,603,949**	**1,663,991**
Total liabilities, mezzanine equity and shareholders' (deficit) equity	**3,570,017**	**8,534,800**	**11,989,218**	**1,881,370**

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(All amounts in thousands, except for number of shares and per share data)

1. CORPORATE INFORMATION

(a) Principal activities

Kingsoft Cloud Holdings Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on January 3, 2012. The Company and its subsidiaries (including the Company's subsidiaries, its variable interest entities, and subsidiaries of its variable interest entities) are hereinafter collectively referred to as the "Group". The Group is principally engaged in the provision of cloud services. The Company does not conduct any substantive operations on its own but instead conducts its primary business operations through its subsidiaries, variable interest entities, and subsidiaries of its variable interest entities, which are located in the People's Republic of China (the "PRC"), Hong Kong ("HK") and the United States (the "U.S.").

As disclosed in note 20, the Company completed its IPO and follow-on offering on Nasdaq in May and September 2020, respectively.

As of December 31, 2021, the Company's principal subsidiaries, variable interest entities, and subsidiaries of its variable interest entities, are as follows:

Name	*Notes*	**Place of establishment**	**Date of establishment/ acquisition**	**Percentage of equity interest attributable to the Company**	**Principal activities**
Subsidiaries:					
Kingsoft Cloud Corporation Limited	*(i)*	HK	February 1, 2012	100%	Cloud services
Beijing Kingsoft Cloud Technology Co., Ltd. ("Beijing Kingsoft Cloud")*	*(ii)*	PRC	April 9, 2012	100%	Research and development
Beijing Yunxiang Zhisheng Technology Co., Ltd. ("Yunxiang Zhisheng")*	*(iii)*	PRC	December 15, 2015	100%	Research and development
Camelot Technology Co., Ltd. ("Beijing Camelot")	*(iv)*	PRC	September 3, 2021	82.15%	Enterprise digital solutions and related services
Variable interest entities:					
Zhuhai Kingsoft Cloud Technology Co., Ltd. ("Zhuhai Kingsoft Cloud")	*(v)*	PRC	November 9, 2012	Nil	Investment holding
Kingsoft Cloud (Beijing) Information Technology Co., Ltd. ("Kingsoft Cloud Information")	*(vi)*	PRC	April 13, 2018	Nil	Investment holding

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Name	*Notes*	Place of establishment	Date of establishment/ acquisition	Percentage of equity interest attributable to the Company	Principal activities
Variable interest entities' subsidiaries:					
Kingsoft Cloud (Tianjin) Technology Development Co., Ltd.	*(vii)*	PRC	May 30, 2019	Nil	Cloud services
Wuhan Kingsoft Cloud Information Technology Co., Ltd.	*(viii)*	PRC	December 26, 2017	Nil	Cloud services
Beijing Kingsoft Cloud Network Technology Co., Ltd. ("Beijing Kingsoft Cloud Network Technology")	*(ix)*	PRC	November 9, 2012	Nil	Cloud services
Beijing Jinxun Ruibo Network Technology Co., Ltd. ("Beijing Jinxun Ruibo")	*(x)*	PRC	December 17, 2015	Nil	Cloud services
Nanjing Qianyi Shixun Information Technology Co., Ltd.	*(xi)*	PRC	March 31, 2016	Nil	Cloud services

* Collectively, the "WFOE"

Notes:

(i) The statutory financial statements of Kingsoft Cloud Corporation Limited for the year ended December 31, 2019 prepared under Hong Kong Financial Reporting Standards ("HKFRSs") were audited by Ernst & Young, certified public accountants registered in Hong Kong. The statutory financial statements of Kingsoft Cloud Corporation Limited for the year ended December 31, 2020 prepared under HKFRSs were audited by Ting Ho Kwan & Chan, certified public accountants registered in Hong Kong. No audited financial statements have been prepared for the entity for the year ended December 31, 2021.

(ii) The statutory financial statements of Beijing Kingsoft Cloud for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(iii) The statutory financial statements of Yunxiang Zhisheng for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(iv) The statutory financial statements of Beijing Camelot for the year ended December 31, 2019 and 2020 prepared under ASBE were audited by RSM China, certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2021 prepared under ASBE were audited by Beijing Huaoch Certified Public Accountants registered in the PRC.

(v) The statutory financial statements of Zhuhai Kingsoft Cloud for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(vi) The statutory financial statements of Kingsoft Cloud Information for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(vii) No audited financial statements have been prepared for Kingsoft Cloud (Tianjin) Technology Development Co., Ltd. for the years ended December 31, 2019 and 2020. The statutory financial statements for the year ended December 31, 2021 prepared under Accounting Standard for Business Enterprises ("ASBE") were audited by Shinewing Certified Public Accountants registered in the PRC.

(viii) No audited financial statements of Wuhan Kingsoft Cloud Information Technology Co., Ltd. have been prepared for the year ended December 31, 2019. The statutory financial statements for the years ended December 31, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(ix) The statutory financial statements of Beijing Kingsoft Cloud Network Technology for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(x) The statutory financial statements of Beijing Jinxun Ruibo for the years ended December 31, 2019, 2020 and 2021 prepared under ASBE were audited by Shinewing Certified Public Accountants registered in the PRC.

(xi) No audited financial statements have been prepared for Nanjing Qianyi Shixun Information Technology Co., Ltd. for the years ended December 31, 2019, 2020 and 2021.

In September 2021, the Company acquired 100% equity interests in Camelot Employee Scheme, Inc. ("CES"), which owns 82.15% equity interests in Beijing Camelot and its subsidiaries (collectively referred to as "Camelot") Note 4(c).

(b) Variable interest entities

To comply with PRC laws and regulations which prohibit foreign control of companies that engage in value-added telecommunication services, the Group primarily conducts its business in the PRC through its variable interest entities, Zhuhai Kingsoft Cloud and Kingsoft Cloud Information, and subsidiaries of its variable interest entities (collectively, the "VIEs"). The equity interests of the VIEs are legally held by PRC shareholders (the "Nominee Shareholders"). Despite the lack of technical majority ownership, the Company through WFOE has effective control of the VIEs through a series of contractual arrangements (the "Contractual Agreements") and a parent-subsidiary relationship exists between the Company and the VIEs. Through the Contractual Agreements, the Nominee Shareholders effectively assigned all of their voting rights underlying their equity interests in the VIEs to the Company and therefore, the Company has the power to direct the activities of the VIEs that most significantly impact its economic performance. The Company also has the ability and obligation to absorb substantially all of the profits and all the expected losses of the VIEs that potentially could be significant to the VIEs. The WFOE was the primary beneficiary of the VIEs through December 2019 and the Company has replaced the WFOE as the primary beneficiary of the VIEs since December 2019. Based on the above, the Company consolidates the VIEs in accordance with SEC Regulation SX-3A-02 and Accounting Standards Codification ("ASC") 810, *Consolidation* ("ASC 810").

The following is a summary of the Contractual Agreements:

Shareholder Voting Right Trust Agreements

Pursuant to the shareholder voting right trust agreements signed amongst Beijing Kingsoft Cloud, Zhuhai Kingsoft Cloud and its Nominee Shareholders, each Nominee Shareholder irrevocably authorizes the person designated by Beijing Kingsoft Cloud to act as his, her or its attorney-in-fact ("AIF") to exercise on such Nominee Shareholder's behalf any and all rights that such shareholder has in respect of his, her or its equity interests in Zhuhai Kingsoft Cloud. Beijing Kingsoft Cloud has the right to replace the authorized AIF at any time upon written notice without consent from the other parties. The rights as a shareholder of Zhuhai Kingsoft Cloud, including, but not limited to, the right to attend shareholders' meetings, vote on any resolution that requires a shareholder vote, such as the appointment of executive directors and senior management. The shareholder voting right trust agreements have a term of 10 years and are subject to automatic renewal on an annual basis unless they are terminated by Beijing Kingsoft Cloud at its sole discretion. Zhuhai Kingsoft Cloud and its Nominee Shareholders have no right to unilaterally terminate the agreement.

The terms of the shareholder voting right trust agreements signed amongst Yunxiang Zhisheng, Kingsoft Cloud Information and its Nominee Shareholders are the same as the terms described above.

Loan Agreements

Beijing Kingsoft Cloud has granted interest-free loans with an aggregate amount of RMB279 to one shareholder of Zhuhai Kingsoft Cloud. The loan was solely for the purposes of capital injection of Zhuhai Kingsoft Cloud. The loans are only repayable by the shareholder through a transfer of shareholder's equity interests in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud or its designated person(s).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The terms of the loan agreement signed between Yunxiang Zhisheng and all Nominee Shareholders of Kingsoft Cloud Information are the same as the terms described above, except that the total amount of loans extended to all Nominee Shareholders of Kingsoft Cloud Information is RMB10,000.

Exclusive Purchase Option Agreements

Pursuant to the exclusive purchase option agreement between Beijing Kingsoft Cloud, Zhuhai Kingsoft Cloud and its Nominee Shareholders, Beijing Kingsoft Cloud has an exclusive irrevocable option to purchase, all or part of the equity interests in Zhuhai Kingsoft Cloud, when and to the extent permitted under PRC law. The purchase price of the equity interests in Zhuhai Kingsoft Cloud shall be equal to the minimum amount of consideration permitted by applicable PRC law or either RMB0.001 or the loan amount, whichever is higher. In addition, the Nominee Shareholders granted Beijing Kingsoft Cloud an exclusive right to designate one or more persons to purchase all or part of the equity interests in Zhuhai Kingsoft Cloud. The exclusive purchase option agreement will terminate when the Nominee Shareholders transfer all of their equity interests in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud or its designated person(s).

The terms of the exclusive purchase option agreement signed amongst Yunxiang Zhisheng, Kingsoft Cloud Information and its Nominee Shareholders are the same as the terms described above.

Exclusive Consultation and Technical Services Agreements

Pursuant to the exclusive consultation and technical services agreement between Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud, Beijing Kingsoft Cloud has the sole and exclusive right to provide Zhuhai Kingsoft Cloud consulting services and technical services. Without the prior written consent of Beijing Kingsoft Cloud, Zhuhai Kingsoft Cloud may not directly or indirectly accept any services subject to the exclusive consultation and technical services agreement from any third party, while Beijing Kingsoft Cloud has the right to designate any party to provide such services. Zhuhai Kingsoft Cloud will pay Beijing Kingsoft Cloud a service fee periodically which is adjustable at the sole discretion of Beijing Kingsoft Cloud. The exclusive consultation and technical services agreement will remain effective for 20 years unless both parties agree to terminate the agreement. The agreement can also be renewed at the discretion of Beijing Kingsoft Cloud.

The terms of the exclusive consultation and technical services agreement signed between Yunxiang Zhisheng and Kingsoft Cloud Information are the same as the terms described above, except that the agreement will continuously remain effective unless both parties agree to terminate the agreement.

Equity Pledge Agreements

Pursuant to the equity pledge agreement amongst Beijing Kingsoft Cloud, Zhuhai Kingsoft Cloud and its Nominee Shareholders, the Nominee Shareholders have pledged all of their equity interests in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud to guarantee performance of their obligations under the Contractual Agreements described above. During the term of the equity pledge agreement, Beijing Kingsoft Cloud has the right to receive all of Zhuhai Kingsoft Cloud's dividends and profits distributed on the pledged equity. In the event of a breach by Zhuhai Kingsoft Cloud or any of its Nominee Shareholders of the contractual obligations under the equity pledge agreement, Beijing Kingsoft Cloud, as pledgee, will have the right to dispose of the pledged equity interests in Zhuhai Kingsoft Cloud and will have priority in receiving the proceeds from such disposal. Zhuhai Kingsoft Cloud and its Nominee Shareholders undertake that, without the prior written consent of Beijing Kingsoft Cloud, they will not transfer, or create or allow any encumbrance on the pledged equity interests. The equity pledge agreements will be in effect permanently until Zhuhai Kingsoft Cloud and its Nominee Shareholders have fulfilled all the obligations under the Contractual Agreements.

The terms of the equity pledge agreement signed amongst Yunxiang Zhisheng, Kingsoft Cloud Information and its Nominee Shareholders are the same as the terms described above.

In November and December 2019, the Contractual Agreements were supplemented by the following terms:

(i) Shareholder Voting Right Trust Agreements

The shareholder voting right trust agreements are valid as long as the Nominee Shareholders remain the shareholders of the VIEs.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(ii) Exclusive Purchase Option Agreements

Without the prior consent of the WFOE, the VIEs and the Nominee Shareholders shall not: (i) amend the articles of association, (ii) increase or decrease the registered capital, (iii) sell or otherwise dispose of their assets or beneficial interest, (iv) create or allow any encumbrance on their assets or other beneficial interests, (v) extend any loans to third parties, (vi) enter into any material contracts (except those contracts entered into in the ordinary course of business), (vii) merge with or acquire any other persons or make any investments, or (viii) distribute dividends to their shareholders.

Any proceeds received by the Nominee Shareholders from the exercise of the option, distribution of profits or dividends, shall be remitted to the WFOE or their designated person(s), to the extent permitted under PRC laws.

(iii) Exclusive Consultation and Technical Service Agreements

The exclusive consultation and technical services agreements will remain effective unless terminated by the WFOE at its sole discretion.

(iv) Financial Support Undertaking Letter

Pursuant to the financial support undertaking letter, the Company is obligated and hereby undertakes to provide unlimited financial support to the VIEs, to the extent permissible under the applicable PRC laws and regulations, whether or not any such operational loss is actually incurred. The Company will not request repayment of the loans or borrowings if the VIEs or its Nominee Shareholders do not have sufficient funds or are unable to repay.

(v) Resolutions of all Shareholders and resolution of the Board of Directors of the Company

The Shareholders and the Company's Board of Directors resolved that the rights under the Shareholder Voting Right Trust Agreements and the Exclusive Purchase Option Agreements were assigned to the Board of Directors of the Company or any officer authorized by the Board of Directors.

As a result, the power and the rights pursuant to the shareholder voting right trust agreements have since been effectively reassigned to the Company which has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance. The Company is also obligated to absorb the expected losses of the VIEs through the financial support as described above. Therefore, the Company has replaced the WFOE as the primary beneficiary of the VIEs since December 2019. As the VIEs were subject to indirect control by the Company through the WFOE immediately before and direct control immediately after the Contractual Agreements were supplemented, the change of the primary beneficiary of the VIEs was accounted for as a common control transaction based on the carrying amount of the net assets transferred.

In the opinion of the Company's legal counsel, (i) the ownership structure relating to the VIEs complies with current PRC laws and regulations; (ii) the Contractual Agreements with the VIEs and the Nominee Shareholders are valid, binding and enforceable on all parties to these Contractual Agreements and do not violate current PRC laws or regulations; and (iii) the resolutions are valid in accordance with the articles of association of the Company and Cayman Islands Law.

However, uncertainties in the PRC legal system could cause the relevant regulatory authorities to find the current Contractual Agreements and businesses to be in violation of any existing or future PRC laws or regulations and could limit the Company's ability to enforce its rights under these contractual arrangements. Furthermore, the Nominee Shareholders of the VIEs may have interests that are different from those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the Contractual Agreements with the VIEs. In addition, if the Nominee Shareholders will not remain the shareholders of the VIEs, breach, or cause the VIEs to breach, or refuse to renew the existing Contractual Arrangements the Company has with them and the VIEs, the Company may not be able to effectively control the VIEs and receive economic benefits from them, which may result in deconsolidation of the VIEs.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC laws or regulations, the Company may be subject to penalties, including but not be limited to, revocation of business and operating licenses, discontinuing or restricting business operations, restricting the Company's right to collect revenues, temporary or permanent blocking of the Company's internet platforms, restructuring of the Company's operations, imposition of additional conditions or requirements with which the Company may not be able to comply, or other regulatory or enforcement actions against the Company that could be harmful to its business. The imposition of any of these or other penalties could have a material adverse effect on the Company's ability to conduct its business.

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIEs and VIEs' subsidiaries included in the Company's consolidated balance sheets, consolidated statements of comprehensive loss and consolidated statements of cash flows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Assets			
Current assets			
Cash and cash equivalents	751,103	1,429,508	2,209,647
Restricted cash	–	–	89,704
Accounts receivable, net of allowance for credit losses of RMB22,894, RMB15,745 and RMB30,082 as of December 31, 2019, 2020 and 2021, respectively	1,317,110	2,258,313	3,170,860
Prepayments and other assets	385,402	630,121	907,350
Amounts due from related parties	106,368	204,275	184,137
Amounts due from subsidiaries of the Group	787,900	1,631,592	2,157,428
Total current assets	**3,347,883**	**6,153,809**	**8,719,126**
Non-current assets			
Property and equipment, net	1,465,338	1,727,620	2,157,093
Intangible assets, net	6,487	14,980	93,662
Prepayments and other assets	32,624	9,978	27,036
Goodwill	–	–	64,082
Equity investments	72,000	86,251	162,244
Amounts due from related parties	2,336	4,712	4,712
Operating lease right-of-use assets	–	210,338	184,908
Total non-current assets	**1,578,785**	**2,053,879**	**2,693,737**
Total assets	**4,926,668**	**8,207,688**	**11,412,863**
Liabilities			
Current liabilities			
Accounts payable	1,236,706	2,013,428	2,733,487
Accrued expenses and other liabilities	780,991	521,307	1,208,868
Short-term bank loans	–	278,488	1,348,166
Long-term bank loan, current portion	100,000	74,351	–
Income tax payable	–	45	1,026
Amounts due to related parties	50,472	56,795	797,731
Current operating lease liabilities	–	56,261	70,672
Amounts due to subsidiaries of the Group	1,010,663	903,879	1,597,946
Total current liabilities	**3,178,832**	**3,904,554**	**7,757,896**

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Non-current liabilities			
Long-term bank loan	74,351	–	–
Deferred tax liabilities	206	29	–
Other liabilities	–	7,020	6,975
Non-current operating lease liabilities	–	146,012	121,057
Amounts due to related parties	–	–	472,882
Amounts due to subsidiaries of the Group	4,244,727	7,367,267	7,486,525
Total non-current liabilities	**4,319,284**	**7,520,328**	**8,087,439**
Total liabilities	**7,498,116**	**11,424,882**	**15,845,335**

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Revenues	3,882,352	6,377,158	7,972,143
Net loss	(970,344)	(922,908)	(1,556,904)
Net cash used in operating activities	(785,378)	(833,479)	(958,748)
Net cash used in investing activities	(836,981)	(1,471,637)	(843,586)
Net cash generated from financing activities	1,618,102	2,802,088	2,612,563

The carrying amounts of the assets, liabilities and the results of operations of the VIEs and their subsidiaries are presented in aggregate due to the similarity of the purpose and design of the VIEs and their subsidiaries, the nature of the assets in these VIEs and their subsidiaries and the type of the involvement of the Company in these VIEs and their subsidiaries.

The revenue-producing assets that are held by the VIEs and their subsidiaries comprise mainly electronic equipment, and data center machinery and equipment. The VIEs and their subsidiaries contributed an aggregate of 98.1%, 97.0% and 88.0% of the Group's consolidated revenue for the years ended December 31, 2019, 2020 and 2021, respectively, after elimination of inter-entity transactions.

As of December 31, 2019 and 2020, there were no pledge or collateralization of the VIEs' and their subsidiaries' assets that can only be used to settle obligations of the VIEs and their subsidiaries. As of December 31, 2021, other than RMB750,000 of VIEs' subsidiaries' electronic equipment that was secured for the loans borrowed from Xiaomi Group (Note 21), and RMB89,704 of a VIE's subsidiary's restricted cash that was secured for certain payables to suppliers and to guarantee certain revenue contracts, there was no other pledge or collateralization of the VIEs and VIEs' subsidiaries' assets that can only be used to settle obligations of the VIEs and VIEs' subsidiaries. Other than the amounts due to subsidiaries of the Group (which are eliminated upon consolidation), all remaining liabilities of the VIEs and VIEs' subsidiaries are without recourse to the Company.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Historical Financial Information has been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Significant accounting policies followed by the Group in the preparation of the Historical Financial Information are summarized below.

(b) Principles of consolidation

The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, the VIEs, and subsidiaries of the VIEs for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in the Group's consolidated financial statements include, but are not limited to, allowance for credit losses or allowance for doubtful accounts for accounts receivable, contract assets and amounts due from related parties, measurement of operating lease right-of-use assets and lease liabilities, impairment of long-lived assets, impairment of goodwill, useful lives of long-lived assets, realization of deferred tax assets, uncertain tax positions, share-based compensation expense, the purchase price allocation and fair value of non-controlling interests and contingent consideration with respect to business combinations, the fair value of equity investments and standalone selling prices of performance obligation of revenue contracts. Management bases the estimates on historical experience and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from those estimates.

(d) Foreign currency

The Group's financial information is presented in Renminbi ("RMB"). The functional currency of the Company and the Company's subsidiaries located in the U.S. is U.S. dollars ("US$"). The functional currency of the Company's subsidiaries and the VIEs and VIEs' subsidiaries located in the PRC is Renminbi ("RMB"). The functional currencies of the Company's subsidiaries located in Japan and Hong Kong are Japanese Yen ("Yen") and Hong Kong dollars ("HK$"), respectively.

Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are included in the consolidated statements of comprehensive loss. The Company uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive income (loss), a component of shareholders' (deficit) equity.

(e) Convenience translation

Amounts in U.S. dollars are presented for the convenience of the readers and are translated at the noon buying rate of RMB6.3726 per US$1.00 on December 31, 2021 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(f) Cash and cash equivalents

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.

(g) Restricted cash

Restricted cash mainly represents the cash reserved in escrow accounts for purchase consideration in relation to a business acquisition, cash secured for certain payables to suppliers and advances paid by certain customers to guarantee the Group's performance under certain revenue contracts.

(h) Short-term investments

The Group's short-term investments comprise primarily of cash deposits at fixed rates with original maturities of greater than three months, but less than 12 months.

(i) Non-controlling interests

A non-controlling interest is recognized to reflect the portion of subsidiaries' equity which is not attributable, directly or indirectly, to the Group. Consolidated net loss on the consolidated statements of comprehensive loss includes the net income (loss) attributable to non-controlling interests. The cumulative results of operations attributable to non-controlling interests are recorded as "non-controlling interests" in the Group's consolidated balance sheets.

(j) Business combinations

The Group accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The acquisition method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Group acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The Group also evaluates all contingent consideration arrangements to determine if the arrangements are compensatory in nature. If the Group determines that a contingent consideration arrangement is compensatory, the arrangement would be accounted for outside of the business combination and recorded as compensation expense in the post-acquisition financial statements of the combined entity. The costs directly attributable to the acquisition are expensed as incurred. Contingent consideration, if any, is measured at fair value initially on the acquisition date as well as subsequently at the end of each reporting period until the assessment period is over and it is finally settled. Identifiable assets, liabilities and contingent liabilities acquired or assumed other than contract assets and contract liabilities from revenue contracts are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The Group early adopted Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08") and recognizes and measures the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements. The excess of (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings. During the measurement period, which can be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of comprehensive loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(k) Equity investments

The Group's equity investments are long-term investments in unlisted companies based in the PRC over which the Group neither has significant influence nor control through investment in common stock or in-substance common stock. Equity investments with readily determinable fair value, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC 820, *Fair Value Measurements and Disclosures* ("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.

The Group makes a qualitative assessment of whether the equity investments are impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the entity has to recognize an impairment loss in the statements of comprehensive loss equal to the difference between the carrying value and fair value.

As of December 31, 2019, 2020 and 2021, the carrying amounts of the Group's equity investments measured using the measurement alternative were RMB114,876, RMB126,583 and RMB207,166, respectively, including accumulated impairment of RMB nil, RMB nil and RMB nil, and accumulated upward adjustment of RMB nil, RMB14,301 and RMB96,793, respectively. The Group recognized RMB nil, RMB14,301 and RMB82,492 of unrealized gains (upward adjustments), and RMB nil, RMB nil and RMB nil of unrealized losses (downward adjustments) resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer in other gain, net on the consolidated statements of comprehensive loss for the years ended December 31, 2019, 2020 and 2021, respectively.

In 2021, the Group: (i) acquired equity interest of a company engaged in providing technology services with a cash consideration of RMB52,493; and (ii) disposed of equity interests in certain equity investees and recognized a disposal gain of RMB10,363 in "Other gain, net".

(l) Fair value measurements

Financial instruments of the Group primarily include cash and cash equivalents, restricted cash, short-term investments, accounts receivable and contract assets, equity investments, accounts payable, purchase consideration payable, certain other liabilities, amounts due from and due to related parties, bank loans, convertible preferred shares and redeemable convertible preferred shares. For equity investments, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Group, with the assistance of an independent third-party valuation firm, determined the estimated fair value of its equity investments using the alternative measurement. The carrying amounts of the bank loans approximate to their fair values due to the fact that the related interest rates approximate the interest rates currently offered by financial institutions for similar debt instruments of comparable maturities. The Group measures its purchase consideration payable at fair value on a recurring basis. The fair value of purchase consideration payable is estimated by discounting cash flows using interest rates currently available for similar debts instruments of comparable maturities (Level 2 fair value measurement). The convertible preferred shares and redeemable convertible preferred shares were initially recorded at issue price net of issuance costs. As it relates to the redeemable convertible preferred shares, the Group recognizes changes in the redemption value as they occur and adjusts the carrying value of the redeemable convertible preferred shares to equal the redemption value at the end of each reporting period. The Group applies ASC 820 in measuring fair value. ASC 820 defines fair value, establishes a framework for measuring fair value and requires disclosures to be provided on fair value measurement. The carrying amounts of the remaining financial instruments approximate to their fair values because of their short-term maturities.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

(m) Adoption of ASC 326

On January 1, 2021, the Group adopted ASC 326, *Credit Losses* ("ASC 326") which replaced previously issued guidance regarding the impairment of financial instruments with an expected loss methodology that will result in more timely recognition of credit losses. The Group used a modified retrospective approach and did not restate the comparable prior periods, which resulted in a cumulative effect to increase the opening balance of accumulated deficit on January 1, 2021 by RMB5,684.

(n) Accounts receivable and contract assets, net

Prior to the adoption of ASC 326, accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An allowance for doubtful accounts is recorded when collection of the full amount is no longer probable. In evaluating the collectability of receivable balances, the Group considers specific evidence including the aging of the receivable, the customer's payment history, its current creditworthiness and current economic trends. Accounts receivable are written off after all collection efforts have ceased.

Upon adoption of ASC 326, the Group maintains an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts receivable and contract assets, and the estimated credit losses charged to the allowance is classified as "General and administrative expenses" in the consolidated statements of comprehensive loss. The Group assesses collectability by reviewing accounts receivable and contract assets on a collective basis where similar characteristics exist and on an individual basis when the Group identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Group considers historical collectability based on past due status, the age of the accounts receivable and contract assets balances, credit quality of the Group's customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect the Group's ability to collect from customers.

(o) Property and equipment, net

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Category	**Estimated Useful Life**
Electronic equipment	3-4 years
Office equipment and fixtures	5 years
Data center machinery and equipment	10 years
Building	50 years

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Repair and maintenance costs are charged to expenses as incurred, whereas the cost of renewals and betterments that extend the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive loss.

Direct costs that are related to the construction of property and equipment, and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment, and the depreciation of these assets commences when the assets are ready for their intended use.

(p) Intangible assets

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets acquired in a business combination were recognized initially at fair value at the date of acquisition. Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible assets are to be consumed. The estimated useful lives for the intangible assets are as follows:

Category	Estimated Useful Life
Customer relationships	6 years
Patents and technologies	6-10 years
Trademarks and domain names	10 years
Software and copyrights	3-10 years
Others	3 years

If an intangible asset is determined to have an indefinite life, it should not be amortized until its useful life is determined to be no longer indefinite. As of December 31, 2019, 2020 and 2021, the Group did not have any intangible assets with indefinite lives.

(q) Impairment of long-lived assets

The Group evaluates its 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, the Group evaluates 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, the Group recognizes 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 gross margin. For all periods presented, there was no impairment of any of the Group's long-lived assets.

(r) Segment reporting

In accordance with ASC 280-10, *Segment Reporting: Overall* ("ASC 280"), the Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one operating segment. The Group does not distinguish between markets or segments for purposes of internal reporting. A majority of the Group's revenues were generated from the PRC, and a majority of the long-lived assets of the Group are located in the PRC, and therefore, no geographical segments are presented.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(s) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. Goodwill is allocated to the reporting units of the Group 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.

A reporting unit is defined as an operating segment or one level below an operating segment referred to as a component. The Group determines reporting units by first identifying its operating segments, and then assesses whether any components of these segments constituted a business for which discrete financial information is available and where the segment manager regularly reviews the operating results of that component. As of December 31, 2021, the Group has two reporting units, consisting of Cloud service and solutions and Cloud-based digital solution and services. Because, except for those two reporting units identified, other components below the consolidated level either did not have discrete financial information or their operating results were not regularly reviewed by the segment manager.

The Group assesses goodwill for impairment in accordance with ASC 350-20, *Intangibles – Goodwill and Other: Goodwill* ("ASC 350-20"), which requires goodwill to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The Group has the option to assess qualitative factors first to determine whether it is necessary to perform the quantitative test in accordance with ASC 350-20. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations to assess any significant changes in each reporting unit's fair value and carrying value since the most recent date a fair value measurement was performed. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The Group adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), on a prospective basis on January 1, 2021, and compares the fair value of the reporting unit with its carrying amount, including goodwill. ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess. No impairment of goodwill was recorded for the year ended December 31, 2021.

(t) Revenue recognition

The Group applies the five-step model outlined in ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), and accounts for a contract when it has approval and commitment from the customer, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Revenue is allocated to each performance obligation based on its standalone selling price. The Group generally determines standalone selling prices based on observable prices. If the standalone selling price is not observable through past transactions, the Group estimates the standalone selling price based on multiple factors, including, but not limited to, historical discounting trends for services, gross margin objectives, internal costs, and industry technology lifecycles. Timing of revenue recognition may differ from the timing of invoicing to customers. For certain revenue contracts, customers are required to pay before the services are delivered to the customer. The Group recognizes a contract asset or a contract liability in the consolidated balance sheets, depending on the relationship between the entity's performance and the customer's payment. Contract liabilities represent the excess of payments received as compared to the consideration earned and are reflected in "accrued expenses and other liabilities" in the Group's consolidated balance sheets. Contract assets primarily relate to the Group's rights to consideration for work completed in relation to its services performed but not billed at the reporting date, and are reflected in "prepayments and other assets" in the Group's consolidated balance sheets. The contract assets are transferred to the receivables when the rights become unconditional. Using the practical expedient in ASC 606, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. Pursuant to ASC 606-10-32-2A, the Group also elected to exclude sales taxes and other similar taxes from the measurement of the transaction price. Therefore, revenues are recognized net of value added taxes ("VAT") and surcharges.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Public cloud services

The Group provides integrated cloud-based services including cloud computing, storage and delivery. The nature of the Group's performance obligation is a single performance obligation to stand ready to provide an unspecified quantify of integrated cloud-based services each day throughout the contract period. The Group uses monthly utilization records, an output measure, to recognize revenue over time as it most faithfully depicts the simultaneous consumption and delivery of services. At the end of each month, the transaction consideration is fixed based on utilization records and no variable consideration exists.

Enterprise cloud services

The Group provides comprehensive customized cloud-based and enterprise digital solutions, which are typically completed within twelve months ("Solutions"). The components within the Solutions are not distinct within the context of the contract because they are considered highly interdependent and the customer can only benefit from these components in conjunction with one another as a two-way dependency exists. The Group also provides post-delivery maintenance and upgrade services that are mainly technical support services performed by the Group's technical support team. Therefore, the arrangement has three performance obligations, the Solutions, maintenance and upgrades. Revenue allocated to the Solutions and upgrades, is recognized at a point in time only upon customer acceptance of the Solutions and upon delivery of the specified upgrade, respectively. Revenue allocated to maintenance is recognized over time because the customer simultaneously receives and consumes the benefits as the Group performs throughout a fixed term. Revenue allocated to maintenance and upgrades during the periods presented was immaterial. The Group also provides enterprise digital services. The series of enterprise digital services are substantially the same from day to day, and each day of the service is considered to be distinct and separately identifiable as it benefits the customer daily. Further, the uncertainty related to the service consideration is resolved on a daily basis as the Group satisfies its obligation to perform enterprise digital service daily with enforceable right to payment for performance completed to date. Thus, revenue is recognized as service is performed and the customer simultaneously receives and consumes the benefits from the service daily.

(u) Cost of revenues

Cost of revenues primarily includes bandwidth and internet data center costs, depreciation expense of electronic equipment, data center machinery and equipment, salaries and benefits for employees directly involved in revenue generation activities, and other expenses directly attributable to the provision of services.

(v) Research and development

Research and development expenses primarily consist of salaries and benefits for research and development personnel, and third party service provider costs. The Group expenses research and development costs as they are incurred.

(w) Advertising expenditures

Advertising costs are expensed when incurred and are included in sales and marketing expenses in the consolidated statements of comprehensive loss. For the years ended December 31, 2019, 2020 and 2021, the advertising expenses were approximately RMB29,271, RMB15,348 and RMB24,070, respectively.

(x) Government grants

Government grants primarily consist of financial grants received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Government grants of non-operating nature and with no further conditions to be met are recorded as non-operating income in "Other income, net" when received. The remaining government grants are related to acquisition of assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The grants are recorded as "deferred government grants" included in the accrued expenses and other liabilities line items in the consolidated balance sheets when received. Once the Group fulfills the conditions stipulated under the grant, the grant amount is deducted from the carrying amount of the asset with a corresponding reduction in the deferred government grant balance.

(y) Leases

The Group adopted ASU No. 2016-02, *Leases* (Topic 842) and all subsequent ASU's relating to this Topic (collectively, "ASC 842") on January 1, 2020 by using the modified retrospective method through a cumulative-effect adjustment on January 1, 2020 and did not restate the comparable periods. The Group has elected the package of practical expedients, which allows the Group to carry forward the historical lease classification, not to assess whether a contract is or contains a lease, and initial direct costs for any leases that exist prior to adoption of the new standard. The Group has also elected the practical expedient the short-term lease exemption for contracts with lease terms of 12 months or less.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes a right-of-use asset and a lease liability on the consolidated balance sheets based on the present value of the lease payments over the lease term at commencement date. As most of the Group's leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Lease expense is recorded on a straight-line basis over the lease term.

(z) Comprehensive loss

Comprehensive loss is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Among other disclosures, ASC 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive loss be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group's comprehensive loss includes net loss and foreign currency translation adjustments and is presented in the consolidated statements of comprehensive loss.

(aa) Income taxes

The Group follows the liability method of accounting for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Group accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive loss as income tax expense.

In accordance with the provisions of ASC 740, the Group recognizes in its consolidated financial statements the impact of a tax position if a tax return position or future tax position is "more likely than not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more likely than not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group's estimated liability for unrecognized tax benefits that, if any, will be recorded in "other non-current liabilities" in the accompanying consolidated financial statements is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from the Group's estimates. As each audit is concluded, adjustments, if any, are recorded in the Group's consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

(bb) Share-based compensation

The Group applies ASC 718, *Compensation – Stock Compensation* ("ASC 718"), to account for its employee share-based payments. In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or equity award. All the Group's share-based awards to employees only and are classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values.

The Group uses the accelerated method for all awards granted with graded vesting based on service conditions, and elected to account for forfeitures as they occur. The Group, with the assistance of an independent third party valuation firm, determined the fair value of the share-based awards granted to employees. The binomial option pricing model was applied in determining the estimated fair value of the options granted to employees.

(cc) Loss per share

In accordance with ASC 260, *Earnings Per Share* ("ASC 260"), basic loss per share is computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net loss is allocated between ordinary shares and other participating securities based on their participating rights. The Company's convertible preferred shares and redeemable convertible preferred shares are participating securities. Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. For the periods presented herein, the computation of basic loss per share using the two-class method is not applicable as the Company is in a net loss position and the participating securities do not have contractual rights and obligations to share in the losses of the Company.

Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the Company's convertible preferred shares and redeemable convertible preferred shares using the if-converted method; and ordinary shares issuable upon the exercise of share options and vesting of awarded shares, using the treasury stock method. Ordinary share equivalents are excluded from the computation of diluted per share if their effects would be anti-dilutive.

(dd) Employee benefit expenses

All eligible employees of the Group are entitled to staff welfare benefits including medical care, welfare grants, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the qualified employees' salaries. The Group is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group's obligations are limited to the amounts contributed. The Group has no further payment obligations once the contributions have been paid.

The Group recorded employee benefit expenses of RMB155,848, RMB126,784 and RMB310,126 for the years ended December 31, 2019, 2020 and 2021, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(ee) Impact of COVID-19

For the years ended December 31, 2019, 2020 and 2021, COVID-19 has had immaterial impact on the Group's operations. There are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of the pandemic; the uneven impact to certain industries; and the macroeconomic impact of government measures to contain the spread of COVID-19 and related government stimulus measures. As a result, certain of the Group's estimates and assumptions, including allowance for credit losses, equity investments, long-lived assets and goodwill subject to impairment assessments, require increased judgment and carry a higher degree of variability and volatility that could result in material changes to the Group's estimates in future periods.

(ff) Recent accounting pronouncements

In November 2021, the FASB issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. This update requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This update is effective for annual periods beginning after December 15, 2021, and early application is permitted. This guidance should be applied either prospectively to all transactions that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or retrospectively to those transactions. The Group does not expect any material impact on the Group's consolidated financial statements as a result of adopting the new standard.

3. CONCENTRATION OF RISKS

Concentration of credit risk

Assets that potentially subject the Group to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and contract assets. The Group expects 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 the Company, its subsidiaries, the VIEs and the subsidiaries of VIEs are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

Accounts receivable and contract assets are typically unsecured and are derived from revenues earned from reputable customers. As of December 31, 2019, 2020 and 2021, the Group had two customers, with accounts receivable balances exceeding 10% of the total accounts receivable balances. As of December 31, 2021, the Group had one customer, with a contract asset balance exceeding 10% of the total contract assets balance. The risks with respect to accounts receivable and contract assets are mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

Business, customer, political, social and economic risks

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

Revenue from three customers accounted for 14%, 31% and 12%, respectively, of total revenues during the year ended December 31, 2019, and 10%, 28% and 15%, respectively, of total revenues during the year ended December 31, 2020. Revenue from two customers accounted for 22% and 13%, respectively, of total revenues during the year ended December 31, 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Currency convertibility risk

The Group transacts a majority of its 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 People's Bank of China ("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 RMB against U.S. dollar, there was depreciation of approximately 1.3% during the year ended December 31, 2019 and appreciation of approximately 6.3% and 2.3% during the years ended December 31, 2020 and 2021, respectively. 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.

To the extent that the Group needs to convert the U.S. dollar into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount the Group would receive from the conversion. Conversely, if the Group decides to convert RMB into the U.S. dollar for the purpose of making payments for dividends on ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to the Group. In addition, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of the Group's earnings or losses.

4. BUSINESS COMBINATION

(a) Acquisition of Shenzhen Yunfan

In March 2021, the Group completed the acquisition of 100% equity interest in Shenzhen Yunfan Acceleration Technology Co., Ltd. and its subsidiary (collectively, "Shenzhen Yunfan"). Shenzhen Yunfan is mainly engaged in providing content distribution, acceleration and other cloud-related IaaS and PaaS edge computing solutions, and the acquisition is expected to enhance the Group's expertise in public cloud services. The results of Shenzhen Yunfan have been included in the Group's consolidated financial statements since April 2021.

The total cash purchase price consideration was RMB126,400. The Group recognized RMB586 of net assets acquired excluding intangible assets, RMB77,000 of intangible assets which comprised of technology, trademark and domain name, and RMB48,814 of goodwill resulted from the acquisition. Goodwill recognized represents the expected synergies from integrating Shenzhen Yunfan with the Group's existing cloud business and is not deductible for tax purposes.

(b) Acquisition of Beijing Yunshu

In April 2021, the Group completed the acquisition of 86.21% equity interest in Beijing Yunshu Xunlian Technology Co., Ltd. ("Beijing Yunshu"), which the Group expected to enhance the Group's public cloud services. The total cash purchase price was RMB7,034 contingent consideration. The results of Beijing Yunshu's operations have been included in the Group's consolidated financial statements since April 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(c) Acquisition of Camelot

In September 2021, the Group completed the acquisition of Camelot. Camelot is mainly engaged in enterprise digital solutions and enterprise digital services, and the acquisition is expected to further develop the Group's enterprise cloud business. The results of Camelot have been included in the consolidated financial statements of the Group since September 2021.

The total purchase consideration was RMB5,290,553, which consisted of a cash consideration of RMB751,974 and equity consideration of RMB4,538,579. Goodwill recognized represents the expected synergies from integrating Camelot with the Group's existing enterprise cloud business and is not tax deductible. The table below summarizes the estimated fair values of the assets acquired and liabilities assumed from Camelot as of the acquisition date:

	Camelot *RMB*
Total fair value of purchase consideration	5,290,553
Less:	
Cash and cash equivalents	618,439
Restricted cash	1,126
Accounts receivable and other assets	940,297
Property and equipment, net	12,224
Intangible assets:	
Customer relationship	620,100
Trademarks	474,000
Copyrights	34,100
Deferred tax assets	59,060
Deferred tax liabilities	(268,490)
Accounts payable and other liabilities	(878,885)
Non-controlling interests	(882,451)
Goodwill	4,561,033

The purchase price allocation of Camelot is substantially complete with the exception of, primarily, certain tax matters. Any measurement period adjustments resulting from the finalization of the Group's purchase price allocation are not expected to be material.

The valuations used in the purchase price allocation for the acquisitions were determined by the Group with the assistance of independent third-party valuation firms using the income approach (a Level 3 measurement). Significant assumptions used in the valuation of intangible assets included projected revenue growth rates, operating margin, customer attrition rates, royalty rates and discount rate. Non-controlling interests at the acquisition date was measured by applying the equity percentage held by non-controlling shareholders and a discount for lack of control premium to the fair value of the acquired business of Camelot.

The actual results of operation after the acquisition date and pro forma results of operations for the acquisitions have not been presented because the effects were not material.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

5. REVENUES

The following table presents the Group's revenues from contracts with customers disaggregated by material revenue category:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Public cloud services recognized over time	3,458,843	5,166,851	6,159,085
Enterprise cloud services:			
Recognized at a point in time	485,991	1,368,544	2,159,869
Recognized over time	317	4,145	737,948
	486,308	1,372,689	2,897,817
Others:			
Recognized at a point in time	11,202	36,611	1,208
Recognized over time	–	1,156	2,674
	11,202	37,767	3,882
	3,956,353	6,577,307	9,060,784

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2021 are primarily related to enterprise cloud services, which are as follows:

	RMB
Within 1 year	27,852
More than 1 year	23,505
Total	51,357

Contract balances

Contract liabilities relate to contracts where the Group received payments but has not yet satisfied the related performance obligations. The advance consideration received from customers for the services is a contract liability until services are provided to the customer.

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Revenue recognized from amounts included in contract liabilities at the beginning of the period	22,782	37,550	112,221

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

6. ACCOUNTS RECEIVABLE, NET

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Accounts receivable	1,370,375	2,350,641	3,603,240
Allowance for credit losses	(22,894)	(15,770)	(32,265)
Accounts receivable, net	1,347,481	2,334,871	3,570,975

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the past due date and net of provisions, is as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Not yet due	1,158,160	979,843	2,411,907
Within 3 months	75,604	1,084,616	478,156
Between 4 months and 6 months	69,616	118,015	202,060
Between 7 months and 1 year	41,254	135,057	371,200
More than 1 year	2,847	17,340	107,652
Accounts receivable, net	1,347,481	2,334,871	3,570,975

The movements of the allowance for credit losses were as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Balance at beginning of the year	2,249	22,894	15,770
Adoption of ASC 326*	–	–	5,684
Provision for expected credit losses	61,687	44,695	121,731
Write-offs charged against the allowance	(41,042)	(44,096)	(101,202)
Recoveries during the year	–	(7,723)	(9,718)
Balance at end of the year	22,894	15,770	32,265

* Starting from January 1, 2021, the Group adopted ASC 326, which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. The Group used a modified retrospective approach with a cumulative effect of increasing the opening balance of accumulated deficit approximately of RMB5,684.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

7. PREPAYMENTS AND OTHER ASSETS

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Current portion:			
Prepayments to suppliers	15,903	78,621	162,528
Contract costs*	12,979	13,882	145,628
Contract assets, net**	–	–	550,068
VAT prepayments	360,401	470,567	619,391
Interest receivable	3,114	14,204	21,463
Deferred IPO costs on Nasdaq listing	11,971	–	–
Individual income tax receivable*** *(Note 13)*	–	231,377	48,949
Others	17,570	78,435	138,994
	421,938	887,086	1,687,021
Non-current portion:			
Prepayments for electronic equipment	33,970	8,978	25,388
Others	2,498	2,846	3,678
	36,468	11,824	29,066

* Represents costs incurred in advance of revenue recognition arising from direct and incremental costs related to enterprise cloud services provided. Such contract costs are recognized as cost of revenue upon the recognition of the related revenues.

** Represents the Group's rights to consideration for work completed in relation to its services performed but not billed at the end of respective years. The increase in contract assets as compared to the year ended December 31, 2020 is a result of a business acquisition. The allowance for credit losses on contract assets was RMB1,591 as of December 31, 2021. The amounts charged to expenses for credit losses on contract assets and write-offs charged against the allowance were RMB2,100 and RMB509, respectively, for the year ended December 31, 2021.

*** Represents amounts due from certain employees related to their individual income taxes ("IIT") arising from exercise and vesting of share-based awards.

8. PROPERTY AND EQUIPMENT, NET

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Electronic equipment	3,233,327	4,164,384	5,123,149
Office equipment and fixtures	1,444	9,759	15,462
Data center machinery and equipment	131,037	135,068	144,328
Building	–	–	15,768
Construction in progress	849	5,454	147,817
	3,366,657	4,314,665	5,446,524
Less: accumulated depreciation	(1,645,683)	(2,357,875)	(3,082,421)
Property and equipment, net	1,720,974	1,956,790	2,364,103

Depreciation expense for the years ended December 31, 2019, 2020 and 2021 was RMB601,730, RMB750,375 and RMB783,305, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

9. INTANGIBLE ASSETS, NET

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Customer relationships	–	–	620,100
Patents and technologies	–	–	67,900
Trademarks and domain names	7,041	7,020	497,098
Software and copyrights	6,564	20,807	71,752
Others	4,598	7,469	3,637
	18,203	35,296	1,260,487
Less: accumulated amortization			
Customer relationships	–	–	(32,637)
Patents and technologies	–	–	(8,138)
Trademarks and domain names	(2,309)	(3,035)	(20,722)
Software and copyrights	(5,128)	(10,268)	(26,692)
Others	(3,338)	(5,420)	(2,531)
	(10,775)	(18,723)	(90,720)
Intangible assets, net	7,428	16,573	1,169,767

Amortization expense of intangible assets for the years ended December 31, 2019, 2020 and 2021 was RMB2,851, RMB7,663 and RMB72,299, respectively. As of December 31, 2021, estimated amortization expense of the existing intangible assets for each of the next five years and thereafter is as follows:

	RMB
2022	171,065
2023	170,140
2024	168,476
2025	166,454
2026 and thereafter	493,632
Total	1,169,767

10. GOODWILL

The changes in the carrying amount of goodwill were as follows:

	RMB
Balance as of December 31, 2019 and 2020	–
Goodwill acquired in business combinations *(Note 4)*	4,625,115
Balance as of December 31, 2021	4,625,115

RMB3,669,031 of goodwill was allocated to the Cloud service and solutions reporting unit and RMB956,084 of goodwill was allocated to the Cloud-based digital solution and services reporting unit.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

11. LEASES

The Group's operating leases mainly related to office space and buildings. For leases with terms greater than 12 months, the Group records the related assets and lease liabilities at the present value of lease payments over the lease term. Certain leases include rental-free periods and rental escalation clause, which are factored into the Group's determination of lease payments when appropriate. As of December 31, 2020 and 2021, the Group had no finance leases.

As of December 31, 2020 and 2021, the weighted average remaining lease terms were 9.7 years and 8.3 years and the weighted average discount rates were 6.36% and 6.18% for the Group's operating leases, respectively.

For the years ended December 31, 2020 and 2021, operating lease cost recognized in profit or loss was RMB52,890 and RMB65,641, respectively, which excluded cost of short-term contracts. Short-term lease cost for the years ended December 31, 2020 and 2021 was RMB3,036 and RMB11,317, respectively.

The undiscounted future minimum payments under the Group's operating lease liabilities and reconciliation to the operating lease liabilities recognized on the consolidated balance sheets were as below:

	As of December 31,	
	2020	**2021**
	RMB	*RMB*
2021	79,495	–
2022	51,151	110,472
2023	48,582	59,238
2024	49,123	50,526
2025	29,334	29,347
2026 and thereafter	72,078	72,078
Total future lease payments	329,763	321,661
Less: imputed interest	(70,336)	(54,782)
Total lease liability balance	259,427	266,879

12. ACCOUNTS PAYABLE

An ageing analysis of the accounts payable as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

		As of December 31,	
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Within 3 months	1,018,064	1,446,965	1,340,662
Between 4 months and 1 year	158,132	449,649	1,209,146
More than 1 year	78,393	160,741	388,824
Total	1,254,589	2,057,355	2,938,632

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Current portion:			
Customer advances*	79,608	191,357	378,957
Salary and welfare payable	136,762	117,506	600,775
Purchase of property and equipment	609,363	181,038	759,391
Acquisition of equity investments	15,500	–	–
Accrued expenses	67,027	44,559	116,021
Other tax and surcharges payable	10,608	25,227	91,287
Deferred government grants	7,919	10,321	8,488
Purchase consideration payable**	–	–	148,038
Individual income tax payable*** *(Note 7)*	–	231,377	48,949
Others****	22,426	43,989	71,934
	949,213	845,374	2,223,840
Non-current portion:			
Deferred government grants	–	7,020	6,975
Purchase consideration payable**	–	–	1,180,470
Others****	–	33,558	45,232
	–	40,578	1,232,677

* The amount represents contract liabilities for the rendering of services. The increases in customer advances are a result of the increase in consideration received from the Group's customers as of December 31, 2020 and 2021.

** The amount represents the remaining purchase consideration to acquire Camelot. As of December 31, 2021, the current portion represents amounts reserved in escrow accounts, among which, RMB123,654 was released to the selling shareholders in May 2022. The non-current portion of RMB258,974 and RMB921,496 will be settled by cash and ordinary shares of the Company, respectively, by June 30, 2023.

*** Represents IIT payable to the tax bureau on behalf of certain employees related to their exercise and vesting of share-based awards.

**** In July 2020, the Company received a reimbursement of US$7,469 (equivalent to RMB47,597) from the depository for the establishment and maintenance of the ADS program ("ADS Reimbursement"). As of December 31, 2020 and 2021, RMB10,083 and RMB9,836 were included in the current portion, and RMB33,558 and RMB22,989 were included in the non-current portion of accrued expenses and other liabilities, respectively. The ADS Reimbursement will be released to the consolidated statements of comprehensive loss in equal amounts over the ADS program term.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

14. BANK LOANS

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Short-term bank loans	–	278,488	1,348,166
Long-term third-party bank loan guaranteed by a related party *(Note 21)*:			
Current portion	100,000	74,351	–
Non-current portion	74,351	–	–
	174,351	352,839	1,348,166

The weighted average interest rates for the outstanding short-term bank loans as of December 31, 2020 and 2021 were 4.28% and 4.59%, respectively.

In June 2016, the Group entered into a long-term loan facility for an aggregate principal amount of RMB400,000 with a bank in Beijing bearing a fixed annual interest rate of 90% of the benchmark five-year lending rate published by the PBOC. The facility expires on June 1, 2021, of which RMB335,137 was utilized. As of December 31, 2020, the long-term loan of RMB74,351 will be repaid within twelve months and is classified as "Long-term bank loan, current portion". The interest rate for the outstanding loan with a bank in Beijing as of December 31, 2019 and 2020, was approximately 4.3% and 4.3%, respectively.

The contractual maturities of the short-term and long-term bank loans were as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Within 1 year	100,000	352,839	1,348,166
Between 1 year and 2 years	74,351	–	–
	174,351	352,839	1,348,166

There are no commitment fees and conditions under which lines may be withdrawn associated with the Group's unused facilities.

15. TAXATION

(a) Enterprise Income tax

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains.

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 periods presented, the Group did not make any provisions for Hong Kong profit tax as the Group did not generate any assessable profits arising in Hong Kong at the end of each reporting period. Under the Hong Kong tax law, the subsidiaries in Hong Kong are exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

China

The Group's 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. Certain subsidiaries of the Group being qualified as a High New Technology Enterprise ("HNTE") are entitled to the preferential income tax rate of 15%. Dividends, interests, rent or royalties payable by the Group's 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.

Loss before income taxes consists of:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
PRC	(1,167,367)	(1,095,015)	(1,646,607)
Non-PRC	65,171	147,721	70,592
	(1,102,196)	(947,294)	(1,576,015)

The current and deferred components of income tax expense appearing in the consolidated statements of comprehensive loss are as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Current income tax expense	9,180	15,081	27,593
Deferred income tax benefit	(177)	(177)	(11,852)
	9,003	14,904	15,741

The reconciliation of income tax expense computed using the PRC statutory tax rate to the actual income tax expense is as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Loss before income tax	(1,102,196)	(947,294)	(1,576,015)
Income tax computed at the PRC statutory tax rate of 25%	(275,549)	(236,824)	(394,004)
Effect of tax holiday and preferential tax rates	11,493	(44,121)	7,083
Effect of different tax rates in different jurisdictions	(11,626)	10,580	(1,681)
Other non-taxable income	(21,557)	(35,454)	(24,999)
Non-deductible expenses	64,095	14,060	36,719
Share-based compensation costs	30,320	82,528	108,588
Research and development super deduction	(94,401)	(113,388)	(146,639)
Withholding tax and others	9,180	11,581	9,552
Change in valuation allowance	259,031	399,756	434,056
True-up adjustments in respect of prior year's annual tax filing	–	(83,342)	(3,474)
Tax rate change on deferred items	38,017	9,528	(9,460)
Income tax expense	9,003	14,904	15,741

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(b) Deferred tax

The significant components of the Group's deferred tax assets and liabilities are as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Deferred tax assets:			
Tax loss carried forward	921,045	1,454,702	1,841,192
Accrued expenses	71,720	56,111	235,737
Depreciation	2,775	4,990	7,082
Allowance for doubtful accounts	2,925	3,156	53,436
Government grant	2,268	6,175	4,266
Operating lease liabilities	–	56,706	63,781
Accrued interest	–	66,609	170,337
Others	1,104	–	2,737
Less: valuation allowance	(1,001,837)	(1,401,416)	(1,881,873)
	–	247,033	496,695
Deferred tax liabilities:			
Operating lease right-of-use assets	–	54,658	57,300
One-time deduction for fixed asset purchases	–	191,107	337,564
Long-lived assets arising from acquisition	206	29	277,267
Others	–	1,268	22,655
	206	247,062	694,786

The Group operates through several subsidiaries, VIEs and subsidiaries of VIEs and the valuation allowance is considered for each subsidiary, VIE and subsidiary of VIE on an individual basis. As of December 31, 2019, 2020, and 2021, the Group's total deferred tax assets before valuation allowances were RMB1,001,837, RMB1,648,449 and RMB2,378,568, respectively. As of December 31, 2019, 2020, and 2021, the Group recorded valuation allowances of RMB1,001,837, RMB1,401,416 and RMB1,881,873, respectively, on its deferred tax assets that are sufficient to reduce the deferred tax assets to the amounts that are more-likely-than-not to be realized. In making such determination, the Group evaluates a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2021, the Group had net losses of approximately RMB7,485,149, mainly deriving from entities in the PRC and Hong Kong. The tax losses in the PRC can be carried forward for five years to offset future taxable profit and the period was extended to ten years for entities that qualify as HNTE. The tax losses of entities in the PRC will expire between 2022 and 2026 and the tax losses of entities in the PRC that qualify as HNTE will expire between 2022 and 2031, if not utilized. The tax losses in Hong Kong can be carried forward without an expiration date.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(c) Unrecognized tax benefits

As of December 31, 2019, 2020 and 2021, the Group had unrecognized tax benefits of RMB nil, RMB12,613 and RMB59,049, of which RMB nil, RMB12,613 and RMB43,095, respectively, were deducted against the deferred tax assets on tax losses carried forward, and the remaining amounts of RMB nil, RMB nil and RMB15,954, respectively, were presented in other liabilities in the consolidated balance sheets. The Group's unrecognized tax benefits for the years ended December 31, 2019, 2020 and 2021 were primarily related to the tax-deduction of accrued interest expenses and profit before tax differences. It is possible that the amount of unrecognized benefits will change in the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. As of December 31, 2019, 2020 and 2021, there were RMB nil, RMB nil and RMB15,954 of unrecognized tax benefits that if recognized would impact the annual effective tax rate, respectively. A reconciliation of the beginning and ending balances of unrecognized tax benefit is as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Balance at beginning of the year	–	–	12,613
Additions from the business acquisitions	–	–	19,551
Additions based on tax position related to current year	–	12,613	26,885
Balance at end of the year	–	12,613	59,049

For the periods presented, the Group did not record any penalties related to unrecognized tax benefits.

In general, the tax authorities have three to five years to conduct examinations of the tax filings of the Group's subsidiaries. Accordingly, the subsidiaries' tax years of 2018 through 2021 remain open to examination by the respective tax authorities.

16. CONVERTIBLE PREFERRED SHARES AND REDEEMABLE CONVERTIBLE PREFERRED SHARES

As of January 1, 2019, several investors held in aggregate 458,116,000 of Series A convertible preferred shares ("Series A Preferred Shares"), representing all of the Company's issued and outstanding Series A Preferred Shares prior to the [**REDACTED**]. The Series A Preferred Shares were issued on various dates in 2013 and 2015 at US$0.07 per share for a total cash consideration of US$34,000.

As of January 1, 2019, several investors held in aggregate 153,603,600 of Series B convertible preferred shares ("Series B Preferred Shares"), representing all of the Company's issued and outstanding Series B Preferred Shares prior to the [**REDACTED**]. The Series B Preferred Shares were issued on various dates in 2015 at US$0.36 per share for a total cash consideration of US$54,988.

As of January 1, 2019, several investors held in aggregate 185,665,192 of Series C redeemable convertible preferred shares ("Series C Preferred Shares"), representing all of the Company's issued and outstanding Series C Preferred Shares prior to the [**REDACTED**]. The Series C Preferred Shares were issued on various dates in 2016 at US$0.59 per share for a total cash consideration of US$108,903.

As of January 1, 2019, several investors held in aggregate 842,738,782 of Series D redeemable convertible preferred shares ("Series D Preferred Shares"), representing all of the Company's issued and outstanding Series D Preferred Shares prior to the [**REDACTED**]. The Series D Preferred Shares were issued on various dates in 2017 and 2018 at US$0.85 or US$0.88 per share for a total cash consideration of US$721,000.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

On December 27, 2019, the Company entered into an agreement to issue in aggregate 77,125,997 Series D+ redeemable convertible preferred shares (the "Series D+ Preferred Shares") to investors at US$0.91 per share. On December 30, 2019, the Company received cash consideration of US$50,000 in exchange for issuing 55,089,998 Series D+ Preferred Shares. On January 8, 2020, the Company received cash consideration of US$20,000 in exchange for issuing the remaining 22,035,999 Series D+ Preferred Shares.

The key features of the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares and Series D+ Preferred Shares (collectively, the "Preferred Shares") are summarized as follows:

(a) Dividends

Each holder of the Series D+ Preferred Shares is entitled to receive on a pari passu basis, when, if and as declared at the sole discretion of the Board of Directors, prior and in preference to Series D, Series C, Series B, Series A preferred shareholders and ordinary shareholders.

Each holder of the Series D Preferred Shares is entitled to receive on a pari passu basis, when, if and as declared at the sole discretion of the Board of Directors, prior and in preference to Series C, Series B, Series A preferred shareholders and ordinary shareholders.

Each holder of the Series C Preferred Shares is entitled to receive on a pari passu basis, when, if and as declared at the sole discretion of the Board of Directors, prior and in preference to Series B, Series A preferred shareholders and ordinary shareholders.

Each holder of the Series B Preferred Shares is entitled to receive on a pari passu basis, when, if and as declared at the sole discretion of the Board of Directors, prior and in preference to Series A preferred shareholders and ordinary shareholders.

Each holder of the Series A Preferred Shares is entitled to receive on a pari passu basis, when, if and as declared at the sole discretion of the Board of Directors, prior and in preference to ordinary shareholders.

After payment of the dividends to the Series D+, Series D, Series C, Series B and Series A preferred shareholders (collectively, referred to as the "Preferred Shareholders" or "Preferred Shareholder"), each ordinary shareholder shall be entitled to receive dividends payable in cash, whenever funds are legally available, on a pari passu basis, if and as declared by the Board of Directors.

Dividends declared by the Board of Directors but unpaid shall accrue and be payable when and as such cash becomes available. Dividends are non-cumulative. No dividends were declared during the periods presented.

(b) Voting rights

Each Preferred Shareholder is entitled to the number of votes equal to the number of ordinary shares into which such holder's Preferred Shares could be converted. Preferred Shareholders shall vote together with ordinary shareholders, with respect to any matter upon which ordinary shareholders have the right to vote.

(c) Liquidation preference

In the event of liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or any deemed liquidation event as defined in the Company's articles of association (the "Liquidation Transaction"), the assets of the Company available for distribution shall be made as follows:

Each holder of the Series D+ Preferred Shares shall be entitled to receive, on a pari passu basis, an amount equal to the sum of 120% of the issue price of the Series D+ Preferred Shares for each outstanding Series D+ Preferred Shares, plus all declared but unpaid dividends. If the assets and funds thus distributed among the holders of the Series D+ Preferred Shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution to shareholders shall be distributed ratably among the holders of the Series D+ Preferred Shares in proportion to the full preferential amount each such holder is otherwise entitled to receive.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Upon completion of the distributions of the full amount made to each holder of the Series D+ Preferred Shares in accordance with the above, the remaining assets of Company available for distribution to each holder of the Series D Preferred Shares, on a pari passu basis, an amount equal to the sum of 120% of the issue price of the Series D Preferred Shares for each outstanding Series D Preferred Shares, plus all declared but unpaid dividends. If the assets and funds thus distributed among the holders of the Series D Preferred Shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution to shareholders shall be distributed ratably among the holders of the Series D Preferred Shares in proportion to the full preferential amount each such holder is otherwise entitled to receive.

Upon completion of the distributions of the full amount made to each holder of the Series D and Series D+ Preferred Shares in accordance with the above, the remaining assets of Company available for distribution to each holder of the Series C Preferred Shares, on a pari passu basis, with an amount equal to the sum of 120% of the issue price of the Series C Preferred Shares for each outstanding Series C Preferred Shares, plus all declared but unpaid dividends. If the assets and funds thus distributed among the holders of the Series C Preferred Shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution to shareholders shall be distributed ratably among the holders of the Series C Preferred Shares in proportion to the full preferential amount each such holder is otherwise entitled to receive.

Upon completion of the distributions of the full amount made to each holder of the Series C, Series D and Series D+ Preferred Shares in accordance with the above, the remaining assets of Company available for distribution to each holder of the Series B Preferred Shares, on a pari passu basis, with an amount equal to the sum of 120% of the issue price of the Series B Preferred Shares for each outstanding Series B Preferred Shares, plus all declared but unpaid dividends. If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution to shareholders shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the full preferential amount each such holder is otherwise entitled to receive.

After payment has been made to the Series B, Series C, Series D and Series D+ Preferred Shareholders in accordance with the above, all of the remaining assets of the Company available for distribution to shareholders shall be ratably distributed among the Series A Preferred Shareholders and holders of ordinary shares on a pari passu basis.

(d) Conversion rights

Each holder of the Preferred Shares has the right, at each holder's sole discretion, to convert at any time and from time to time, all or any portion of the Preferred Shares into ordinary shares.

The initial conversion price is the stated issuance price for each series of Preferred Shares. The initial conversion ratio for each series of Preferred Shares is on a one for one basis and subject to adjustments in the event of share splits, reverse share splits, share dividends and distribution, or any capital reorganization or reclassification of the ordinary shares. The initial conversion ratio for the Series C, Series D and Series D+ Preferred Shares is also subject to adjustment in the event that the Company issues additional ordinary shares for a consideration per share less than the original respective conversion price, as the case may be, in effect on the date of and immediately prior to such issue. In such event, the respective conversion price is reduced, concurrently with such issue, to a price as adjusted according to an agreed-upon formula in the Company's articles of association.

The Preferred Shares are automatically converted into ordinary shares immediately upon the closing of an [**REDACTED**] and the conversion ratio was one preferred share convertible into one ordinary share.

(e) Redemption

The Series B Preferred Shares are subject to redemption by the Company at the option of the investor, Celestial Power Limited ("Celestial") in the event a [**REDACTED**] in which the pre-[**REDACTED**] market value of the Company is no less than US$1,512,500 and results in [**REDACTED**] of no less than US$151,250 ("Series B Qualified [**REDACTED**]") fails to be consummated as a result of Kingsoft Corporation Limited's (the controlling shareholder of the Company prior to the Company's IPO on Nasdaq) voluntary refusal to approve the Series B Qualified [**REDACTED**] proposal. The redemption price shall be equal to the lower of (i) the applicable fair market value of such Series B Preferred Shares or (ii) the applicable purchase price of such Series B Preferred Shares paid by Celestial pursuant to the Series B Preferred Shares Purchase Agreements.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The Series C Preferred Shares are subject to redemption by the Company at the option of the holders if the Company fails to complete an [**REDACTED**] on May 16, 2021. The redemption price shall be equal to original issuance price and a return at the compound rate of 8% per annum calculated from the date of the actual issuance of such Series C Preferred Shares to the date on which such preferred share is redeemed.

The Series D and Series D+ Preferred Shares are subject to redemption by the Company at the option of the holders if the Company fails to complete a [**REDACTED**] in which the pre-[**REDACTED**] market value of the Company is no less than US$3,000,000 and results in [**REDACTED**] of no less than US$300,000 ("Series D Qualified [**REDACTED**]") on May 16, 2021. The redemption price shall be equal to original issuance price and a return at the compound rate of 8% per annum calculated from the date of the actual issuance of such Series D and Series D+ Preferred Shares to the date on which such preferred share is redeemed.

(f) [**REDACTED**]

All the Preferred Shareholders have the following [**REDACTED**]:

Demand [**REDACTED**]

At any time after the earlier of (i) December 27, 2023, or (ii) the first anniversary of the consummation of an [**REDACTED**], holders holding in the aggregate not less than 30% of the [**REDACTED**] securities then outstanding may make a written request to the Company to [**REDACTED**], and the Company shall use its best efforts to [**REDACTED**], under the Securities Act the number of [**REDACTED**] specified in such requests, provided, however, that (i) the Company shall not be obligated to effect more than two such demand [**REDACTED**] and (ii) the Company shall not be obligated to effect a demand [**REDACTED**] if the initiating holders propose to sell their [**REDACTED**] securities in an amount less than 30% of the [**REDACTED**] then outstanding.

Piggyback [**REDACTED**]

If the Company proposes to [**REDACTED**] any ordinary shares in connection with an [**REDACTED**] by the Company for its own account (other than a [**REDACTED**] utilizing Form F-4 or F-8 or any successor thereto) or for the account of any shareholder of the Company other than a holder of the [**REDACTED**], then each holder shall have the right to have all or any portion of its [**REDACTED**] included in such [**REDACTED**].

F-3 [**REDACTED**]

At any time following the consummation of an [**REDACTED**], after the Company becomes eligible to use Form F-3 in connection with a [**REDACTED**] of its securities, holder(s) holding in the aggregate not less than 30% of the [**REDACTED**] may make a written request to the Company to [**REDACTED**], and the Company shall use its commercially reasonable efforts to [**REDACTED**], under the Securities Act on Form F-3 the number of [**REDACTED**] specified in such request within 60 days after the Company receives such written request. However, the Company shall not be required to effect any such [**REDACTED**] (a) within 90 days after the effective date of any other [**REDACTED**] statement of the Company; (b) if within the twelve-month period preceding the date of such request, the Company has effected two such [**REDACTED**] on Form F-3; (c) if Form F-3 is not available for such [**REDACTED**] by such holders; or (d) if holders requesting inclusion of [**REDACTED**] in such [**REDACTED**] propose to sell such [**REDACTED**] at an aggregate price to the public of less than US$2,000,000.

The Company is required to use its best efforts to affect the [**REDACTED**] if requested by the Preferred Shareholders, but the provisions of the [**REDACTED**] do not stipulate the consequences of non-performance if the Company made its best efforts to effect [**REDACTED**] nor any requirement to pay any monetary or non-monetary consideration for non-performance. The [**REDACTED**] shall terminate on the earlier of (i) the fifth anniversary of the effective date of the [**REDACTED**] and (ii) with respect to any security holder, the date on which such holder may sell all of its [**REDACTED**] under Rule 144 of the Securities Act in any 30-day period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(g) Accounting for Preferred Shares

The Series A Preferred Shares are classified as permanent equity because they are not redeemable and the holders of the Series A Preferred Shares are entitled to receive the same form of consideration upon a Liquidation Transaction as holders of equally and more subordinated equity instruments, specifically, the ordinary shareholders.

The Series B Preferred Shares are classified as mezzanine equity as they may be redeemed upon the occurrence of conditional events such as a Liquidation Transaction and Kingsoft Corporation Limited's voluntary refusal to approve the Series B Qualified [**REDACTED**] proposal. The Series C, Series D and Series D+ Preferred Shares are classified as mezzanine equity as they may be redeemed at the option of the holders on or after an agreed-upon date outside the sole control of the Company.

The Preferred Shareholders have the ability to convert the instrument into the Company's ordinary shares. The Company uses the whole instrument approach to determine whether the nature of the host contract in a hybrid instrument is more akin to debt or to equity. The Company evaluated the embedded conversion option in the Preferred Shares to determine if there were any embedded derivatives requiring bifurcation and to determine if there were any beneficial conversion features ("BCF"). The conversion option of the Preferred Shares does not qualify for bifurcation accounting because the conversion option is clearly and closely related to the host instrument and the underlying ordinary shares are not publicly traded nor readily convertible into cash. The contingent redemption options and [**REDACTED**] of all the Preferred Shares do not qualify for bifurcation accounting because the underlying ordinary shares are not publicly traded nor readily convertible into cash. There are no other embedded derivatives that are required to be bifurcated.

BCF exists when the conversion price of the preferred shares is lower than the fair value of the ordinary shares at the commitment date, which is the issuance date of the respective series of Preferred Shares in the Company's case. When a BCF exists as of the commitment date, its intrinsic value is bifurcated from the carrying value of the Preferred Shares as a contribution to additional paid-in capital. The resulting discount, if any, to the Preferred Shares is immediately amortized in full as a deemed dividend because the earliest conversion date is the issuance date. On December 30, 2019 and January 8, 2020, the most favorable conversion price used to measure the beneficial conversion feature was US$0.91, while the fair value per ordinary share at the commitment date was US$0.76. Therefore, no BCF was recognized for the Series D and Series D+ Preferred Shares because the fair values per ordinary share at the commitment dates were less than the respective most favorable conversion price. The Company determined the fair value of the ordinary shares with the assistance of an independent third party valuation firm. The contingent conversion price adjustment is accounted for as a contingent BCF. In accordance with ASC paragraph 470-20-35-1, changes to the conversion terms that would be triggered by future events not controlled by the issuer should be accounted as contingent conversions, and the intrinsic value of such conversion options would not be recognized until and unless a triggering event occurs. No contingent BCF has been recognized for the periods presented.

The Company concluded that the Series B Preferred Shares are not redeemable currently, and is not probable that the Series B Preferred Shares will become redeemable because the likelihood of Liquidation Transaction is remote. Therefore, no adjustment will be made to the initial carrying amount of the Series B Preferred Shares until it is probable that they will become redeemable.

The Company concluded that the Series C, Series D and Series D+ Preferred Shares are not redeemable currently, but it is probable that the Series C, Series D and Series D+ Preferred Shares will become redeemable. The Company chose to recognize changes in the redemption value as they occur and adjusted the carrying amount of the Series C, Series D and Series D+ Preferred Shares to equal the redemption value at the end of each reporting period.

Upon completion of the Company's IPO on Nasdaq on May 8, 2020, all the Preferred Shares were converted on a one-for-one basis into ordinary shares (Note 20).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

17. SHARE-BASED PAYMENTS

The Company has three share-based compensation plans under which awards may be granted to employees, namely, the Share Option Scheme, the 2013 Share Award Scheme and the 2021 Share Award Scheme. The maximum aggregate numbers of ordinary shares that are authorized to be issued under the Share Option Scheme, 2013 Share Award Scheme and 2021 Share Award Scheme are 209,750,000, 215,376,304 and 209,216,310, respectively. These plans have a contractual term of ten years. The share-based awards are accounted for as equity awards and generally vest over a period from two to five years.

Share Option Scheme

A summary of the activity under the Share Option Scheme is stated below:

	Number of options	Weighted-average exercise price *US$*	Weighted-average grant date fair value *US$*	Weighted-average remaining contractual term *Year*	Aggregate intrinsic value *US$*
Outstanding, January 1, 2019	173,094,000	0.07	0.22	7.04	0.64
Granted	33,350,000	0.07			
Forfeited	(14,000,000)	0.07			
Expired	(312,000)	0.07			
Exercised	(62,280,000)	0.05			
Outstanding, December 31, 2019	129,852,000	0.07	0.37	7.32	0.69
Granted	12,387,915	0.07			
Forfeited	(5,696,000)	0.07			
Expired	(788,000)	0.07			
Exercised	(48,996,540)	0.07			
Outstanding, December 31, 2020	86,759,375	0.07	0.54	7.12	2.83
Granted	12,292,710	0.07	2.80		
Forfeited	(7,384,942)	0.07	1.38		
Exercised	(29,906,941)	0.07	0.71		
Outstanding, December 31, 2021	61,760,202	0.07	0.87	6.61	0.98
Vested and expected to vest at December 31, 2021	61,760,202	0.07	0.87	6.61	0.98
Exercisable as of December 31, 2021	28,437,976	0.07	0.46	5.22	0.98

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company's ordinary share at the end date of the Relevant Periods and the option's respective exercise price. Total intrinsic values of options exercised for the years ended December 31, 2019, 2020 and 2021 were RMB308,665, RMB906,120 and RMB79,224, respectively.

The total weighted-average grant date fair values of the share-based awards granted during the years ended December 31, 2019, 2020 and 2021 were US$0.65, US$1.16 and US$2.80 per option, respectively. The aggregate fair values of the share-based awards vested during the years ended December 31, 2019, 2020 and 2021 were RMB36,060, RMB44,135 and RMB51,892, respectively.

As of December 31, 2021, there was RMB119,582 of total unrecognized employee share-based compensation expenses, related to unvested share-based awards, which are expected to be recognized over a weighted-average period of 1.41 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

2013 Share Award Scheme

A summary of the activities for the restricted shares issued under the 2013 Share Award Scheme is stated below:

	Number of shares	**Weighted-average grant date fair value**
		US$
Outstanding, January 1, 2019	47,462,176	0.15
Granted	46,335,200	0.74
Vested	(39,001,200)	0.55
Forfeited	(1,500,000)	0.72
Outstanding, December 31, 2019	53,296,176	0.70
Granted	25,300,000	0.78
Vested	(21,470,416)	0.65
Forfeited	(3,523,200)	0.76
Outstanding, December 31, 2020	53,602,560	0.76
Granted	29,076,828	2.04
Vested	(19,020,640)	0.71
Forfeited	(5,671,482)	1.61
Outstanding, December 31, 2021	57,987,266	1.32
Expected to vest at December 31, 2021	57,987,266	1.32

The total weighted-average grant date fair value of the share-based awards granted during the years ended December 31, 2019, 2020 and 2021 were US$0.74, US$0.78 and US$2.04 per share, respectively. The aggregate fair values of the share-based awards vested during the years ended December 31, 2019, 2020 and 2021 were RMB19,580, RMB91,683 and RMB90,121, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

As of December 31, 2021, there was RMB315,641 of total unrecognized share-based compensation expenses related to unvested share-based awards which are expected to be recognized over a weighted-average period of 1.86 years. The fair value of the restricted shares is the fair value of the Company's ordinary shares at their respective grant dates, which was determined with the assistance of an independent third party valuer prior to the completion of the [**REDACTED**] and based on the price of the Company's publicly traded shares after completion of the [**REDACTED**]. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

A summary of the activity for the options issued under the 2013 Share Award Scheme is stated below:

	Number of options	**Weighted-average exercise price** *US$*	**Weighted-average grant date fair value** *US$*	**Weighted-average remaining contractual term** *Years*	**Aggregate intrinsic value** *US$*
Outstanding, January 1, 2019	–	–	–	–	
Granted	19,556,800	0.87			
Outstanding, December 31, 2019	19,556,800	0.87	0.30	9.93	
Granted	19,200,000	0.77			
Forfeited	(1,148,800)	0.87			
Exercised	(416,160)	0.87			
Outstanding, December 31, 2020	37,191,840	0.82	0.31	9.00	2.09
Exercised	(8,081,820)	0.64	0.33		
Forfeited	(1,241,600)	0.87	0.30		
Outstanding, December 31, 2021	27,868,420	0.83	0.31	7.99	0.22
Vested and expected to vest at December 31, 2021	27,868,420	0.83	0.31	7.99	0.22
Exercisable as of December 31, 2021	12,566,340	0.80	0.30	8.00	0.25

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company's ordinary share at the end date of the Relevant Periods and the option's respective exercise price. No option was exercised during the year ended December 31, 2019. Total intrinsic value of options exercised for the years ended December 31, 2020 and 2021 were RMB3,230 and RMB1,561, respectively.

The total weighted-average grant date fair value of the share-based awards granted during the years ended December 31, 2019, 2020 and 2021 were US$0.30, US$0.31 and US$0.31 per option, respectively. The aggregate fair value of the share-based awards vested during the years ended December 31, 2019, 2020 and 2021 were RMB nil, RMB15,981 and RMB16,192, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

As of December 31, 2021, there was RMB12,898 of total unrecognized employee share-based compensation expenses, related to unvested share-based awards, which are expected to be recognized over a weighted-average period of 1.16 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

2021 Share Award Scheme

In November 2021, the Company adopted the 2021 Share Award Scheme. As of December 31, 2021, there was no award granted under the 2021 Share Award Scheme.

Others

In connection with the acquisition of Shenzhen Yunfan, the Company granted 11,684,432 restricted shares to certain employees that contain 1-3 years service vesting condition. As of December 31, 2021, 2,278,360 of restricted shares were vested, and there was RMB101,871 of total unrecognized share-based compensation expenses related to these unvested share-based awards that will be recognized over approximately 2 years.

Fair value of share options

The fair value of share options was determined using the binomial tree model, with the assistance from an independent third-party valuation firm. The binomial model requires the input of highly subjective assumptions, including the expected share price volatility and the exercise multiple. For expected volatility, the Company has made reference to historical volatility of several comparable companies. The exercise multiple was estimated as the average ratio of the stock price to the exercise price of when employees would decide to voluntarily exercise their vested options. As the Company did not have sufficient information of past employee exercise history, it has considered the statistics on exercise patterns of employees compiled by Huddart and Lang in Huddart, S., and M. Lang. 1996. "Employee Stock Option Exercises: An Empirical Analysis" Journal of Accounting and Economics, vol. 21, no. 1 (February):5-43, which are widely adopted by valuers as authoritative guidance on expected exercise multiples. For the employee exit rate, which represents the annual turnover rate of employees leaving services, the Group uses the historical employee exiting data to have an estimate of that input. The risk-free rate for the period within the contractual life of the options is based on the market yield of U.S. Treasury Bonds in effect at the time of grant. Prior to the completion of the [**REDACTED**], the estimated fair values of the ordinary shares, at the option grant dates, was determined with the assistance from an independent third-party valuation firm. The Company's management is ultimately responsible for the determination of the estimated fair value of its ordinary shares. Subsequent to the completion of the [**REDACTED**], fair value of the ordinary shares is the price of the Company's publicly traded shares.

The estimated fair values of the ordinary shares, at the share award grant dates, were determined with the assistance from an independent third-party valuation firm. The assumptions used to estimate the fair value of the share options granted are as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
Risk-free rate	1.58%-1.80%	0.66%-1.84%	1.13%-1.62%
Expected volatility range	37.40%-37.90%	37.3%-37.8%	36.28%-38.03%
Exercise multiple	2.20-2.80	2.20-2.80	2.20-2.80
Fair market value per ordinary share as at valuation dates	US$0.72-US$0.76	US$0.76-US$1.94	US$1.97-US$3.49

Share-based awards of Camelot

Camelot subsidiary also has an equity incentive plan granting share-based awards that contain 3 year service vesting condition (the "Camelot Award"). The portion the acquisition date fair value based measure of the Camelot Award that was attributable to precombination service was recognized as non-controlling interest and the portion relating to any remaining postcombination service was recognized as share-based compensation expenses in the Group's consolidated financial statements.

As of December 31, 2021, there was RMB95,165 of total unrecognized share-based compensation expenses related to these unvested share-based awards that will be recognized over approximately 1.67 years.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The acquisition date fair value of each Camelot Award is estimated on the date of modification using the binomial tree option pricing model with the following assumptions:

	2021
Risk-free rate	0.21%
Expected volatility	50.56%
Exercise multiple	2.20
Fair market value per ordinary share as at valuation date	RMB23.00

The following table sets forth the amount of share-based compensation expense included in each of the relevant financial statement line items:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Cost of revenues	8,509	10,614	17,481
Selling and marketing expenses	37,808	62,270	72,594
General and administrative expenses	31,988	169,101	193,886
Research and development expenses	42,974	88,129	150,389
	121,279	330,114	434,350

18. RESTRICTED NET ASSETS

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's PRC subsidiaries.

In accordance with the Regulations on Enterprises with Foreign Investment of China and its Articles of Association, the Company's PRC subsidiaries, being a foreign-invested enterprise established in the PRC, are required to provide certain statutory reserves, namely the general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in its PRC statutory accounts. The Company's PRC subsidiaries are required to allocate at least 10% of its annual after-tax profit to the general reserve fund until such fund has reached 50% of its registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the PRC subsidiaries. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

In accordance with the PRC Company Laws, the Company's PRC subsidiaries and the VIEs must make appropriations from their annual after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus fund, statutory public welfare fund and discretionary surplus fund. The VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriation to discretionary surplus is made at the discretion of the Board of Directors of the VIEs. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and the VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts of net assets restricted include paid-in capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of the VIEs and VIEs' subsidiaries in which the Company has no legal ownership, totaling RMB3,438,575 as of December 31, 2021; therefore, in accordance with Rules 504 and 4.08(e)(3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2019, 2020 and 2021 and for each of the three years in the period ended December 31, 2021 are disclosed in the Historical Financial Information in section I and Note 24.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Furthermore, cash transfers from the Company's PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated VIEs to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

19. LOSS PER SHARE

Basic and diluted loss per share for each of the years presented are calculated as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Numerator:			
Net loss attributable to Kingsoft Cloud Holdings Limited	(1,111,199)	(962,259)	(1,588,712)
Accretion to redemption value of redeemable convertible preferred shares	(49,725)	(19,768)	–
Net loss attributable to ordinary shareholders – basic and diluted	(1,160,924)	(982,027)	(1,588,712)
Denominator:			
Weighted average number of ordinary shares outstanding – basic and diluted	889,521,200	2,400,874,197	3,441,729,444
Basic and diluted loss per share	(1.31)	(0.41)	(0.46)

For the periods presented herein, the computation of basic loss per share using the two-class method is not applicable as the Group is in a net loss position and the participating securities do not have contractual rights and obligations to share in the losses of the Group. The effects of all outstanding Preferred Shares, options, and awarded shares were excluded from the computation of diluted loss per share for the periods presented as their effects would be anti-dilutive.

20. SHAREHOLDERS' EQUITY

In February 2020, the Company entered into an arrangement to allow the senior executives to settle its due on demand interest bearing loans ("Settlement Arrangement"). Under the terms of the Settlement Arrangement, the Company will repurchase ordinary shares already issued to the executives for a cashless settlement of the outstanding loan amount including interest and related IIT. The number of ordinary shares to be repurchased is calculated by dividing the outstanding amount on settlement date by US$0.70 per share, which is below the estimated fair value per ordinary share of US$0.76 determined by the Company with the assistance of an independent appraiser. Therefore, there is no compensation expense to be recorded as a result of this repurchase. On February 29, 2020, the Company repurchased 5,475,254 ordinary shares at nil consideration from these senior executives in lieu of full settlement of the outstanding amount (Note 21).

On April 7, 2020, the Company's shareholders and Board of Directors approved to increase the Company's authorized share capital to US$4,000 divided into 4,000,000,000 shares with a par value of US$0.001 each, consisting of (i) 2,282,750,429 ordinary shares, (ii) 458,116,000 Series A Preferred Shares, (iii) 153,603,600 Series B Preferred Shares, (iv) 185,665,192 Series C Preferred Shares, (v) 842,738,782 Series D Preferred Shares, and (vi) 77,125,997 Series D+ Preferred Shares, respectively, which will become effective immediately prior to the completion of the Company's IPO on Nasdaq. All of the Preferred Shares issued and outstanding immediately prior to the completion of IPO on Nasdaq will be converted (by way of re-designation and re-classification) into ordinary shares on a one for one basis. Each ordinary share entitles the holder thereof to one vote per share on all matters subject to vote at general meetings of the Company.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

On May 8, 2020, the Company completed its IPO on the NASDAQ Global Select Market. 30,000,000 ADS representing 450,000,000 ordinary shares were sold at US$17.00 per ADS, or US$1.13 per share. Additionally, the underwriters exercised their options to purchase an additional 67,500,000 ordinary shares in the form of 4,500,000 ADSs. Net proceeds from the IPO on Nasdaq including underwriter options after deducting underwriting discount and offering expenses were approximately RMB3,875,394. The deferred IPO costs on Nasdaq listing were recorded as a reduction of the proceeds received from the IPO on Nasdaq in the shareholders' (deficit) equity.

Upon completion of the IPO on Nasdaq, all outstanding Preferred Shares were converted on a one-for-one basis into 1,717,249,571 ordinary shares.

On September 23, 2020, the Company completed its follow-on offering on the NASDAQ Global Select Market. 8,000,000 ADS representing 120,000,000 ordinary shares were sold at US$31.00 per ADS, or US$2.07 per share. Additionally, the underwriters exercised their options to purchase an additional 18,750,000 ordinary shares in the form of 1,250,000 ADSs. Net proceeds from the follow-on offering including underwriter options after deducting underwriting discount and offering expenses were approximately RMB1,881,233. The offering costs were recorded as a reduction of the proceeds received from the follow-on offering in the shareholders' (deficit) equity.

On September 3, 2021, the Company issued 247,475,446 ordinary shares in connection with the acquisition of Camelot.

On December 17, 2021, the Company's shareholders and Board of Directors approved to increase the Company's authorized share capital to US$40,000 divided into 40,000,000,000 ordinary shares with a par value of US$0.001 each.

21. RELATED PARTY TRANSACTIONS

(a) Related Parties

Name of related parties	Relationship with the Group
Kingsoft Corporation Limited and its subsidiaries (other than all entities of the Group) ("Kingsoft Group")	Principal shareholder of the Company
Cheetah Mobile Inc. and its subsidiaries ("Cheetah Group")	Entity that Kingsoft Corporation Limited exercises significant influence over
Xiaomi Corporation and its subsidiaries ("Xiaomi Group")	Entity controlled by a director of the Company

The Company was controlled by Kingsoft before the completion of IPO on Nasdaq. As Kingsoft lost control over the Company upon the completion of the IPO on Nasdaq on May 8, 2020, Cheetah Group is no longer a related party of the Company.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(b) The Group had the following related party transactions:

	For the year ended December 31, 2019	2020	2021
	RMB	*RMB*	*RMB*
Revenues:			
Public cloud services provided to Xiaomi Group	570,431	655,165	749,597
Public cloud services provided to Kingsoft Group	109,177	119,011	156,158
Public cloud services provided to Cheetah Group	8,579	3,111	–
Enterprise cloud services provided to Xiaomi Group	–	–	22,857
Enterprise cloud services provided to Kingsoft Group	–	–	838
Other services provided to Xiaomi Group	120	82	–
Other services provided to Kingsoft Group	–	–	74
	688,307	777,369	929,524
Purchase of devices from Xiaomi Group	2,707	2,177	1,349
Interest expense on loans due to Xiaomi Group	–	–	16,633
Interest expense on a loan due to Kingsoft Group	4,925	–	4,088
Rental of a building from Xiaomi Group*	9,578	47,900	56,452
Rental of office space, and administrative services from Kingsoft Group**	24,524	13,801	13,321
	41,734	63,878	91,843

* The Group entered into agreements to lease a building and office space from Xiaomi Group. As of December 31, 2020 and 2021, the related operating lease right-of-use assets amounted to RMB243,585 and RMB210,551 and operating lease liabilities amounted to RMB250,646 and RMB238,180, respectively.

** The Group entered into short-term agreements to lease office space from Kingsoft Group in 2019. The agreements expired in December 2019. The amounts in 2020 and 2021 were fees for administrative services from Kingsoft Group.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(c) The Group had the following related party balances at the end of the year:

	As of December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Amounts due from related parties:			
Xiaomi Group	63,859	165,568	175,170
Cheetah Group	1,932	–	–
Kingsoft Group	43,716	45,258	37,731
Senior executives*	24,461	–	–
	133,968	210,826	212,901
Amounts due to related parties:			
Kingsoft Group**	81,909	80,294	544,376
Xiaomi Group***	22,350	32,704	764,941
	104,259	112,998	1,309,317

* The Group provided interest bearing loans to senior executives, which were fully settled in February 2020 (Note 20). Interest income of RMB982 and RMB175 was recorded as interest income during the years ended December 31, 2019 and 2020, respectively.

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

*** During 2021, the Group entered into several loan agreements with a fixed interest rate of 4.36% with Xiaomi Group which are secured by the Group's electronic equipment. As of December 31, 2021, the current portion and non-current portion of the loans was RMB236,206 and RMB472,882, respectively. Under the terms of the agreements, the Group will repay in fixed quarterly installments over 3 years according to the following schedule:

	2021
	RMB
2022	236,206
2023	241,168
2024	231,714
	709,088

All the balances with related parties except for the loans from Xiaomi Group were unsecured. All outstanding balances except for the loans from Xiaomi Group and Kingsoft Group are repayable on demand unless otherwise disclosed. The effect of adopting ASC 326 on amounts due from related parties was immaterial.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

22. COMMITMENTS AND CONTINGENCIES

(a) Capital expenditure commitments

The Group has commitments for the construction of a data center of RMB46,391 at December 31, 2021, which are scheduled to be paid within one year.

(b) Contingencies

The Group is currently not involved in any legal or administrative proceedings that may have a material adverse impact on the Group's business, financial position or results of operations.

23. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	RMB
Balance as of January 1, 2019	419,750
Foreign currency translation adjustments, net of tax of nil	64,598
Balance as of December 31, 2019	484,348
Foreign currency translation adjustments, net of tax of nil	(552,788)
Balance as of December 31, 2020	(68,440)
Foreign currency translation adjustments, net of tax of nil	(139,442)
Balance as of December 31, 2021	(207,882)

There have been no reclassifications out of accumulated other comprehensive income (loss) to net loss for the periods presented.

24. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Condensed Statements of Comprehensive Loss

	For the year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*US$* *Note 2(e)*
Operating expenses				
General and administrative expenses	(6,734)	(27,052)	(40,913)	(6,420)
Total operating expenses	**(6,734)**	**(27,052)**	**(40,913)**	**(6,420)**
Operating loss				
Interest income	52,829	10,199	15,224	2,389
Foreign exchange (loss) gain	(8,174)	30,931	10,198	1,601
Other (expense) income, net	(300)	5,377	9,889	1,552
Share of losses of subsidiaries and the VIEs	(1,145,405)	(981,093)	(1,582,142)	(248,273)
Loss before income taxes	**(1,107,784)**	**(961,638)**	**(1,587,744)**	**(249,151)**
Income tax expense	(3,415)	(621)	(968)	(152)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	For the year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*US$* *Note 2(e)*
Net loss	**(1,111,199)**	**(962,259)**	**(1,588,712)**	**(249,303)**
Other comprehensive income (loss), net of tax of nil:				
Foreign currency translation adjustments	64,598	(552,788)	(139,442)	(21,881)
Comprehensive loss attributable to Kingsoft Cloud Holdings Limited shareholders	**(1,046,601)**	**(1,515,047)**	**(1,728,154)**	**(271,184)**
Accretion to redemption value of redeemable convertible preferred shares	(49,725)	(19,768)	–	–
Comprehensive loss attributable to ordinary shareholders	**(1,096,326)**	**(1,534,815)**	**(1,728,154)**	**(271,184)**

Condensed Statements of Cash Flows

	For the year ended December 31,			
	2019	**2020**	**2021**	**2021**
	RMB	*RMB*	*RMB*	*US$* *Note 2(e)*
Net cash (used in) generated from operating activities	(2,538,479)	(6,203,310)	1,178,019	184,857
Net cash generated from (used in) investing activities	2,166,312	(218,674)	(1,179,393)	(185,072)
Net cash generated from (used in) financing activities	370,294	5,945,666	(815)	(128)
Effect of exchange rate changes on cash and cash equivalents	10,921	3,969	3,570	559
Net increase (decrease) in cash and cash equivalents	**9,048**	**(472,349)**	**1,381**	**216**
Cash and cash equivalents at beginning of the year	531,313	540,361	68,012	10,673
Cash and cash equivalents at end of the year	**540,361**	**68,012**	**69,393**	**10,889**

Basis of preparation

For the preparation of the parent company only condensed financial information, the Company records its investments in subsidiaries and the VIEs under the equity method of accounting as prescribed in ASC 323, *Investments – Equity Method and Joint Ventures*. Such investments are presented on the condensed balance sheets as "investments in subsidiaries" and the subsidiaries' and the VIEs' losses as "share of losses of subsidiaries and the VIEs" on the condensed statements of comprehensive loss. Under the equity method of accounting, the Company adjusted the carrying amount of "investments in subsidiaries" for its share of the subsidiaries' and the VIEs' cumulative losses until the investment balance reaches zero and did not provide for additional losses unless the Company has guaranteed obligations of the subsidiaries' and the VIEs' or is otherwise committed to provide further financial support.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

The subsidiaries did not pay any dividends to the Company for the periods presented.

The Company does not have significant commitments or long-term obligations as of the period end.

The parent company only financial statements should be read in conjunction with the Company's consolidated financial statements.

25. DIVIDENDS

No dividend was declared by the Company during the Relevant Periods.

26. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the relevant periods, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Fees	–	863	646
Other emoluments:			
Salaries, allowances and benefits in kind	600	1,080	2,443
Performance related bonuses	–	–	–
Equity-settled share-based payment expense	4,851	113,881	25,915
Pension scheme contributions	50	8	62
	5,501	114,969	28,420
	5,501	115,832	29,066

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Year ended December 31, 2019						
Kuiguang Niu *(Note (a))*	–	–	–	–	–	–
	–	–	–	–	–	–

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Year ended December 31, 2020						
Kuiguang Niu *(Note (a))*	173	–	–	–	–	173
Mingto Yu *(Note (b))*	345	–	–	–	–	345
Hang Wang *(Note (b))*	345	–	–	–	–	345
	863	–	–	–	–	863
Year ended December 31, 2021						
Kuiguang Niu *(Note (a))*	–	–	–	–	–	–
Mingto Yu *(Note (b))*	323	–	–	–	–	323
Hang Wang *(Note (b))*	323	–	–	–	–	323
	646	–	–	–	–	646

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Year ended December 31, 2019						
Yulin Wang *(Note (c))*	–	600	–	4,851	50	5,501
Year ended December 31, 2020						
Yulin Wang *(Note (c))*	–	1,080	–	113,881	8	114,969
Year ended December 31, 2021						
Yulin Wang *(Note (c))*	–	2,443	–	25,915	62	28,420

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(c) Non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Year ended December 31, 2019						
Jun Lei *(Note (d))*	–	–	–	–	–	–
Tao Zou *(Note (e))*	–	–	–	–	–	–
Shou Zi Chew *(Note (f))*	–	–	–	–	–	–
Yuk Keung Ng *(Note (g))*	–	–	–	–	–	–
Bo Peng *(Note (h))*	–	–	–	–	–	–
Dingzhe Liu *(Note (h))*	–	–	–	–	–	–
Qian Zhang *(Note (i))*	–	–	–	–	–	–
Yi Li *(Note (i))*	–	–	–	–	–	–
Kuo Lung Tseng *(Note (j))*	–	–	–	–	–	–
Wei Liu *(Note (k))*	–	–	–	–	–	–
Baoqiu Cui *(Note (l))*	–	–	–	–	–	–
	–	–	–	–	–	–
Year ended December 31, 2020						
Jun Lei *(Note (d))*	–	–	–	–	–	–
Tao Zou *(Note (e))*	–	–	–	–	–	–
Shou Zi Chew *(Note (f))*	–	–	–	–	–	–
Yuk Keung Ng *(Note (g))*	–	–	–	–	–	–
Bo Peng *(Note (h))*	–	–	–	–	–	–
Dingzhe Liu *(Note (h))*	–	–	–	–	–	–
Qian Zhang *(Note (i))*	–	–	–	–	–	–
Yi Li *(Note (i))*	–	–	–	–	–	–
Kuo Lung Tseng *(Note (j))*	–	–	–	–	–	–
Wei Liu *(Note (k))*	–	–	–	–	–	–
	–	–	–	–	–	–
Year ended December 31, 2021						
Jun Lei *(Note (d))*	–	–	–	–	–	–
Tao Zou *(Note (e))*	–	–	–	–	–	–
Shou Zi Chew *(Note (f))*	–	–	–	–	–	–
Hangjun Ye *(Note (m))*	–	–	–	–	–	–
	–	–	–	–	–	–

Except for one director, who waived remuneration amounting to RMB172 and RMB323 for the year ended December 31, 2019 and 2020, none of the other directors waived any emoluments during the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Notes:

(a) Kuiguang Niu has been appointed as an independent non-executive director of the Company since April 2015 and resigned from the position as an independent non-executive director in April 2022.

(b) Mingto Yu and Hang Wang have been appointed as independent non-executive directors of the Company since May 2020.

(c) Yulin Wang has been appointed as the chief executive officer since December 2016, and an executive director of the Company since April 2015.

(d) Jun Lei has been appointed as the chairman of the Board of Directors since April 2015, and a non-executive director of the Company since January 2012.

(e) Tao Zou has been appointed as the vice chairman of the Board of Directors since December 2018, and a non-executive director of the Company since December 2016.

(f) Shou Zi Chew was appointed as a non-executive director of the Company since May 2019 and resigned from the position as a non-executive director in March 2021.

(g) Yuk Keung Ng was appointed as a non-executive director of the Company since November 2012 and resigned from the position as a non-executive director in May 2020.

(h) Bo Peng and Dingzhe Liu were appointed as non-executive directors of the Company since December 2017 and resigned from the position as non-executive directors in May 2020.

(i) Qian Zhang and Yi Li were appointed as non-executive directors of the Company since March 2018 and resigned from the position as non-executive directors in May 2020.

(j) Kuo Lung Tseng was appointed as a non-executive director of the Company since February 2018 and resigned from the position as a non-executive director in May 2020.

(k) Wei Liu was appointed as a non-executive director of the Company since April 2015 and resigned from the position as a non-executive director in May 2020.

(l) Baoqiu Cui was appointed as a non-executive director of the Company since April 2018 and resigned from the position as a non-executive director in May 2019.

(m) Hangjun Ye has been appointed as a non-executive director of the Company since April 2021.

27. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods included the following number of directors and chief executive, details of whose remuneration are set out in note 26 above.

	For the year ended December 31,		
	2019	**2020**	**2021**
Directors and chief executive	1	1	1
Neither directors nor chief executive	4	4	4
	5	5	5

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Details of the remuneration for the year of the remaining highest paid employees who are neither a director nor chief executive of the Company are as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Salaries, allowances and benefits in kind	3,960	3,973	3,994
Performance related bonuses	2,448	29	–
Equity-settled share-based payment expense	29,205	35,070	23,897
Pension scheme contributions	200	30	248
	35,813	39,102	28,139

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	For the year ended December 31,		
	2019	**2020**	**2021**
Nil to HK$5,000,000	–	–	–
HK$5,000,001 to HK$7,000,000	–	–	1
HK$7,000,001 to HK$9,000,000	1	–	3
HK$9,000,001 to HK$11,000,000	1	2	–
HK$11,000,001 to HK$13,000,000	2	2	–
	4	4	4

During the Relevant Periods, the Non-director Individuals were granted share options in respect of their services to the Group, under the share option plans of the Company, further details of which are set out in Note 17. The share-based compensation expenses were recognized in the consolidated statements of comprehensive loss during the Relevant Periods.

No remuneration was paid by the Group to any directors, the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended December 31, 2019, 2020 and 2021.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

28. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Historical Financial Information is prepared in accordance with U.S. GAAP, which differs in certain respects from International Financial Reporting Standards ("IFRSs"). The effects of material differences between the Historical Financial Information of the Group prepared under U.S. GAAP and IFRSs are as follows:

	Year ended December 31, 2019							
Consolidated Statements of Comprehensive Income (Loss) (Extract)	**Amount as reported under US GAAP**	**IFRSs adjustments**						**Amount as reported under IFRSs**
		Preferred Shares *(Note (i))*	**Operating leases** *(Note (ii))*	**Equity investments** *(Note (iii))*	**Share-based compensation** *(Note (iv))*	**Issuance costs** *(Note (v))*	**Provision for credit losses** *(Note (vi))*	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost of revenues	(3,948,644)	–	–	–	832	–	–	(3,947,812)
Selling and marketing expenses	(317,426)	–	–	–	5,077	–	–	(312,349)
General and administrative expenses	(238,648)	–	253	–	2,072	(8,920)	6,634	(238,609)
Research and development expenses	(595,169)	–	–	–	3,404	–	–	(591,765)
Interest expense	(4,925)	(752,387)	(483)	–	–	–	–	(757,795)
Other gain, net	–	90,428	–	–	–	–	–	90,428
Other income (expense), net	6,612	–	–	(4,825)	–	–	–	1,787
(Loss) income before income taxes	(1,102,196)	(661,959)	(230)	(4,825)	11,385	(8,920)	6,634	(1,760,111)
Net (loss) income	(1,111,199)	(661,959)	(230)	(4,825)	11,385	(8,920)	6,634	(1,769,114)
Accretion to redemption value of redeemable convertible preferred shares	(49,725)	49,725	–	–	–	–	–	–
Net (loss) income attributable to ordinary shareholders	(1,160,924)	(612,234)	(230)	(4,825)	11,385	(8,920)	6,634	(1,769,114)
Other comprehensive income (loss), net of tax of nil – Foreign currency translation adjustments	64,598	(445,539)	7	–	–	(83)	–	(381,017)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	Year ended December 31, 2020							
Consolidated Statements of Comprehensive Income (Loss) (Extract)	Amount as reported under US GAAP	IFRSs adjustments						Amount as reported under IFRSs
		Preferred Shares *(Note (i))*	Operating leases *(Note (ii))*	Equity investments *(Note (iii))*	Share-based compensation *(Note (iv))*	Issuance costs *(Note (v))*	Provision for credit losses *(Note (vi))*	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost of revenues	(6,220,324)	–	3,798	–	849	–	–	(6,215,677)
Selling and marketing expenses	(409,211)	–	–	–	1,344	–	–	(407,867)
General and administrative expenses	(379,892)	–	6,105	–	10,665	(11,745)	(4,645)	(379,512)
Research and development expenses	(775,130)	–	–	–	3,870	–	–	(771,260)
Interest expense	(9,453)	(306,038)	(17,304)	–	–	–	–	(332,795)
Other gain (loss), net	14,301	–	–	(14,268)	–	–	–	33
Other (expense) income, net	(10,810)	–	–	3,235	–	–	–	(7,575)
(Loss) income before income taxes	(947,294)	(306,038)	(7,401)	(11,033)	16,728	(11,745)	(4,645)	(1,271,428)
Net (loss) income	(962,198)	(306,038)	(7,401)	(11,033)	16,728	(11,745)	(4,645)	(1,286,332)
Accretion to redemption value of redeemable convertible preferred shares	(19,768)	19,768	–	–	–	–	–	–
Net (loss) income attributable to ordinary shareholders	(982,027)	(286,270)	(7,401)	(11,033)	16,728	(11,745)	(4,645)	(1,286,393)
Other comprehensive loss, net of tax of nil – Foreign currency translation adjustments	(552,788)	(91,012)	(5)	–	–	(457)	–	(644,262)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Consolidated Statements of Comprehensive Income (Loss) (Extract)	Year ended December 31, 2021						
	Amount as reported under US GAAP	IFRSs adjustments					Amount as reported under IFRSs
		Preferred Shares *(Note (i))*	Operating leases *(Note (ii))*	Equity investments *(Note (iii))*	Share-based compensation *(Note (iv))*	Issuance costs *(Note (v))*	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost of revenues	(8,709,496)	–	3,798	–	(927)	–	(8,706,625)
Selling and marketing expenses	(518,167)	–	–	–	(2,738)	–	(520,905)
General and administrative expenses	(601,702)	–	6,047	–	4,559	–	(591,096)
Research and development expenses	(1,043,811)	–	–	–	5,667	–	(1,038,144)
Interest expense	(52,040)	–	(15,062)	–	–	–	(67,102)
Foreign exchange gain	37,822	–	–	96	–	–	37,918
Other gain (loss), net	83,606	–	–	(94,778)	–	–	(11,172)
Other income, net	95,047	–	–	48,526	–	–	143,573
(Loss) income before income taxes	(1,576,015)	–	(5,217)	(46,156)	6,561	–	(1,620,827)
Net (loss) income	(1,591,756)	–	(5,217)	(46,156)	6,561	–	(1,636,568)
Net (loss) income attributable to ordinary shareholders	(1,588,712)	–	(5,217)	(46,156)	6,561	–	(1,633,524)
Other comprehensive (loss) income, net of tax of nil							
– Foreign currency translation adjustments	(139,575)	–	4	–	–	–	(139,571)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

Consolidated Balance Sheet (Extract)	As of December 31, 2019								
	Amount as reported under US GAAP	IFRSs adjustments							Amount as reported under IFRSs
		Preferred Shares	Operating leases	Equity investments	Share-based compensation	Issuance costs	Provision for credit losses		
		(Note (i))	*(Note (ii))*	*(Note (iii))*	*(Note (iv))*	*(Note (v))*	*(Note (vi))*		
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*		*RMB*
Accounts receivable	1,347,481	–	–	–	–	–	(1,039)		1,346,442
Prepayments and other assets	421,938	139,524	(3,715)	–	–	(9,003)	–		548,744
Property and equipment, net	1,720,974	–	1,787	–	–	–	–		1,722,761
Equity investments	114,876	–	–	(4,825)	–	–	–		110,051
Operating lease right-of-use assets	–	–	106,220	–	–	–	–		106,220
Total assets	6,031,821	139,524	104,292	(4,825)	–	(9,003)	(1,039)		6,260,770
Accrued expense and other current liabilities	949,213	4,086	–	–	–	–	–		953,299
Current operating lease liabilities	–	–	9,510	–	–	–	–		9,510
Derivative financial instruments	–	247,941	–	–	–	–	–		247,941
Non-current operating lease liabilities	–	–	95,005	–	–	–	–		95,005
Liability component of redeemable convertible preferred shares	–	6,827,340	–	–	–	–	–		6,827,340
Total liabilities	2,494,548	7,079,367	104,515	–	–	–	–		9,678,430
Total mezzanine equity	7,734,532	(7,734,532)	–	–	–	–	–		–
Additional paid-in capital	91,746	2,634,558	–	–	(40,333)	–	–		2,685,971
Accumulated deficit	(4,902,097)	(1,394,330)	(230)	(4,825)	40,333	(8,920)	(1,039)		(6,271,108)
Accumulated other comprehensive income (loss)	484,348	(445,539)	7	–	–	(83)	–		38,733
Total shareholders' (deficit) equity	(4,197,259)	794,689	(223)	(4,825)	–	(9,003)	(1,039)		(3,417,660)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	As of December 31, 2020							
Consolidated Balance Sheet (Extract)	Amount as reported under US GAAP	IFRSs adjustments						Amount as reported under IFRSs
		Preferred Shares	Operating leases	Equity investments	Share-based compensation	Issuance costs	Provision for credit losses	
		(Note (i))	*(Note (ii))*	*(Note (iii))*	*(Note (iv))*	*(Note (v))*	*(Note (vi))*	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Accounts receivable	2,334,871	–	–	–	–	–	(5,684)	2,329,187
Property and equipment, net	1,956,790	–	1,660	–	–	–	–	1,958,450
Equity investments	126,583	–	–	(15,858)	–	–	–	110,725
Operating lease right-of-use assets	266,968	–	(9,289)	–	–	–	–	257,679
Total assets	11,929,214	–	(7,629)	(15,858)	–	–	(5,684)	11,900,043
Additional paid-in capital	14,149,984	2,236,919	–	–	(57,061)	21,205	–	16,351,047
Accumulated deficit	(5,864,356)	(1,700,368)	(7,631)	(15,858)	57,061	(20,665)	(5,684)	(7,557,501)
Accumulated other comprehensive (loss) income	(68,440)	(536,551)	2	–	–	(540)	–	(605,529)
Total shareholders' equity (deficit)	8,240,050	–	(7,629)	(15,858)	–	–	(5,684)	8,210,879

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

	As of December 31, 2021						
Consolidated Balance Sheet (Extract)	Amount as reported under US GAAP	IFRSs adjustments					Amount as reported under IFRSs
		Preferred Shares *(Note (i))*	Operating leases *(Note (ii))*	Equity investments *(Note (iii))*	Share-based compensation *(Note (iv))*	Issuance costs *(Note (v))*	
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Property and equipment, net	2,364,103	–	1,532	–	–	–	2,365,635
Equity investments	207,166	–	–	(62,014)	–	–	145,152
Operating lease right-of-use assets	256,451	–	(14,374)	–	–	–	242,077
Total assets	21,078,040	–	(12,842)	(62,014)	–	–	21,003,184
Additional paid-in capital	18,245,801	2,236,919	–	–	(63,622)	21,205	20,440,303
Accumulated deficit	(7,458,752)	(1,700,368)	(12,848)	(62,014)	63,622	(20,665)	(9,191,025)
Accumulated other comprehensive (loss) income	(207,882)	(536,551)	6	–	–	(540)	(744,967)
Total shareholders' equity (deficit)	11,492,423	–	(12,842)	(62,014)	–	–	11,417,567

Notes:

(i) 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 the proceeds are received, while under IFRSs, the Company recognizes a receivable upon issuance of the shares.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

(ii) Operating leases

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

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

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

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

(All amounts in thousands, except for number of shares and per share data)

29. SUBSEQUENT EVENTS

In March 2022, the Company was authorized to adopt a share repurchase program under which the Company may repurchase up to US$100,000 of its ordinary shares in the form of ADSs during a twelve-month period.

In June 2022, the Company entered into a cash enhanced share repurchase agreement with Goldman Sachs International ("GSI"), and prepaid US$5,000 to GSI for a written put option on the Company's ordinary shares. The transaction will be settled in September 2022.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies comprising the Group in respect of any period subsequent to December 31, 2021.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT

(All amounts in thousands, except for number of shares and per share data)

Pre-acquisition financial information of Camelot for the period from January 1, 2019 to September 3, 2021 (the "Pre-acquisition Period") has been prepared in accordance with the basis of preparation and accounting policies as set out below. This information is referred hereafter as "Financial Information of Camelot".

1 Financial Information of Camelot

The Financial Information of Camelot in this report was prepared by the directors of Camelot based on the management accounts 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.

Consolidated Balance Sheets

	Notes	**As at December 31, 2019**	**2020**	**As at September 3, 2021**
		RMB	*RMB*	*RMB*
ASSETS				
Current assets				
Cash and cash equivalents		474,185	674,444	618,439
Restricted cash		211	4,477	1,126
Accounts receivable, net of allowance for credit losses of RMB29,815, RMB25,798 and RMB35,181 as of December 31, 2019, 2020 and September 3, 2021, respectively	*2.5*	289,241	233,734	260,877
Prepayments and other assets	*2.6*	538,848	551,843	652,609
Total current assets		**1,302,485**	**1,464,498**	**1,533,051**
Non-current assets				
Property and equipment, net	*2.7*	13,225	13,155	13,792
Intangible assets, net		811	516	–
Prepayments and other assets	*2.6*	165	165	165
Deferred tax assets, net	*2.9*	36,089	42,902	54,419
Operating lease right-of-use assets	*2.8*	–	21,793	26,860
Total non-current assets		**50,290**	**78,531**	**95,236**
Total assets		**1,352,775**	**1,543,029**	**1,628,287**
LIABILITIES, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable	*2.10*	139,678	127,312	110,142
Accrued expenses and other liabilities	*2.11*	542,258	598,546	651,755
Short-term bank loans	*2.12*	48,930	10,000	20,000
Income tax payable		7,495	16,836	13,427
Amounts due to related parties	*2.16*	27,952	25,432	16,345
Current operating lease liabilities	*2.8*	–	9,911	12,168
Total current liabilities		**766,313**	**788,037**	**823,837**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

	Notes	As at December 31, 2019	As at December 31, 2020	As at September 3, 2021
		RMB	*RMB*	*RMB*
Non-current liabilities				
Other liabilities	*2.11*	35,049	35,663	36,260
Non-current operating lease liabilities	*2.8*	–	9,460	11,803
Total non-current liabilities		**35,049**	**45,123**	**48,063**
Total liabilities		**801,362**	**833,160**	**871,900**
Shareholders' equity				
Ordinary shares (US$0.000001 par value; 1,000,000,000 shares authorized; 140,876,940, 250,361,880 and 250,361,880 shares issued and outstanding as of December 31, 2019, 2020 and September 3, 2021, respectively)	*2.14*	1	2	2
Additional paid-in capital		116,065	395,582	398,553
Retained earnings		146,084	199,024	234,341
Accumulated other comprehensive income (loss)	*2.15*	430	(7)	733
Total Camelot Employee Scheme, Inc. shareholders' equity		**262,580**	**594,601**	**633,629**
Non-controlling interests		288,833	115,268	122,758
Total equity		**551,413**	**709,869**	**756,387**
Total liabilities, non-controlling interests and shareholders' equity		**1,352,775**	**1,543,029**	**1,628,287**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Consolidated Statements of Comprehensive Income

	Notes	Year ended December 31,		The period from January 1, 2021 to September 3,
		2019	**2020**	**2021**
		RMB	*RMB*	*RMB*
Revenue	2.4	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**
Operating expenses				
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)
Total operating expenses		**(258,157)**	**(297,778)**	**(211,329)**
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	2.9	(17,652)	(14,228)	(4,528)
Net income		**109,784**	**109,184**	**45,284**
Less: net income attributable to non-controlling interests		61,803	56,244	8,082
Net income attributable to Camelot Employee Scheme, Inc.		**47,981**	**52,940**	**37,202**
Other comprehensive income (loss), net of tax of nil:				
Foreign currency translation adjustments		1,037	(419)	557
Comprehensive income		**110,821**	**108,765**	**45,841**
Less: Comprehensive income attributable to non-controlling interests		61,850	56,262	7,899
Comprehensive income attributable to Camelot Employee Scheme, Inc.		**48,971**	**52,503**	**37,942**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Consolidated Statements of Changes in Shareholders' Equity

Year ended December 31, 2019

		Camelot Employee Scheme, Inc.'s shareholders							
		Ordinary shares							
	Notes	Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
			RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at January 1, 2019		250,361,880	2	254,222	(560)	98,103	351,767	76,126	427,893
Net profit for the year		–	–	–	–	47,981	47,981	61,803	109,784
Cancellation of ordinary shares and issuance of subsidiary's ordinary shares	*2.14*	(109,484,940)	(1)	(150,856)	–	–	(150,857)	150,857	–
Other comprehensive income		–	–	–	990	–	990	47	1,037
Share-based compensation	*2.13*	–	–	12,699	–	–	12,699	–	12,699
Balance at December 31, 2019		**140,876,940**	**1**	**116,065**	**430**	**146,084**	**262,580**	**288,833**	**551,413**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Year ended December 31, 2020

		Camelot Employee Scheme, Inc.'s shareholders							
		Ordinary shares							
	Notes	Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
			RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at January 1, 2020		140,876,940	1	116,065	430	146,084	262,580	288,833	551,413
Net profit for the year		–	–	–	–	52,940	52,940	56,244	109,184
Issuance of ordinary shares and cancellation of subsidiary's ordinary shares	*2.14*	109,484,940	1	229,826	–	–	229,827	(229,827)	–
Other comprehensive income (loss)		–	–	–	(437)	–	(437)	18	(419)
Share-based compensation	*2.13*	–	–	49,691	–	–	49,691	–	49,691
Balance at December 31, 2020		**250,361,880**	**2**	**395,582**	**(7)**	**199,024**	**594,601**	**115,268**	**709,869**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Period ended September 3, 2021

		Camelot Employee Scheme, Inc.'s shareholders							
		Ordinary shares							
	Note	Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
			RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at January 1, 2021		250,361,880	2	395,582	(7)	199,024	594,601	115,268	709,869
Adoption of ASC 326		–	–	–	–	(1,885)	(1,885)	(409)	(2,294)
Net profit for the period		–	–	–	–	37,202	37,202	8,082	45,284
Other comprehensive income (loss)		–	–	–	740	–	740	(183)	557
Share-based compensation	*2.13*	–	–	2,971	–	–	2,971	–	2,971
Balance at September 3, 2021		**250,361,880**	**2**	**398,553**	**733**	**234,341**	**633,629**	**122,758**	**756,387**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Consolidated Statements of Cash Flows

	Notes	Year ended December 31, 2019	Year ended December 31, 2020	The period from January 1, 2021 to September 3, 2021
		RMB	*RMB*	*RMB*
Cash flows from operating activities				
Net income:		109,784	109,184	45,284
Adjustments to reconcile net income to net cash generated from (used in) operating activities:				
Depreciation and amortization		2,171	2,799	2,398
Share-based compensation	*2.13*	12,699	49,691	2,971
Provision (reversal of provision) for credit losses		(1,609)	1,724	10,373
Impairment of contract costs	*2.6*	3,659	2,724	1,030
Loss on disposal of property and equipment		73	415	4
Loss on disposal of intangible assets		–	–	320
Loss on disposal of a subsidiary		–	–	360
Foreign exchange (gain) loss		(7,530)	5,275	18,787
Deferred taxes	*2.9*	(6,266)	(6,813)	(11,517)
Non-cash operating lease expense	*2.8*	–	7,997	9,918
Changes in operating assets and liabilities:				
Accounts receivable		34,592	55,274	(36,282)
Prepayment and other assets		(20,868)	(24,359)	(105,510)
Accounts payable		(23,477)	(12,367)	(17,169)
Accrued expenses and other current liabilities		34,103	58,047	54,433
Amounts due to related parties		(27,981)	(2,520)	(9,087)
Operating lease liabilities		–	(10,419)	(10,385)
Income tax payable		979	9,341	(3,409)
Net cash generated from (used in) operating activities		**110,329**	**245,993**	**(47,481)**

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

	Year ended December 31, 2019	Year ended December 31, 2020	The period from January 1, 2021 to September 3, 2021
	RMB	*RMB*	*RMB*
Cash flows from investing activities			
Purchases of property and equipment	(4,857)	(2,882)	(2,846)
Purchases of intangible assets	(1,050)	–	–
Proceeds from disposal of property and equipment	70	32	3
Disposal of a subsidiary	–	–	(356)
Net cash used in investing activities	**(5,837)**	**(2,850)**	**(3,199)**
Cash flows from financing activities			
Repayment of short-term bank loans	(110,000)	(107,930)	(10,000)
Proceeds from short-term bank loans	84,955	69,000	20,000
Proceeds from early exercise of share-based awards	–	7,898	–
Net cash (used in) generated from financing activities	**(25,045)**	**(31,032)**	**10,000**
Effect of exchange rate changes on cash, cash equivalents and restricted cash	6,673	(7,586)	(18,676)
Net increase (decrease) in cash, cash equivalents, and restricted cash	79,447	212,111	(40,680)
Cash, cash equivalents, and restricted cash at beginning of year/period	388,276	474,396	678,921
Cash, cash equivalents, and restricted cash at end of year/period	**474,396**	**678,921**	**619,565**
Supplemental disclosures of cash flow information:			
Restricted cash	211	4,477	1,126
Income taxes paid	7,579	11,192	21,213
Interest paid	3,710	2,642	301
Cash payments for operating leases	–	9,561	10,295
Non-cash investing and financing activities:			
Right-of-use assets obtained in exchange for operating lease liabilities	–	19,371	23,971

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

2 Notes to the Financial Information of Camelot

2.1 Organization

CES is a limited liability company incorporated in the British Virgin Islands ("BVI") on March 15, 2007. CES and its subsidiaries (collectively referred to as "Camelot") are principally engaged in enterprise digital solutions and services in the PRC and Japan.

As of September 3, 2021, CES's principal subsidiaries are as follows:

Name	Place of establishment	Date of establishment/ acquisition	Percentage of equity interest attributable to CES %	Principal activities
Camelot Technology Co., Ltd. ("Beijing Camelot")	PRC	March 12, 2001	82.15	Enterprise digital solutions and related services
Camelot Information Technology Co., Ltd. ("Huaqiao")	PRC	June 29, 2009	82.15	Enterprise digital solutions and related services
Beijing Yinfeng Technology Development Co., Ltd. ("Yinfeng")	PRC	April 1, 2008	82.15	Enterprise digital solutions and related services
Dalian Yuandong Digital Co., Ltd. ("Dalian Yuandong")	PRC	January 1, 2006	82.15	Enterprise digital solutions and related services
Entoh Digital Co., Ltd. ("DL-JP")	Japan	January 1, 2006	82.15	Enterprise digital solutions and related services
Skylink Technology Co., Ltd. ("Skylink")	PRC	January 19, 2020	82.15	Enterprise digital solutions and related services

2.2 Summary of significant accounting policies

The Financial Information of Camelot has been prepared in accordance with the accounting policies set out in note 2 of Section II.

Adoption of ASC 842 and ASC 326

As disclosed in note 2(m) and note 2(y) of Section II, the Group should disclose the impact of adoption of ASC 326 and ASC 842 on the Financial Information of Camelot. Impact of these two policies on the Financial Information of Camelot in Pre-acquisition Period is summarized below.

Camelot adopted ASC 842 on January 1, 2020 by using the modified retrospective method and did not restate the comparable periods. Camelot has also elected the accounting policy by class of underlying asset to combine lease and non-lease components and account for the combined component in accordance with the accounting treatment for the predominant component. Camelot has also elected the practical expedient of the short-term lease exemption for contracts with lease terms of 12 months or less. Upon adoption ASC 842, Camelot recognized operating lease right-of-use assets of RMB16,054 and total lease liabilities of RMB15,275 for operating leases as of January 1, 2020.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Camelot adopted ASC 326 on January 1, 2021 using a modified retrospective approach with a cumulative effect recorded to decrease the opening balance of retained earnings on January 1, 2021 with an amount of RMB2,294. The comparative periods were not restated.

Upon adoption of ASC 326, Camelot maintains an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts receivable and contract assets, and the estimated credit losses charged to the allowance is classified as "General and administrative expenses" in the consolidated statements of comprehensive income. Camelot assesses collectability by reviewing accounts receivable and contract assets on a collective basis where similar characteristics exist and on an individual basis when Camelot identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, Camelot considers historical collectability based on past due status, the age of the accounts receivable and contract assets balances, credit quality of Camelot's customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect Camelot's ability to collect from customers.

Share-based compensation

As disclosed in note 2(bb) of Section II, the Group applies ASC 718 to account for its employee share-based payments.

A change in the terms or conditions of share options is accounted for as a modification of share-based awards. Camelot calculates the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested share-based awards, Camelot recognizes incremental compensation cost in the period the modification occurred. For unvested share-based awards, Camelot recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

A cancellation of share-based awards that is not accompanied by the concurrent grant of (or offer to grant) a replacement award or other valuable consideration is accounted for as a repurchase for no consideration. Any previously unrecognized compensation costs are recognized at the cancellation date.

Impact of COVID-19

For the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, COVID-19 has not had a significant impact on Camelot's operations. There are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of the pandemic; the uneven impact to certain industries; and the macroeconomic impact of government measures to contain the spread of COVID-19 and related government stimulus measures. As a result, certain of Camelot's estimates and assumptions, including allowance for credit losses, require increased judgment and carry a higher degree of variability and volatility that could result in material changes to Camelot's estimates in future periods.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

2.3 Concentration of risks

(a) Currency convertibility risk

Camelot transacts a majority of its 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 People's Bank of China ("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.

(b) Concentration of credit risk

Assets that potentially subject Camelot to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, accounts receivable and contract assets. Camelot expects that there is no significant credit risk associated with cash and cash equivalents and restricted cash, which were held by reputable financial institutions in the jurisdictions where Camelot and its subsidiaries are located. Camelot believes 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 and 2020 and September 3, 2021, Camelot had one customer with a receivable balance exceeding 10% of the total accounts receivable balance. As of December 31, 2019, Camelot had one customer with contract assets exceeding 10% of the total contract assets balance. As of December 31, 2020 and September 3, 2021, 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 Camelot performs on its customers and its ongoing monitoring process of outstanding balances.

(c) Business, customer, political, social and economic risks

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

No individual customer accounted for more than 10% of total revenues during the year ended December 31, 2019. For the year ended December 31, 2020 and the period ended September 3, 2021, one customer accounted for 18% and 24% of total revenues, respectively.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

(d) 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 RMB against U.S. dollar, there were depreciation of approximately 1.3%, appreciation of approximately 6.3%, and appreciation of approximately 1.3% during the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, respectively. For RMB against Japanese Yen, there were depreciation of approximately 2.6%, appreciation of approximately 1.3%, and appreciation of approximately 7.3% during the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, respectively. It is difficult to predict how market forces or PRC, U.S. or Japanese government policy may impact the exchange rate of the RMB against the U.S. dollar and the Japanese Yen in the future.

To the extent that Camelot needs to convert U.S. dollar or Japanese Yen into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against U.S. dollar or Japanese Yen would have an adverse effect on the RMB amount Camelot would receive from the conversion. Conversely, if Camelot decides to convert RMB into U.S. dollar or Japanese Yen for the purpose of making payments for dividends on ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of U.S. dollar or Japanese Yen against RMB would have a negative effect on the U.S. dollar or Japanese Yen amount available to Camelot. In addition, a significant depreciation of the RMB against the U.S. dollar or Japanese Yen may significantly reduce the U.S. dollar or Japanese Yen equivalent of Camelot's earnings or losses.

2.4 Revenue

The following table presents Camelot's revenues from contracts with customers disaggregated by material revenue category:

	For the year ended December 31,		For the period ended September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Revenues:			
Enterprise digital solutions and services			
Recognized over time	1,431,324	1,487,161	1,207,664
Recognized at a point in time	216,239	188,817	81,056
Others recognized over time	81	44	–
	1,647,644	1,676,022	1,288,720

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2019 and 2020, and September 3, 2021 are related to maintenance services, which are as follows:

	As at December 31,		As at September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Within 1 year	4,919	7,942	4,992
More than 1 year	214	782	433
Total	5,133	8,724	5,425

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Contract balances

Contract liabilities relate to contracts where Camelot received payments but has not yet satisfied the related performance obligations. The advance consideration received from customers for the services is a contract liability until services are provided to the customer.

	For the year ended December 31,		For the period ended September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Revenue recognized from amounts included in contract liabilities at the beginning of the year/period	86,291	81,399	45,664

2.5 Accounts receivable, net

	As at December 31,		As at September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Accounts receivable	319,056	259,532	296,058
Allowance for credit losses	(29,815)	(25,798)	(35,181)
Accounts receivable, net	289,241	233,734	260,877

An ageing analysis of the accounts receivables as at December 31, 2019, 2020 and September 3, 2021, based on the service completion date and net of provisions, is as follows:

	As at December 31,		As at September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Within 3 months	204,405	129,176	134,186
Between 4 months and 6 months	46,786	66,597	64,065
Between 7 months and 1 year	25,747	23,971	54,613
More than 1 year	12,303	13,990	8,013
Accounts receivable, net	289,241	233,734	260,877

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

The movements of the allowance for credit losses were as follows:

	As at December 31, 2019	2020	As at September 3, 2021
	RMB	RMB	RMB
Balance at beginning of the year/period	33,446	29,815	25,798
Adoption of ASC 326*	–	–	630
Provision for expected credit losses	2,613	3,483	10,314
Recoveries during the year/period	(6,244)	(3,250)	(1,561)
Write-offs charged against the allowance	–	(4,250)	–
Balance at end of the year/period	29,815	25,798	35,181

* Starting from January 1, 2021, Camelot adopted ASC 326, which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. Camelot used a modified retrospective approach with a cumulative effect of decreasing the opening balance of retained earnings approximately of RMB630.

2.6 Prepayments and other assets

Prepayments and other assets consisted of the following:

	As at December 31, 2019	2020	As at September 3, 2021
	RMB	RMB	RMB
Current portion:			
Contract assets*	392,685	451,538	522,346
Contract costs**	112,365	81,844	107,245
Prepayments to suppliers	3,307	2,833	1,358
VAT prepayments	15,396	8,245	7,832
Others	15,095	7,383	13,828
	538,848	551,843	652,609
Non-current portion:			
Prepayments	165	165	165
	165	165	165

* Represents Camelot's rights to consideration for work completed in relation to its services performed but not billed at the end of year/period. The allowance for credit losses on contract assets was RMB35,465 as of September 3, 2021. The amount charged to expense for credit loss on contract assets was RMB1,620 for the period ended September 3, 2021. Camelot used a modified retrospective approach with a cumulative effect of decreasing the opening balance of retained earnings approximately of RMB1,664.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

** Represents costs incurred in advance of revenue recognition arising from direct and incremental cost related to enterprise digital solutions and services provided. Such contract costs are recognized as cost of revenue upon the recognition of the related revenues. Impairment losses recognized on contract costs were RMB3,659, RMB2,724, and RMB1,030 for the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, respectively.

2.7 Property and equipment, net

Property and equipment and related accumulated depreciation were as follows:

	As at December 31,		As at September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Electronic equipment	11,444	7,153	7,891
Office equipment and fixtures	4,358	2,338	3,051
Buildings	15,373	17,081	17,533
Motor vehicles	5,363	5,363	5,363
	36,538	31,935	33,838
Less: accumulated depreciation	(23,313)	(18,780)	(20,046)
Property and equipment, net	13,225	13,155	13,792

Camelot recorded depreciation expenses of RMB2,085, RMB2,505 and RMB2,201 for the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, respectively.

2.8 Leases

Camelot has various lease contracts for office spaces and buildings. For leases with terms greater than 12 months, Camelot records the related assets and lease liabilities at the present value of lease payments over the lease term. Certain leases include rental-free periods and rental escalation clause, which are factored into Camelot's determination of lease payments when appropriate. Camelot had no finance leases.

As of December 31, 2020 and September 3, 2021, the weighted average remaining lease terms were 2.4 years and 2.2 years and the weighted average discount rates were 3.80% and 3.82% for Camelot's operating leases, respectively.

For the year ended December 31, 2020, and for the period ended September 3, 2021, operating lease costs recognized in profit or loss were RMB7,997 and RMB9,918, respectively, which excluded cost of short-term contracts. Short-term lease costs for the year ended December 31, 2020, and for the period ended September 3, 2021, were RMB12,863 and RMB5,263, respectively. Rental expense for the year ended December 31, 2019 was RMB24,908.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

The undiscounted future minimum payments under Camelot's operating lease liabilities and reconciliation to the operating lease liabilities recognized on the consolidated balance sheets were as follows:

	As at December 31, 2020	**As at September 3, 2021**
	RMB	*RMB*
For the year/period ended:		
2021	10,048	–
2022	6,000	12,349
2023	4,104	10,103
2024	–	2,413
Total future lease payments	20,152	24,865
Less: imputed interest	(781)	(894)
Total lease liability balance	19,371	23,971

2.9 Taxation

Enterprise income tax

BVI

Under the current laws of the BVI, CES and its subsidiary incorporated in the BVI are not subject to tax on income or capital gains.

Cayman Islands

Under the current laws of the Cayman Islands, the subsidiary of Camelot incorporated in the Cayman Islands is not subject to tax on income or capital gains.

Hong Kong

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. For the periods presented, Camelot did not make any provisions for Hong Kong profits tax as Camelot did not generate any assessable profits arising in Hong Kong during the Pre-acquisition Period. Under the Hong Kong tax law, the subsidiary in Hong Kong is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

Japan

Under the current Japanese tax regulations, the income tax rate applied to Camelot's subsidiary incorporated in Japan is 31%.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

China

Camelot's PRC entities are subject to the statutory income tax at a rate of 25% in accordance with the EIT Law, which was effective since January 1, 2008. Certain subsidiaries of Camelot being qualified as HNTE and Technologically-Advanced Service Enterprise ("TASE") are entitled to the preferential income tax rates of 15% and 15%, respectively. Beijing Camelot and Yinfeng being qualified as HNTE are entitled to the preferential income tax rate of 15% for three years from 2020 to 2022. Huaqiao being qualified as HNTE are entitled to the preferential income tax rate of 15% for three years from 2019 to 2021. In addition, Dalian Yuandong being qualified as a TASE is entitled to the preferential income tax rate of 15% for three years from 2019 to 2021.

Dividends, interest, rent or royalties payable by Camelot's 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.

Profit before income taxes consists of:

	For the year ended December 31,		For the period ended September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
PRC	125,008	121,569	51,959
Non-PRC	2,428	1,843	(2,147)
Total	127,436	123,412	49,812

The current and deferred components of income tax expense appearing in the consolidated statements of comprehensive income are as follows:

	For the year ended December 31,		For the period ended September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Current income tax expense	23,918	21,041	16,045
Deferred income tax benefit	(6,266)	(6,813)	(11,517)
Income tax expense	17,652	14,228	4,528

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

The reconciliation of income tax expense computed using the PRC statutory tax rate to the actual income tax expense is as follows:

	For the year ended December 31, 2019	2020	For the period ended September 3, 2021
	RMB	*RMB*	*RMB*
Profit before income tax	127,436	123,412	49,812
Income tax computed at the PRC statutory tax rate of 25%	31,859	30,853	12,453
Effect of tax holiday and preferential tax rates	(9,537)	(23,092)	(6,209)
Effect of different tax rates in different jurisdictions	153	136	404
Non-deductible expenses	751	698	303
Non-taxable income	(204)	–	(159)
Share-based compensation costs	3,175	12,423	743
Research and development super deduction	(7,236)	(12,574)	(6,576)
Statutory (income) expense	(18,480)	6,564	(7,277)
Unrecognized tax benefits	10,997	(2,242)	4,180
Change in valuation allowance	6,870	2,152	9,430
Tax rate change on deferred items	(3,154)	(4,341)	(4,657)
Late payment interest	1,324	2,856	1,891
Others	1,134	795	2
Income tax expense	17,652	14,228	4,528

Deferred tax

The significant components of Camelot's deferred tax assets and liabilities are as follows:

	As at December 31, 2019	2020	As at September 3, 2021
	RMB	*RMB*	*RMB*
Deferred tax assets:			
Tax loss carried forward	3,404	4,222	17,387
Accrued expenses	50,047	58,619	64,610
Impairment of contract costs	1,380	1,096	1,215
Allowance for doubtful accounts	10,710	10,569	12,241
Operating lease liabilities	–	3,621	4,726
Less: valuation allowance	(29,452)	(31,604)	(41,034)
	36,089	46,523	59,145
Deferred tax liabilities:			
Operating lease right-of-use assets	–	(3,621)	(4,726)
Deferred tax assets, net	36,089	42,902	54,419

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Camelot operates through several subsidiaries and the valuation allowance is considered for each subsidiary on an individual basis. As of December 31, 2019 and 2020 and September 3, 2021, Camelot's total deferred tax assets before valuation allowances were RMB65,541, RMB78,127 and RMB100,179, respectively. As of December 31, 2019 and 2020 and September 3, 2021, Camelot recorded valuation allowances of RMB29,452, RMB31,604 and RMB41,034, respectively, on its deferred tax assets that are sufficient to reduce the deferred tax assets to the amounts that are more-likely-than-not to be realized. In making such determination, Camelot evaluates a variety of factors including Camelot's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2019 and 2020 and September 3, 2021, Camelot had net tax losses of approximately RMB16,256, RMB19,110 and RMB85,972, respectively, mainly deriving from entities in the PRC. The tax losses in PRC can be carried forward for five years to offset future taxable profit and the period was extended to ten years for entities that qualify as HNTE. The tax losses of entities in the PRC will expire between 2021 and 2026 and the tax losses of entities in the PRC that qualify as HNTE will expire between 2021 and 2031, if not utilized.

As of December 31, 2019 and 2020 and September 3, 2021, Camelot did not provide deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries on the basis of its intent to permanently reinvest its foreign subsidiaries' earnings. As of December 31, 2019, 2020 and September 3, 2021, the taxable temporary differences for unrecognized deferred tax liabilities related to investments in foreign subsidiaries were RMB291,708, RMB101,441 and RMB72,794, respectively. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Under the PRC tax regulations, dividends from PRC companies to their overseas parents in respect of earnings derived from January 1, 2008 onwards are subject to PRC dividend withholding tax at 10%. Such rate could be reduced to 5% should treaty benefits be applicable.

Unrecognized tax benefits

As of December 31, 2019 and 2020 and September 3, 2021, Camelot had unrecognized tax benefits of RMB30,183, RMB27,941 and RMB32,121, respectively. Camelot made its assessment of the level of authority for each of its uncertain tax positions (including the potential application of interest and penalties) based on the technical merits, and has measured the unrecognized tax benefits associated with the tax positions. It is possible that the amount of uncertain tax benefits will change in the next 12 months; however, an estimate of the range of the possible outcomes cannot be made at this time. As of December 31, 2019 and 2020 and September 3, 2021, there were RMB30,183, RMB27,941 and RMB26,647 of unrecognized tax benefits that if recognized would impact the annual effective tax rate, respectively. A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

	As at December 31,		As at September 3,
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Balance at beginning of the year/period	19,185	30,183	27,941
Additions based on tax positions related to current year/period	12,155	3,645	6,447
Reversal based on tax position related to prior year/period	(1,157)	(5,887)	(2,267)
Balance at end of the year/period	30,183	27,941	32,121

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

For the periods presented, Camelot did not record any penalties related to unrecognized tax benefits.

As of September 3, 2021, the tax years ended December 31, 2016 through December 31, 2020 for Camelot's PRC entities remain open for statutory examination by PRC tax authorities.

2.10 Accounts payable

An ageing analysis of the accounts payable as at December 31, 2019, 2020 and September 3, 2021, based on the invoice date, is as follows:

	As at December 31, 2019	2020	As at September 3, 2021
	RMB	*RMB*	*RMB*
Within 3 months	57,444	61,872	45,469
Between 4 months and 1 year	37,518	21,763	25,709
Over 1 year	44,716	43,677	38,964
Total	139,678	127,312	110,142

2.11 Accrued expenses and other liabilities

	As at December 31, 2019	2020	As at September 3, 2021
	RMB	*RMB*	*RMB*
Current portion:			
Customer advances*	98,164	76,812	94,653
Salary and welfare payable	354,359	406,405	425,796
Accrued expenses	7,255	6,310	26,638
Other tax and surcharges payable	23,452	26,246	33,373
Others	59,028	82,773	71,295
	542,258	598,546	651,755
Non-current portion:			
Uncertain tax position	30,183	27,941	26,647
Others	4,866	7,722	9,613
	35,049	35,663	36,260

* The amount represents contract liabilities for the rendering of services.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

2.12 Short-term bank loans

In July, September and October 2019, Camelot entered into three short-term bank loan facilities with a bank in Beijing for an aggregate principle amount of RMB48,930. 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 loan facilities with a bank in Beijing for an aggregate principle amount of RMB10,000. 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, for an aggregated amount of RMB10,000.

In March 2021, Camelot entered into one short-term bank loan facility with a bank in Beijing for an aggregate principle amount of RMB20,000. The weighted average interest rate for the outstanding short-term bank loan as of September 3, 2021 was 4.79%. Camelot fully repaid the loan on September 13, 2021.

There are no commitment fees and conditions under which lines may be withdrawn associated with Camelot's unused facilities.

2.13 Share-based payments

2019 Share Incentive Plan

On December 23, 2019, the board of directors of Beijing Camelot approved a share-based incentive plan to grant share options to employees of Beijing Camelot and its subsidiaries (the "2019 Plan"). Beijing Camelot reserved 10,375,540 ordinary shares for issuance under the 2019 Plan. Awards granted under the 2019 Plan immediately vest on the grant date and have no future vesting conditions.

2020 Share Incentive Plan

On July 30, 2020, the board of directors of Beijing Camelot approved the 2020 Share Incentive Plan (the "2020 Plan") with a maximum aggregate number of 7,996,500 ordinary shares that are authorized to be issued under the 2020 Plan. The share awards contain thirty-seven months of service vesting condition. All of the outstanding options under the 2019 Plan were cancelled and replaced by the 2020 Plan.

A summary of the option activity is stated below:

	Number of options	Weighted-average exercise price *RMB*	Weighted-average grant date fair value *RMB*	Weighted-average remaining contractual term *Years*	Aggregate Intrinsic Value *RMB*
Outstanding, January 1, 2019	–	–	–	–	–
Granted	2,176,889	0.99	5.83		
Outstanding, December 31, 2019	2,176,889	0.99	5.83	–	5.81
Vested and expected to vest at December 31, 2019	2,176,889	0.99	5.83	–	5.81
Exercisable at December 31, 2019	2,176,889	0.99	5.83	–	5.81

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

	Number of options	Weighted-average exercise price *RMB*	Weighted-average grant date fair value *RMB*	Weighted-average remaining contractual term *Years*	Aggregate Intrinsic Value *RMB*
Outstanding, December 31, 2019	2,176,889	0.99	5.83	–	5.81
Granted	10,477,745	0.99	5.85		
Cancelled	(4,658,134)	0.99	5.83		
Outstanding, December 31, 2020	7,996,500	0.99	5.89	2.67	5.81
Vested and expected to vest at December 31, 2020	7,996,500	0.99	5.89	2.67	5.81
Exercisable at December 31, 2020	–				
Outstanding, December 31, 2020	7,996,500	0.99	5.89	2.67	5.81
Forfeited	(50,625)	0.99	5.89		
Outstanding, September 3, 2021	7,945,875	0.99	5.89	2.00	5.81
Vested and expected to vest at September 3, 2021	7,945,875	0.99	5.89	2.00	5.81
Exercisable at September 3, 2021	–				

The total weighted-average grant date fair values of the share-based awards granted were RMB5.83 and RMB5.89 per option during the years ended December 31, 2019 and 2020, respectively. The aggregate fair values of the share-based awards vested during the years ended December 31, 2019 and 2020 and for the period ended September 3, 2021 were RMB12,699, nil and nil, respectively.

As of September 3, 2021, there were RMB8,931 of total unrecognized employee share-based compensation expenses, related to unvested share-based awards, which are expected to be recognized over a weighted-average period of 2 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

Fair value of share options

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton valuation model, with the assistance from an independent third-party firm. The volatility assumption was estimated based on reference made to historical volatility of several comparable companies. When estimating the expected term of the options, Camelot primarily considered when the grantees are expected to exercise the options and the expected post-vesting termination behavior as there is no contractual expiration date for these share options. The estimated fair values of the ordinary shares of Beijing Camelot, at the option grant dates, were determined with the assistance from an independent third-party valuation firm.

	2019	**2020**
Risk-free interest rate	2.21%	2.51%
Expected volatility	48.12%	48.70%
Time to expiration (years)	1.00	3.08
Fair market value options per share as at valuation dates	5.83	5.89

The following table sets forth the amount of share-based compensation expense included in each of the relevant financial statement line items:

	For the year ended December 31,		**For the period ended September 3,**
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Cost of revenue	–	4,419	816
Selling and marketing expenses	118	16,932	7
General and administrative expenses	12,581	28,340	2,148
	12,699	49,691	2,971

2.14 Shareholders' equity

The authorized share capital consisted of 1,000,000,000 single class of ordinary shares at a par value of US$0.000001 per share. The total numbers of ordinary shares issued were 140,876,940, 250,361,880 and 250,361,880 as of December 31, 2019 and 2020 and September 3, 2021, respectively.

On February 14, 2019, CES cancelled 109,484,940 ordinary shares issued to certain shareholders of CES, in exchange of the equity interests in Camelot Innovative Technologies Inc ("CIT"), a subsidiary of CES.

On August 31, 2020, CES re-issued 109,484,940 ordinary shares to such shareholders with nil consideration, and cancelled their equity interests in CIT.

III SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION OF CAMELOT (continued)

(All amounts in thousands, except for number of shares and per share data)

2.15 Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss) were as follows:

	RMB
Balance as of January 1, 2019	(560)
Foreign currency translation adjustments, net of tax of nil	990
Balance as of December 31, 2019	430
Foreign currency translation adjustments, net of tax of nil	(437)
Balance as of December 31, 2020	(7)
Foreign currency translation adjustments, net of tax of nil	740
Balance as of September 3, 2021	733

There have been no reclassifications out of accumulated other comprehensive income (loss) to net income for the periods presented.

2.16 Related party transactions

(a) The principal related parties of Camelot are as follows:

Name of related parties	**Relationship with Camelot**
Yiming Ma	Principal shareholder of Camelot
Heidi Chou	Principal shareholder of Camelot

(b) There were no related party transactions during each of the Pre-acquisition Period.

(c) Outstanding balances with related parties:

As at December 31, 2019 and 2020 and September 3, 2021, Camelot had a total amount of RMB27,952, RMB25,432 and RMB16,345 due to Yiming Ma and Heidi Chou, respectively. Amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

2.17 Employee defined contribution plan

All eligible employees of Camelot are entitled to staff welfare benefits including medical care, welfare grants, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. Camelot is required to accrue for these benefits based on certain percentages of the qualified employees' salaries. Camelot is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and Camelot's obligations are limited to the amounts contributed. Camelot has no further payment obligations once the contributions have been paid. Camelot recorded employee benefit expenses of RMB151,915, RMB108,836 and RMB88,742 for the years ended December 31, 2019, 2020 and for the period ended September 3, 2021, respectively.

2.18 Commitments and contingencies

(a) Capital expenditure commitments

Camelot had no significant capital commitments at the end of each of the Pre-acquisition Period.

(b) Contingencies

Camelot is currently not involved in any legal or administrative proceedings that may have a material adverse impact on Camelot's business, balance sheets or results of operations.