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Application Proof of



Kingsoft Cloud Holdings Limited

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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IMPORTANT

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Kingsoft Cloud Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] : [REDACTED] (subject to the
under the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] (subject to reallocation)
Number of [REDACTED] : [REDACTED] (subject to reallocation and
the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED] plus
brokerage of 1.0%, SFC transaction levy
of 0.0027%, FRC transaction levy of
0.00015% and Stock Exchange trading fee
of 0.005% (payable in full on application
in Hong Kong dollars, subject to refund)
Nominal value : US\$[0.001] per [REDACTED]
[REDACTED] : [REDACTED]

*Joint Sponsors
(in alphabetical order)*



[REDACTED]

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A copy of this Document, having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies and Available on Display” in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Document or any other documents referred to above.

We expect to determine the [REDACTED] of the [REDACTED] by agreement with the [REDACTED] (for themselves and on behalf of the [REDACTED]) or on about [REDACTED], [REDACTED] and, in any event, not later than [REDACTED], [REDACTED]. The [REDACTED] will be not more than HK\$[REDACTED] per [REDACTED], unless otherwise announced. If, for any reason, we do not agree with the [REDACTED] (for themselves and on behalf of the [REDACTED]) on the [REDACTED] of the [REDACTED] by [REDACTED], [REDACTED], the [REDACTED] will not proceed and will lapse.

We may set the [REDACTED] at a level higher than the maximum [REDACTED] if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the Nasdaq on the last trading day on or before the [REDACTED] (on a per-Share converted basis) were to exceed the maximum [REDACTED] as stated in this Document and/or (b) we believe that it is in the best interest of the Company as a [REDACTED] company to set the [REDACTED] at a level higher than the maximum [REDACTED] based on the level of interest expressed by [REDACTED] during the [REDACTED] process. If the [REDACTED] is set at or lower than the maximum [REDACTED], the [REDACTED] must be set at such [REDACTED] that is equal to the [REDACTED]. In no circumstances will the [REDACTED] be set above the maximum [REDACTED] as stated in this Document or the [REDACTED].

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] below that stated in this Document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (ir.ksyun.com) not later than the morning of the last day for lodging applications under the [REDACTED]. For further information, please refer to “Structure of the [REDACTED]” and “How to Apply for [REDACTED]”.

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this Document, including the risk factors set out in the section headed “Risk Factors”. The obligations of the Hong Kong [REDACTED] under the [REDACTED] to subscribe for, and to procure subscribers for, the [REDACTED], are subject to termination by the [REDACTED] (for themselves and on behalf of the Hong Kong [REDACTED]) if certain events shall occur prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in the section headed “[REDACTED]”. It is important that you refer to that section for further details.

The ADSs, each of which represents 15 ordinary shares of the Company, are listed for trading on the Nasdaq under the symbol “KC”. The last reported sale price of the ADSs on the Nasdaq on [REDACTED] (U.S. Eastern Time) was US\$[REDACTED] per ADS. In connection with the [REDACTED], we have filed a registration statement on Form F-3 and a preliminary [REDACTED] supplement and plan to file a final [REDACTED] supplement with the SEC to register the [REDACTED] under the U.S. Securities Act.

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[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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IMPORTANT NOTICE TO PROSPECTIVE [REDACTED]

This Document is issued by us solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this Document pursuant to the [REDACTED]. This Document may not be used for the purpose of making, and does not constitute, an [REDACTED] or [REDACTED] in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Document in any jurisdiction other than Hong Kong. The distribution of this Document for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Document and the [REDACTED] to make your [REDACTED] decision. The [REDACTED] is made solely on the basis of the information contained and the representations made in this Document. We have not authorized anyone to provide you with information that is different from what is contained in this Document. Any information or representation not contained nor made in this Document and the [REDACTED] must not be relied on by you as having been authorized by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the [REDACTED].

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SUMMARY

This summary aims to give you an overview of the information contained in this Document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Document. You should read the entire document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in “Risk Factors” in this Document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED]. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary of Technical Terms”.

OVERVIEW

We are the largest independent cloud service provider in China in terms of revenue in 2021, according to Frost & Sullivan. We offer comprehensive, reliable and trusted cloud service to customers in strategically selected verticals. With extensive cloud infrastructure, cutting-edge cloud products based on our vigorous cloud technology R&D capabilities, well-architected industry-specific solutions and end-to-end fulfillment and deployment for customers, we achieved superior business and financial growth, with a revenue growth CAGR of 51.3% from 2019 to 2021, outpacing the broader industry growth CAGR of 36.4% for China’s cloud service market during the same period. We consistently ranked as the largest independent cloud service provider in China in terms of revenue in each of 2019, 2020 and 2021, according to Frost & Sullivan.

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

The global cloud service market has been going through strong and steady growth since 2014, and is expected to maintain such growth momentum. The size of cloud service market in the U.S. is expected to grow at a CAGR of 20.6% from 2021 to 2026, according to Frost & Sullivan. Since 2018, China has become the second largest cloud service market globally in terms of revenue, following the U.S., according to Frost & Sullivan. China’s cloud service market size increased from US\$12.7 billion in 2017 to US\$45.4 billion in 2021, representing a CAGR of 37.5%, and is expected to reach US\$145.8 billion in 2026, representing a CAGR of 26.3% from 2021 to 2026, according to Frost & Sullivan. In addition, China’s cloud service market is well positioned for further growth potential as indicated by, among others, (i) its overall lower cloud service penetration, (ii) the strong and steady growth of cloud service market globally, (iii) increasing penetration in traditional enterprises and public service organizations and (iv) increasing demand for end-to-end cloud solutions and services. The cloud service penetration rate in China was 9.7% in 2021, as compared to 22.1% in the U.S..

SUMMARY

As the world’s second largest cloud service market, China is entering a new phase of digitalization. With an increasing number of non-internet enterprises and organizations accelerating their digitalization, adopting cloud-native technologies that were incubated in internet space, is now widely acknowledged, and demanded by them. Many traditional, non-internet enterprises and organizations are not proficient with cloud stack and their existing IT architectures are not designed for the adoption of cloud solutions. As such, they are demanding for end-to-end cloud solution, starting from planning, to solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. We believe that we are well-positioned to capture the growth opportunities arising from these market trends.

Upholding the principle of platform neutrality and our position as an independent cloud service provider since inception, we have become a trustworthy brand of cloud services within the community of enterprise customers. With our full commitment to cloud service, we are relentlessly mobilizing our resources to enable our customers to successfully embrace the benefits of cloud solutions, to pursue their digital transformation strategies, and to create business value.

We have established our market leadership by addressing customers’ comprehensive needs. We provide a full suite of cloud products combining unified IaaS infrastructure and PaaS middleware, and tailored business applications which support a wide range of use cases that enable our customers’ diverse business objectives. We also offer our solutions in a holistic approach by merging our cloud solutions with dedicated customer services. Our end-to-end customer services cover planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. The entire process is primarily executed by our in-house professionals, with strict adherence to high standards and full accountability.

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

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

SUMMARY

Our revenue increased by 66.2% from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, and further increased by 37.8% to RMB9,060.8 million (US\$1,421.8 million) in 2021, and from RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US\$342.9 million) for the three months ended March 31, 2022.

OUR COMPETITIVE STRENGTHS

With our strategic vision and relentless focus on quality execution over the years, we have created a moat to maintain competitive advantages and become a brand of choice:

- Largest independent cloud service provider in China with established leadership and business scale, becoming a brand of choice for neutrality and trust;
- End-to-end cloud solution provider that offers high quality in-house fulfillment and deployment with a complete suite of products, leveraging our “To-B service DNA”;
- Strategic vertical expansion with proven track record;
- Relentless customer-centric product development;
- Strong customer conversion capabilities and go-to-market efficiencies; and
- Visionary management team and strong synergies with our strategic shareholders.

For a detailed discussion of these strengths, see “Business – Our Competitive Strengths.”

OUR STRATEGIES

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

- Strengthen our market position in strategically selected verticals;
- Enhance our presence in new verticals and grow our customer base;
- Enhance our end-to-end solution and in-house fulfillment and deployment capabilities;
- Continue to invest in infrastructure and technology;
- Capitalize on scale advantages and improve operational efficiency; and
- Enhance our collaborations with business partners.

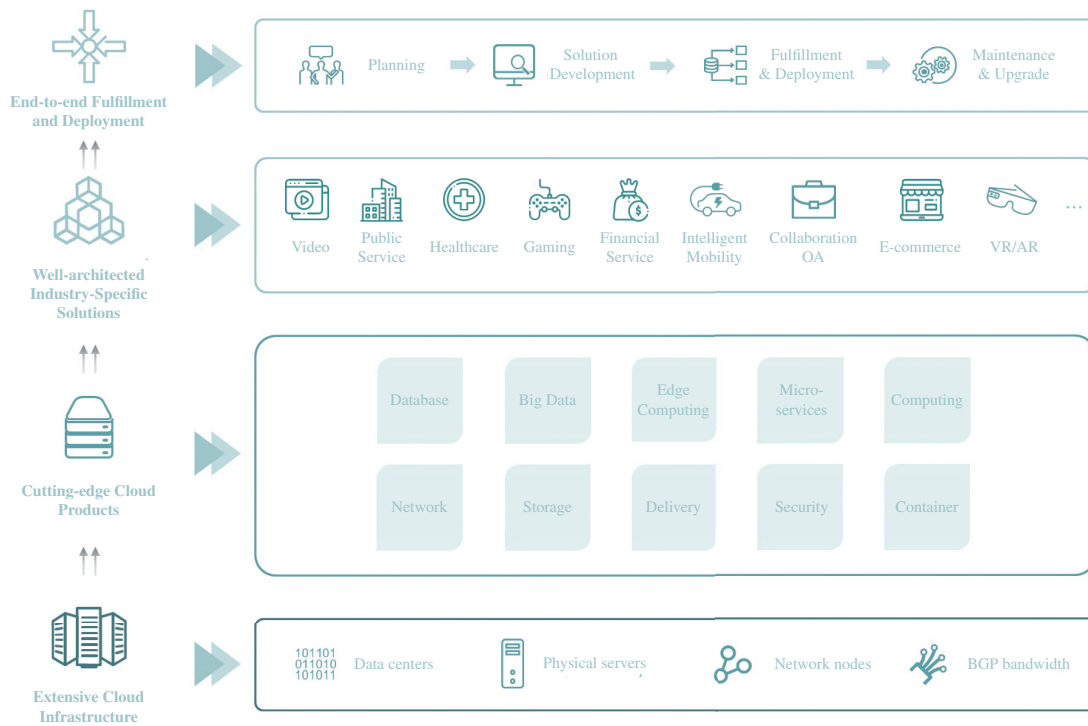
For a detailed discussion of these strategies, see “Business – Our Strategies.”

SUMMARY

OUR CLOUD PLATFORM

We are dedicated to providing high-quality cloud solutions to businesses and organizations across various sectors. We have built a comprehensive and reliable cloud platform consisting of extensive cloud infrastructure, cutting-edge cloud-native products, well-architected industry-specific solutions, and end-to-end services ranging from planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade.

The following chart illustrates our cloud platform:



REVENUE MODEL

Our cloud products and solutions can be deployed as (i) public cloud services, and (ii) enterprise cloud services. Our cloud solutions, both public cloud services and enterprise cloud services, are developed based on the same suite of underlying public cloud technology capabilities covering computing, storage and delivery. At the choice of customers, we offer different deployment methods to cater to their business needs. Our modularized public cloud products are purpose-built to be integrated with industry-specific cloud solutions. We also offer enterprise cloud deployment of our cloud products and solutions, primarily operated on-premise and dedicated to customers.

SUMMARY

The following table illustrates details of our cloud services:

Category	Underlying Technology	Revenue Model	Deployment	Key Benefits to Customers
Public cloud services	Both public cloud services and enterprise cloud services, are developed based on the same suite of underlying public cloud technology capabilities.	Subscriptions – based on utilization and duration.	Operated on off-premise infrastructure and can be delivered over the internet. Underlying infrastructure can be shared by any customer.	<ul style="list-style-type: none"> • Low cost of ownership and maintenance costs • On-demand scalability • High reliability
Enterprise cloud services		Project-based on performance completion.	Operated on on-premise infrastructure. Underlying infrastructure is dedicated to specific customers.	<ul style="list-style-type: none"> • High control over security and privacy • Compliance with regulatory standards • Customizable to cater specific business needs

For details, see “Business – Our Products and Solutions – Revenue Model.”

OUR CUSTOMERS

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

We have been diversifying our customer base through further penetration in selected verticals and entering into new verticals. Our top five customers in aggregate accounted for 65.7%, 61.5%, 50.5% and 48.2% of our total revenues in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our largest customer in each year during the Track Record Period accounted for approximately 30.9%, 28.1%, 21.9% and 17.9% of our total revenue for 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. For details, see “Business – Customers and Customer Support – Customers.”

SUMMARY

OUR SUPPLIERS

Our suppliers primarily consist of IDC operators, telecommunication operators and server providers. Our top five suppliers in aggregate accounted for 31.8%, 28.1%, 22.0% and 22.4% of our total purchases in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our largest supplier in each year during the Track Record Period accounted for approximately 10.0%, 9.3%, 8.5% and 8.1% of our total purchases for 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. For details, see “Business – Suppliers and Procurement.”

BUSINESS SUSTAINABILITY AND PATH TO PROFITABILITY

We achieved sustained business development but were loss-making during the Track Record Period. In 2019, 2020 and 2021, and the three months ended March 31, 2022, we incurred net loss of RMB1,111.2 million, RMB962.2 million, RMB1,591.8 million (US\$249.8 million), and RMB554.8 million (US\$87.5 million), respectively.

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

- **continue to drive business development and optimize our service mix** with an increasing focus on enterprise cloud services, where we see favorable market trends and sustainable growth potential. Our revenue grew at a CAGR of 51.3% from 2019 to 2021, ranking second among major leading cloud service providers in China. Our revenue generated from enterprise cloud services amounted to an increasing portion of our total revenues during the Track Record Period, being 12.3% in 2019, 20.9% in 2020, 32.0% in 2021, and 36.5% in the three months ended March 31, 2022;
- **effectively manage costs** by optimizing modularized products, re-utilizing proven solution components, and better aligning infrastructure resources with our strategic business focuses, which allow us to deliver solutions and services in a more efficient manner. We have significantly improved gross profit, achieving gross profit breakeven in 2019, and achieved gross profit margin of 3.9% in 2021; and
- **improve operational efficiency**, as we continue to scale our business as an established player in the cloud service market, the major components of our operating expenses, namely staff expenses, generally do not increase proportionately with our revenue growth. We have been dedicated to enhancing our ability to manage and control our operating expenses. Our operating expenses as a percentage of total revenue was 29.1%, 23.8% and 23.9% in 2019, 2020 and 2021, respectively, and we expect that such percentage will continue to decrease in the long term as we further improve operational efficiency going forward.

For details, see “Business – Business Sustainability and Path to Profitability.”

SUMMARY

RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to [REDACTED] in us and/or the value of your [REDACTED]. See “Risk Factors” for details of our risk factors, which we strongly urge you to read in full before making an [REDACTED] in our Shares. Some of the major risks we face include:

- We have experienced rapid growth and expect our growth to continue, but if we fail to effectively manage our growth, then our business, results of operations and financial condition could be adversely affected.
- We have a history of net loss and we may not be able to achieve or subsequently maintain profitability.
- To support our business growth, we are continuously optimizing and expanding our infrastructure including data centers, and investing substantially in our research and development efforts, which may negatively impact our cash flow, and may not generate the results we expect to achieve.
- We have recorded negative cash flows from operating activities historically. If we fail to collect accounts receivable from our customers in a timely manner, our business operations and financial results may be materially and adversely affected.
- Although we have been increasing and diversifying our customer base, we receive a substantial portion of our revenues from a limited number of customers, and the loss of, or a significant reduction in usage by, one or more of our Premium Customers would result in lower revenues and could harm our business.
- We operate in a fast-growing market. If our market does not grow as we expect, or if we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, and changing customer needs, requirements or preferences, our products and solutions may become less competitive.
- Data loss, security incidents and attacks on our platform, products or solutions, or our global network infrastructure could lead to significant costs and disruptions that could harm our business, financial results, and reputation.
- The COVID-19 pandemic has disrupted our and our business partners’ operations and it, or any future health epidemic or other adverse public health developments, may continue to do so.

SUMMARY

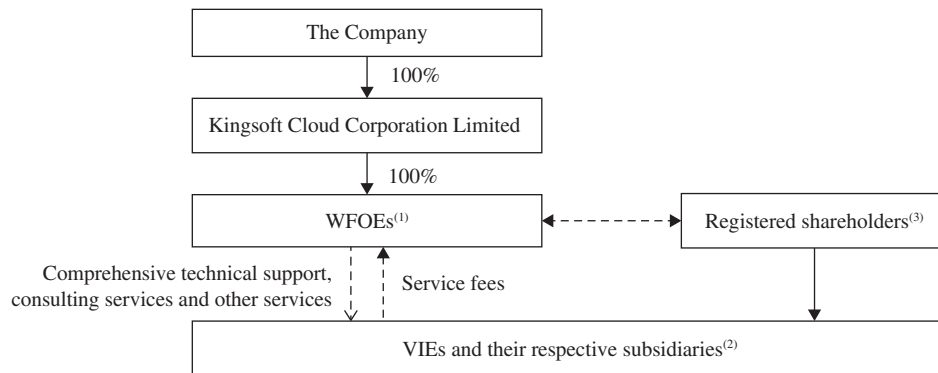
- There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules relating to the agreements that establish the Contractual Arrangements for our operations in China, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with our Consolidated Affiliated Entities and, consequently, significantly affect the financial condition and results of operations performance of our Company. If the PRC government finds such agreements that establish the structure for operating our businesses in China non-compliant with relevant PRC laws, regulations, and rules, or if these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interests in our Consolidated Affiliated Entities.
- A severe or prolonged downturn in the PRC or global economy could materially and adversely affect our business, results of operations and financial condition.
- The filing, approval or other administrative requirements of the CSRC or other PRC government authorities may be required in connection with the [REDACTED] under PRC law.
- Our ADSs may be delisted and our ADSs and shares prohibited from trading on a national securities exchange or through any other method that is within the jurisdiction of the SEC to regulate, including through over-the-counter trading under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China. On December 16, 2021, PCAOB issued the HFCAA Determination Report, according to which our independent registered public accounting firm is subject to the determinations that the PCAOB is unable to inspect or investigate completely. Under the current law, delisting and prohibition from over-the-counter trading in the U.S. could take place in 2024. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your [REDACTED].

SUMMARY

CONTRACTUAL ARRANGEMENTS

As disclosed in the section headed “Contractual Arrangements” in this Document, it was not viable for our Company to hold the Consolidated Affiliated Entities directly through equity ownership. Therefore, in order for our Company to effectively control and enjoy the entire economic benefit of the Consolidated Affiliated Entities, a series of Contractual Arrangements have been entered into among the WFOEs, the Consolidated Affiliated Entities and the Registered Shareholders. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits derived from our Consolidated Affiliated Entities in consideration for the services provided by the WFOEs to the Consolidated Affiliated Entities; (ii) exercise effective control over the Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase the equity interests and assets in the Consolidated Affiliated Entities to the extent permitted by PRC law. For further details, please see the section headed “Contractual Arrangements”.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Company under the Contractual Arrangements:



Notes:

- (1) The WFOEs refer to Beijing Kingsoft Cloud and Yunxiang Zhisheng.
- (2) The VIEs refer to Zhuhai Kingsoft Cloud and Kingsoft Cloud Information. Each of Nanjing Qianyi, Kingsoft Cloud Tianjin and Shanghai Jinxun Ruibo is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud. Each of Chibi Kingsoft Cloud Network Technology Co., Ltd.* (赤壁金山雲網絡技術有限公司), one of the Project Entities, and Shenzhen Yunfan is a subsidiary of Wuhan Kingsoft Cloud, which is indirectly wholly owned by Kingsoft Cloud Information through Beijing Jinxun Ruibo. Each of the remaining Project Entities, including Rizhao Kingsoft Cloud Network Technology Co., Ltd.* (日照金山雲網絡技術有限公司), Kingsoft Cloud Network Technology (Jiangsu) Co., Ltd.* (金山雲網絡技術(江蘇)有限公司), Kingsoft Cloud (Qingyang) Data Information Technology Co., Ltd.* (金山雲(慶陽)數據信息科技(有限)公司), Kingsoft Cloud Intelligent City Technology (Guizhou) Co., Ltd.* (金山雲智慧城市科技(貴州)有限公司) and Kingsoft Cloud Perception City Technology (Anhui) Co., Ltd.* (金山雲感知城市科技(安徽)有限公司) and its subsidiary Changjiang Digital Technology (Anhui) Co., Ltd.* (長江數字科技(安徽)有限公司), is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud.

SUMMARY

- (3) Zhuhai Kingsoft Cloud is held as to 79.60% and 20.40% by Beijing Digital Entertainment and Ms. Qiu Weiqin, respectively, as registered shareholders. Kingsoft Cloud Information is held as to 80% and 20% by Ms. Qiu Weiqin and Mr. Wang Yulin, our executive Director and Chief Executive Officer, respectively, as registered shareholders.
- (4) “————▶” denotes direct legal and beneficial ownership in the equity interest.
- (5) “-----▶” denotes contractual relationship.
- (6) “◀-----▶” denotes the control by WFOEs over the registered shareholders and our Consolidated Affiliated Entities through (i) powers of attorney to exercise all shareholders’ rights in the Consolidated Affiliated Entities; (ii) exclusive call options to acquire all or part of the equity interests in the Consolidated Affiliated Entities; and (iii) equity interest pledges over the equity interests in the Consolidated Affiliated Entities.

RELATIONSHIP WITH KINGSOFT CORPORATION

Immediately upon completion of the [REDACTED] (without taking into account any Shares to be allotted and issued upon the exercise of the [REDACTED] and any additional Shares which may be issued under the Equity Incentive Plans), Kingsoft Corporation will be interested in 1,423,246,584 Shares, representing approximately [REDACTED]% of the issued share capital of our Company and will remain as the controlling shareholder of our Group within the meaning under the Listing Rules after the [REDACTED].

Immediately prior to our listing on the Nasdaq, our Company was a non-wholly owned subsidiary of Kingsoft Corporation. The spin-off of our Company from the Kingsoft Group for a separate listing of ADSs on the Nasdaq, which constituted a major transaction of Kingsoft Corporation, was approved by its shareholders in March 2020 pursuant to paragraph 3(e)(1) of Practice Note 15 and Chapter 14 of the Listing Rules. Following completion of the spin-off and separate listing on May 8, 2020, Kingsoft Cloud ceased to be a subsidiary and has been accounted as an associate of Kingsoft Corporation. For details of the spin-off and separate listing of our Company, see “History, Development and Corporate Structure – Spin-off from Kingsoft Group and Listing on the Nasdaq.”

SUMMARY OF KEY FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to “Financial Information” of this Document, as well as the consolidated financial statements in this Document, including the related notes. Our consolidated financial information was prepared in accordance with U.S. GAAP.

SUMMARY

Summary Consolidated Statements of Comprehensive Profit or Loss

The table below sets forth our consolidated statements of profit or loss for the periods indicated derived from the Accountants’ Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB:

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(unaudited)		(unaudited)			
	(in thousands, except for percentages)											
Selected Consolidated												
Statements of Operation:												
Revenues												
Public cloud services	3,458,843	87.4	5,166,851	78.5	6,159,085	966,495	68.0	1,391,833	76.7	1,380,807	217,817	63.5
Enterprise cloud services	486,308	12.3	1,372,689	20.9	2,897,817	454,731	32.0	420,032	23.2	792,509	125,015	36.5
Others	11,202	0.3	37,767	0.6	3,882	609	0.0	1,667	0.1	493	78	0.0
Total revenues	3,956,353	100.0	6,577,307	100.0	9,060,784	1,421,835	100.0	1,813,532	100.0	2,173,809	342,910	100.0
Cost of revenues	(3,948,644)	(99.8)	(6,220,324)	(94.6)	(8,709,496)	(1,366,710)	(96.1)	(1,697,029)	(93.6)	(2,093,851)	(330,297)	(96.3)
Gross profit	7,709	0.2	356,983	5.4	351,288	55,125	3.9	116,503	6.4	79,958	12,613	3.7
Operating expenses												
Selling and marketing expenses	(317,426)	(8.0)	(409,211)	(6.2)	(518,167)	(81,312)	(5.7)	(112,826)	(6.2)	(144,405)	(22,779)	(6.6)
General and administrative expenses	(238,648)	(6.0)	(379,892)	(5.8)	(601,702)	(94,420)	(6.6)	(91,177)	(5.0)	(221,763)	(34,982)	(10.2)
Research and development expenses	(595,169)	(15.1)	(775,130)	(11.8)	(1,043,811)	(163,797)	(11.6)	(264,636)	(14.6)	(246,633)	(38,905)	(11.4)
Total operating expenses	(1,151,243)	(29.1)	(1,564,233)	(23.8)	(2,163,680)	(339,529)	(23.9)	(468,639)	(25.8)	(612,801)	(96,666)	(28.2)
Operating loss	(1,143,534)	(28.9)	(1,207,250)	(18.4)	(1,812,392)	(284,404)	(20.0)	(352,136)	(19.4)	(532,843)	(84,053)	(24.5)
Interest income	78,612	1.9	77,118	1.2	71,942	11,289	0.8	17,746	1.0	21,157	3,337	1.1
Interest expenses	(4,925)	(0.1)	(9,453)	(0.1)	(52,040)	(8,166)	(0.6)	(3,866)	(0.2)	(34,066)	(5,374)	(1.6)
Foreign exchange (loss)/gain	(38,961)	(1.0)	188,800	2.9	37,822	5,935	0.5	(48,375)	(2.7)	(18,741)	(2,956)	(0.9)
Other gain/(loss), net	-	-	14,301	0.2	83,606	13,120	0.9	5,782	0.3	(12,035)	(1,898)	(0.6)
Other income/(expense), net	6,612	0.2	(10,810)	(0.2)	95,047	14,915	1.0	1,926	0.1	20,038	3,161	0.9
Loss before income taxes	(1,102,196)	(27.9)	(947,294)	(14.4)	(1,576,015)	(247,311)	(17.4)	(378,923)	(20.9)	(556,490)	(87,783)	(25.6)
Income tax (expense)/benefit	(9,003)	(0.2)	(14,904)	(0.2)	(15,741)	(2,470)	(0.2)	(3,286)	(0.2)	1,670	263	0.1
Net loss	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(382,209)	(21.1)	(554,820)	(87,520)	(25.5)

SUMMARY

For details, see “Financial Information” and the Accountants’ Report set forth in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB.

Non-GAAP Financial Measure

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

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

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

Adjusted Gross (Loss)/Profit and Adjusted Gross Margin (Non-GAAP Measures)

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

SUMMARY

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

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

Adjusted Net Loss and Adjusted EBITDA (Non-GAAP Measures)

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

SUMMARY

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

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

SUMMARY

Consolidated Statements of Financial Position

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated, which has been extracted from the Accountants’ Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB:

	As of December 31,				As of March 31,	
	2019	2020	2021	US\$	2022	US\$
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>		<i>RMB</i>	<i>US\$</i>
	<i>(unaudited)</i>					
	<i>(in thousands)</i>					
ASSETS						
Current assets						
Cash and cash equivalents	2,023,263	3,424,674	4,217,528	661,822	3,219,414	507,850
Restricted cash	–	–	239,093	37,519	163,025	25,717
Accounts receivable, net of allowance	1,347,481	2,334,871	3,570,975	560,364	3,525,311	556,104
Short-term investments	225,425	2,693,019	2,491,056	390,901	2,384,549	376,153
Prepayments and other assets	421,938	887,086	1,687,021	264,730	1,669,145	263,303
Amounts due from related parties	131,632	205,068	207,143	32,505	311,306	49,107
Total current assets	4,149,739	9,544,718	12,412,816	1,947,841	11,272,750	1,778,234
Non-current assets						
Property and equipment, net	1,720,974	1,956,790	2,364,103	370,979	2,421,162	381,929
Goodwill	–	–	4,625,115	725,781	4,609,847	727,185
Total non-current assets⁽¹⁾	1,882,082	2,384,496	8,665,224	1,359,763	8,663,105	1,366,571
Total assets	6,031,821	11,929,214	21,078,040	3,307,604	19,935,855	3,144,805
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS’ (DEFICIT) EQUITY						
Current liabilities						
Accounts payable	1,254,589	2,057,355	2,938,632	461,135	2,580,718	407,098
Accrued expenses and other current liabilities	949,213	845,374	2,223,840	348,969	1,843,193	290,757
Short-term bank loans	–	278,488	1,348,166	211,557	1,491,144	235,222
Long-term bank loan, current portion	100,000	74,351	–	–	–	–

SUMMARY

	As of December 31,			As of March 31,		
	2019	2020	2021	2022		
	RMB	RMB	RMB	US\$	RMB	US\$
	(in thousands)					
	<i>(unaudited)</i>					
Income tax payable	11,930	20,564	60,217	9,449	41,482	6,544
Amounts due to related parties	104,259	112,998	836,435	131,255	824,737	130,099
Current operating lease liabilities ⁽¹⁾	–	76,469	108,590	17,040	111,759	17,630
Total current liabilities	2,419,991	3,465,599	7,515,880	1,179,405	6,893,033	1,087,350
Other liabilities	–	40,578	1,232,677	193,434	1,239,669	195,553
Total non-current liabilities⁽¹⁾	74,557	223,565	2,069,737	324,787	2,026,431	319,662
Total liabilities	2,494,548	3,689,164	9,585,617	1,504,192	8,919,464	1,407,012
Total mezzanine equity	7,734,532	–	–	–	–	–
Total shareholders’ (deficit) equity	(4,197,259)	8,239,989	10,603,949	1,663,991	10,134,504	1,598,679
Total liabilities, mezzanine equity and shareholders’ equity	6,031,821	11,929,214	21,078,040	3,307,604	19,935,855	3,144,805

Note:

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

We recorded net current assets of RMB1,729.7 million, RMB6,079.1 million, RMB4,896.9 million (US\$768.4 million), RMB4,379.7 million (US\$690.9 million) and RMB4,144.9 million (US\$614.5 million), as of December 31, 2019, 2020 and 2021, March 31, 2022 and May 31, 2022, respectively.

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

SUMMARY

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

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

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

For details, see “Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets.”

SUMMARY

Summary Consolidated Statements of Cash Flows

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

	For the Year Ended December 31,			US\$	For the Three Months Ended March 31,		
	2019	2020	2021		2021	2022	US\$
	RMB	RMB	RMB		RMB	RMB	
	<i>(in thousands)</i>				<i>(unaudited)</i>		
Net cash used in operating activities	(439,132)	(290,433)	(708,869)	(111,236)	(497,151)	(626,008)	(98,750)
Net cash (used in)/generated from investing activities	883,247	(4,314,003)	(421,623)	(66,162)	(238,180)	(524,766)	(82,780)
Net cash generated from financing activities	64,507	6,124,153	2,212,487	347,187	98,854	97,609	15,397
Net increase/(decrease) in cash, cash equivalents and restricted cash	508,622	1,519,717	1,081,995	169,789	(636,477)	(1,053,165)	(166,133)
Cash, cash equivalents and restricted cash at beginning of the year/period	1,507,071	2,023,263	3,424,674	537,406	3,424,674	4,456,621	703,015
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,570	(118,306)	(50,048)	(7,854)	5,251	(21,017)	(3,315)
Cash, cash equivalents and restricted cash at end of the year/period	2,023,263	3,424,674	4,456,621	699,341	2,793,448	3,382,439	533,567

We have historically been loss-making, and we had been generating net operating cash outflows during the Track Record Period. We generated net loss of RMB1,111.2 million, RMB962.2 million and RMB1,591.8 million (US\$249.8 million) in 2019, 2020 and 2021, respectively, and RMB382.2 million and RMB554.8 million (US\$87.5 million) during the three months ended March 31, 2021 and 2022. As of March 31, 2022, we had an accumulated deficit of RMB8,012.0 million (US\$1,263.9 million). We recorded net operating cash outflows of RMB439.1 million, RMB290.4 million, RMB708.9 million (US\$111.2 million) and RMB626.0 million (US\$98.8 million) in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. During the Track Record Period and up to the Latest Practicable Date, our principal sources of liquidity have been cash generated from financing activities. For details, see “Financial Information – Liquidity and Capital Resources.”

Our ability to improve our net operating cash flow is largely depending on our ability to improve profitability. For details of our plan to improve our financial performance, see “Business – Business Sustainability and Path to Profitability.” With our improving profitability, we also expect our operating cash flow to improve concurrently. Moreover, we plan to enhance our working capital management efficiency to improve our net operating cash outflow positions. We plan to enhance our management of trade receivables by continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments as scheduled. For details, see “Financial Information – Liquidity and Capital Resources – Working Capital.”

SUMMARY

Reconciliation Between U.S. GAAP and IFRS

It should be noted that the consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. For more details about reconciliation between U.S. GAAP and IFRS during the Track Record Period, see “Financial Information – Reconciliation Between U.S. GAAP and IFRS.”

OUR ACQUISITION OF CAMELOT

We completed the acquisition of Camelot in September 2021, and its results of operations have been consolidated into ours since then. Our statement of comprehensive profit or loss from the year ended December 31, 2021 consolidates the results of Camelot since September 2021. For details, see “History, Development and Corporate Structure – Acquisition of Camelot.”

For discussion and analysis of the historical financial information of Camelot for the years ended December 31, 2019 and 2020 and the period ended September 3, 2021, see “Financial Information – Financial Information of Camelot.”

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

Our Company currently has a primary listing of our ADSs on the Nasdaq, which we intend to maintain alongside the proposed [REDACTED] of our ordinary shares on the Stock Exchange. Application has been made to the Listing Committee for the [REDACTED] of, and permission to [REDACTED], our Shares in issue, and those that may be issued pursuant to (i) the [REDACTED] (including the [REDACTED]) and (ii) the exercise of any awards that have been or may be granted under the Equity Incentive Plans.

FUTURE PLANS AND USE OF [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, after deducting [REDACTED], fees and estimated expenses payable by us in connection with the [REDACTED], assuming no [REDACTED] is exercised and based upon an indicative [REDACTED] of HK\$[REDACTED] per [REDACTED] for both the [REDACTED] and the [REDACTED], or HK\$[REDACTED] million if the [REDACTED] is exercised in full.

SUMMARY

We intend to use the [REDACTED] we expect to receive from the [REDACTED] for the purposes and in the amounts set out below.

- Approximately [REDACTED], or HK\$[REDACTED], will be used for upgrading our technology infrastructure to support our core business growth, including purchase of high-performance servers and procurement of data center services in the next 24 months.
- Approximately [REDACTED], or HK\$[REDACTED], will be used for technology, products and solutions development in the next 24 months to strengthen our capabilities in meeting market demands.
- Approximately [REDACTED], or HK\$[REDACTED], will be used for expanding our ecosystem through strategic partnership and investments in the next 36 months. As of the Latest Practicable Date, we did not identify any investment target in this regard.
- Approximately [REDACTED], or HK\$[REDACTED], will be used for general corporate purposes.

For details, see “Future Plans and Use of [REDACTED].”

[REDACTED]

SUMMARY

DIVIDENDS POLICIES

We have not previously declared or paid any cash dividend or dividend in kind and we have no plan to declare or pay any dividends in the near future on our Shares or the ADSs representing our ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our Board has discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying the ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to the ADS holders in proportion to the underlying ordinary shares represented by the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. The Company [has adopted] a policy on payment of dividends taking into account various elements including but not limited to the earnings, cash flow, financial conditions, capital requirements, statutory fund reserve requirements of our Group and any other conditions which the Board may deem relevant.

[REDACTED] EXPENSES

Our [REDACTED] expenses in connection with the [REDACTED] are estimated to be approximately RMB[REDACTED] (equivalent to approximately US\$[REDACTED]), including (i) [REDACTED] related expenses of approximately RMB[REDACTED], and (ii) non-[REDACTED] related expenses of approximately RMB[REDACTED], which consist of fees and expenses of legal advisers and accountants of approximately RMB[REDACTED] and other fees and expenses of approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based upon an indicative [REDACTED] of HK\$[REDACTED] per [REDACTED] for both the [REDACTED] and the [REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

RECENT DEVELOPMENTS

Impacts of COVID-19

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

SUMMARY

These uncertainties may have impacts to our financial performance, to the extent it affects the general economic status, our customers, suppliers, other business partners, and our own operations. However, as a result of the balance of our businesses with exposure to diverse verticals and revenue models, such impacts are mixed in direction. On one hand, (i) travel restriction measures adopted by government authorities may limit our ability to provide on-site services to customers and delay project deployment completion, and (ii) businesses negatively impacted by the pandemic may cut their procurement budget, including cloud budget. On the other hand, the pandemic accelerated cloud adoption as (i) with restrictive measures imposed on transportation in response to the pandemic, people increasingly leverage the internet to fulfill daily activities from work, shopping, education to entertainment, which are increasingly supported by cloud infrastructure, (ii) the healthcare industry in China increasingly tap into cloud technology to meet the challenges of public health events, and (iii) enterprises experiencing business fluctuations in the pandemic may consider cloud services to obtain better agility and cost control in the mid-to-long run.

The extent to which the COVID-19 impacts our operations on an ongoing basis will depend on various factors including the duration and severity of the outbreak, any resurgence of COVID-19, such as the resurgence of COVID-19 in 2022, among others. See also “Risk Factors – Risks Relating to Our Business and Industry – The COVID-19 pandemic has disrupted our and our business partners’ operations and it, or any future health epidemic or other adverse public health developments, may continue to do so.” and “Financial Information – Impact of COVID-19.”

Recent Regulatory Developments

Overseas Listing

On December 24, 2021, the CSRC published the draft Regulations of the State Council on the Administration of Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Administrative Provisions**”) and the draft Measures for the Record-Filing of Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Filing Measures**”) for public comments till January 23, 2022. Pursuant to these drafts, a filing-based regulatory system will be applied to both “direct overseas offering and listing” and “indirect overseas offering and listing” of PRC domestic companies. The “indirect overseas offering and listing” of PRC domestic companies refers to such securities offering and listing in an overseas market made in the name of an offshore entity, but based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. As of the date of this Document, it remains uncertain when the final Administrative Provisions and Filing Measures will be adopted and whether they will be adopted in the current draft form. If the Administrative Provisions and Filing Measures are adopted in the current form before the [REDACTED] is completed, we may be required to file the relevant documents with the CSRC and complete the filing procedures with the CSRC in connection with the [REDACTED].

SUMMARY

As of the Latest Practicable Date, we have not received any formal inquiry, notice, warning, sanction, or any regulatory objection to the [REDACTED] from the CSRC or any other PRC regulatory agencies that have jurisdiction over our operations.

See also “Risk Factors – Risks Relating to Doing Business in China – The filing, approval or other administrative requirements of the CSRC or other PRC government authorities may be required in connection with the [REDACTED] under PRC law.” and “Regulations – Regulations Related to Overseas Listing.”

Cybersecurity Review

In early July 2021, regulatory authorities in China launched cybersecurity investigations with regard to several China-based companies listed in the United States. On December 28, 2021, the Cyberspace Administration of China, or the CAC, together with several other governmental authorities, jointly released the Cybersecurity Review Measures (《網絡安全審查辦法》), which took effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, the purchase of network products and services by an operator of critical information infrastructure or the data processing activities of a network platform operator that affect or may affect national security will be subject to a cybersecurity review. In addition, network platform operators with personal information of over one million users shall be subject to cybersecurity review before listing abroad (國外上市). The competent governmental authorities may also initiate a cybersecurity review against the operators if the authorities believe that the network product or service or data processing activities of such operators affect or may affect national security. Given the Cybersecurity Review Measures came into effect recently, their interpretation, application and enforcement are subject to substantial uncertainties. On November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Administration Regulations on Cyber Data Security**”), which provides the circumstances under which data processors shall apply for cybersecurity review. As of the date of this Document, the Draft Administration Regulations on Cyber Data Security have not been formally adopted. It is uncertain when the final regulation will be issued and take effect, how it will be enacted, interpreted and implemented, and whether or to what extent it will affect us.

On July 30, 2021, the State Council promulgated the Regulations on Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), effective on September 1, 2021, which provide that a “critical information infrastructure” refers to an important network facility and information system in important industries. According to the Regulations on Security Protection of Critical Information Infrastructure, the competent PRC government authorities of important industries and sectors are responsible for identifying critical information infrastructures in their own industries and sectors based on the identification rules and informing the operator of the critical information infrastructure if such infrastructure is identified and designated as critical information infrastructure in a timely manner. The PRC government authorities have discretion in the identification of critical information infrastructures as well as the interpretation and enforcement of these regulations.

SUMMARY

Based on the facts that (i) we have implemented comprehensive measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations in all material respects as disclosed in “Business – Data Privacy and Security,” (ii) the Cybersecurity Review Measures came into effect recently and the Draft Administration Regulations on Cyber Data Security have not been formally adopted, and the implementation and interpretation of both are subject to uncertainties, and (iii) we have not been involved in any investigations on cybersecurity review initiated by the CAC on such basis and nor have we received any inquiry, notice, warning, or sanctions in such respect, after consulting with our PRC Legal Adviser, our Directors are of the view that such regulations do not have a material adverse impact on our business operations and financial performance as of the date of this Document, and will not affect our compliance with laws and regulations in any material aspects as of the date of this Document. As of the Latest Practicable Date, we had not received any cybersecurity, data security and personal data protection related inquiries, any material fines or other material penalties from any competent PRC regulatory authorities. As there might be newly issued explanations or implementation rules on the existing regulations, laws and opinions or the draft measures or regulations mentioned above might become effective, we will actively monitor future regulatory and policy changes to ensure strict compliance with all applicable laws and regulations.

See also “Risk Factors – Risks Relating to Our Business and Industry – We face challenges from the evolving regulatory environment regarding cybersecurity, information security, privacy and data protection, and user attitude toward data privacy and protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any actual or alleged failure to comply with related laws and regulations regarding cybersecurity, information security, data privacy and protection could materially and adversely affect our business and results of operations” and “Regulations – Regulations Related to Cybersecurity and Data Security.”

NO MATERIAL ADVERSE CHANGE

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

DEFINITIONS

In this Document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this Document.

“2013 Share Award Scheme”	the share award scheme of our Company adopted on February 27, 2013, as amended on January 9, 2015, March 3, 2016, June 8, 2016, December 7, 2018 and November 6, 2019, the principal terms of which are set out in “Statutory and General Information – D. Equity Incentive Plans – 2. 2013 Share Award Scheme” in Appendix IV
“2013 Share Option Scheme”	the share option scheme of our Company adopted on February 27, 2013, as amended on June 27, 2013, May 20, 2015 and December 26, 2016, the principal terms of which are set out in “Statutory and General Information – D. Equity Incentive Plans – 1. 2013 Share Option Scheme” in Appendix IV
“2021 Share Incentive Plan”	the share incentive plan of our Company adopted on November 15, 2021, as amended from time to time, the principal terms of which are set out in “Statutory and General Information – D. Equity Incentive Plans – 3. 2021 Share Incentive Plan” in Appendix IV
“%”	percent
“ADS(s)”	American Depositary Shares, each representing 15 Ordinary Shares
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles” or “Articles of Association”	the second amended and restated articles of association of our Company conditionally adopted on [●], 2022 which shall become effective on the [REDACTED], a summary of which is set out in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III
“associate(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Beijing Digital Entertainment”	Beijing Kingsoft Digital Entertainment Technology Co., Ltd.* (北京金山數字娛樂科技有限公司), a limited liability company established under the laws of the PRC on July 30, 2003
“Beijing Jinxun Ruibo”	Beijing Jinxun Ruibo Network Technology Co., Ltd.* (北京金迅瑞博網絡技術有限公司), a limited liability company established under the laws of the PRC on December 17, 2015 and one of our Consolidated Affiliated Entities
“Beijing Kingsoft Cloud”	Beijing Kingsoft Cloud Technology Co., Ltd.* (北京金山雲科技有限公司), a limited liability company established under the laws of the PRC on April 9, 2012 and one of our WFOEs
“Board” or “Board of Directors”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAC”	the Cyberspace Administration of China (中國國家互聯網信息辦公室)
“Camelot”	Camelot Employee Scheme, INC. (subsequently merged with and into Iridescence Limited pursuant to the Camelot Merger Agreement) and its subsidiaries
“Camelot Merger Agreement”	an agreement and plan of merger dated July 31, 2021 entered into by and among our Company, Camelot, Yiming Ma, Heidi Chou, Benefit Overseas Limited and Dreams Power Ltd.
“Camelot Technology”	Camelot Technology Corporation Limited* (柯萊特科技有限責任公司), a limited liability company established under the laws of the PRC on March 12, 2001 and an indirect non-wholly-owned subsidiary of our Company

DEFINITIONS

"Cayman Companies Act" or
"Companies Act" the Companies Act (As Revised), Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

“Chief Executive Officer”	the chief executive officer of our Company
“China” or “PRC”	The People’s Republic of China, except where the context requires otherwise and only for the purposes of this Document, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	Kingsoft Cloud Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on January 3, 2012
“Compensation Committee”	the compensation committee of the Board
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entity(ies)”	entities we control wholly or partly through the Contractual Arrangements, the financial results of which are consolidated into our consolidated financial statements as if they were our subsidiaries
“Contractual Arrangements”	the series of contractual arrangements entered into among our WFOEs, our VIEs and/or their respective registered shareholders, details of which are set out in “Contractual Arrangements”

DEFINITIONS

“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Corporate Governance Committee”	the corporate governance committee of the Board, to be split from the current nominating and corporate governance committee of the Board effective upon the [REDACTED]
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Depositary”	The Bank of New York Mellon, the depositary for our ADS program
“Director(s)”	the director(s) of our Company
“Equity Incentive Plans”	2013 Share Option Scheme, 2013 Share Award Scheme and 2021 Share Incentive Plan
“ESG”	environment, social and corporate governance
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“FRC”	Financial Reporting Council (財務匯報局)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent professional market research and consulting company
“GAAP”	generally accepted accounting principles

[REDACTED]

“Governmental Authority”	any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational
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DEFINITIONS

[REDACTED]

“Group”, “our Group”, “we”,
“us”, or “our”

our Company, its subsidiaries and the Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries and Consolidated Affiliated Entities, such subsidiaries and Consolidated Affiliated Entities as if they were subsidiaries and Consolidated Affiliated Entities of our Company at the relevant time

[REDACTED]

“Hong Kong” or “HK”

the Hong Kong Special Administrative Region of the People’s Republic of China

“Hong Kong dollars” or “HK
dollars” or “HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

DEFINITIONS

[REDACTED]

“IAS”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the IASB
“Independent Third Party” or “Independent Third Parties”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited, J.P. Morgan Securities (Far East) Limited and UBS Securities Hong Kong Limited (<i>in alphabetical order</i>)
“Kingsoft Corporation”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on March 20, 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on November 15, 2005, with its shares listed on the Stock Exchange (stock code: 03888), and the controlling shareholder of the Company within the meaning of the Listing Rules
“Kingsoft Group”	Kingsoft Corporation and its subsidiaries (excluding the Group)

DEFINITIONS

“Kingsoft Cloud Information”	Kingsoft Cloud (Beijing) Information Technology Co. Ltd.* (金山雲(北京)信息技術有限公司), a limited liability company established under the laws of the PRC on April 13, 2018 and one of our VIEs
“Kingsoft Cloud Network”	Beijing Kingsoft Cloud Network Technology Co., Ltd.* (北京金山雲網絡技術有限公司), a limited liability company established under the laws of the PRC on March 25, 2011 and one of our Consolidated Affiliated Entities
“Kingsoft Cloud Tianjin”	Kingsoft Cloud (Tianjin) Technology Development Co., Ltd.* (金山雲(天津)科技發展有限公司), a limited liability company established under the laws of the PRC on May 30, 2019 and one of our Consolidated Affiliated Entities
“Kingsoft Office”	Beijing Kingsoft Office Software, Inc.(北京金山辦公軟件股份有限公司), a subsidiary of Kingsoft Corporation established in the PRC in December 2011, with its shares listed on the Shanghai Stock Exchange STAR Market in November 2019 (Stock Code:688111), and a connected person of the Company
“Latest Practicable Date”	July 19, 2022, being the latest practicable date for ascertaining certain information in this Document before its publication
“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
	[REDACTED]
“Listing Committee”	the Listing Committee of the Stock Exchange
	[REDACTED]
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the second amended and restated memorandum of association of our Company conditionally adopted on [●], 2022 which shall become effective on the [REDACTED], a summary of which is set out in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Nanjing Qianyi”	Nanjing Qianyi Shixun Information Technology Co., Ltd.* (南京仟壹視訊信息技術有限公司), a limited liability company established under the laws of the PRC on March 20, 2014 and one of our Consolidated Affiliated Entities
“Nasdaq”	the Nasdaq Global Select Market
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board, to be split from the current nominating and corporate governance committee of the Board effective upon the [REDACTED]

[REDACTED]

DEFINITIONS

[REDACTED]

“PBOC”	the People’s Bank of China
“PRC Legal Adviser”	Fangda Partners, our legal advisers as to PRC law

[REDACTED]

“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SEC”	the U.S. Securities and Exchange Commission

DEFINITIONS

“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	Securities and Futures Commission of Hong Kong
“Shanghai Jinxun Ruibo”	Shanghai Jinxun Ruibo Network Technology Co., Ltd.* (上海金迅瑞博網絡技術有限公司), a limited liability company established under the laws of the PRC on March 6, 2020 and one of our Consolidated Affiliated Entities
“Share(s)”	ordinary share(s) in the share capital of our Company with a par value of US\$0.001 each
“Shareholder(s)”	holder(s) of our Share(s)

[REDACTED]

“State Council”	the State Council of the PRC (中華人民共和國國務院)
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[REDACTED]

“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Track Record Period”	the financial years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022

[REDACTED]

DEFINITIONS

“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Exchange Act”	United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP”	accounting principles generally accepted in the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“VIE” or “VIEs”	variable interest entity or variable interest entities and unless the context otherwise requires, refers to Zhuhai Kingsoft Cloud and Kingsoft Cloud Information
“WFOE” or “WFOEs”	wholly-owned subsidiari(es) of our Company and unless the context otherwise requires, refers to Beijing Kingsoft Cloud and Yunxiang Zhisheng
“Wuhan Kingsoft Cloud”	Wuhan Kingsoft Cloud Information Technology Co., Ltd.* (武漢金山雲信息技術有限公司), a limited liability company established under the laws of the PRC on December 26, 2017 and one of our Consolidated Affiliated Entities
“Xiaomi”	Xiaomi Corporation, an exempted limited liability company incorporated in the Cayman Islands on January 5, 2010, with its shares listed on the Stock Exchange (stock code: 1810), our substantial shareholder
“Xiaomi Group”	Xiaomi Corporation, its subsidiaries and consolidated affiliated entities
“Yunxiang Zhisheng”	Beijing Yunxiang Zhisheng Technology Co., Ltd.* (北京雲享智勝科技有限公), a limited liability company established under the laws of the PRC on December 15, 2015 and one of our WFOEs

DEFINITIONS

“Zhuhai Kingsoft Cloud” Zhuhai Kingsoft Cloud Technology Co., Ltd.* (珠海金山雲科技有限公司), a limited liability company established under the laws of the PRC on August 21, 2009 and one of our VIEs

In this Document:

- *Unless otherwise expressly stated or the context otherwise requires, all references to any shareholdings in our Company following the completion of the [REDACTED], assuming that the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans.*
- *Certain amounts and percentage figures included in this Document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*
- *The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this Document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.*

GLOSSARY OF TECHNICAL TERMS

The following is a glossary of certain terms used in this Document in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“AI”	artificial intelligence
“API”	application programming interface, a set of clearly defined methods of communication between various software components
“application”	application software designed to run on mobile devices
“architecture”	the structure under which an information system’s hardware, software, data and communication capabilities are put together
“availability”	accessibility to products or services
“bare metal server”	a physical computer server that is only used by one consumer or tenant
“BGP”	border gateway protocol, a standardized exterior gateway protocol designed to exchange routing and reachability information among autonomous systems on the internet
“big data”	large and diverse data sets able to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information assets under new processing model for greater decision-making power, insight and processing optimization capabilities
“CAGR”	compound annual growth rate
“cloud-based”	applications, services or resources made available to users on demand via the Internet from a cloud computing provider’s servers with access to shared pools of configurable resources
“CDN”	content delivery network, a system of distributed servers (network) that deliver pages and other web content to a user, based on the geographic locations of the user, the origin of the webpage and the content delivery server

GLOSSARY OF TECHNICAL TERMS

“cloud-native”	an approach to building and running applications that exploits the advantages of cloud computing, where each part of the application is packaged in its own container, dynamically orchestrated so each part is actively scheduled and managed to optimize resource utilization, and micro services-oriented to increase the overall agility and maintainability of applications. Cloud native technologies empower organizations to build and run scalable applications in modern, dynamic environments such as public, private, and hybrid clouds
“concurrency”	the ability of different parts or units of a program, algorithm, or problem to be executed out-of-order or in partial order, without affecting the final outcome
“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
“data lake”	a centralized repository designed to store, process, and secure large amounts of structured, semistructured, and unstructured data. It can store data in its native format and process any variety of it, ignoring size limits
“DataOps”	a set of practices, processes and technologies that combines an integrated and process-oriented perspective on data with automation and methods from agile software engineering to improve quality, speed, and collaboration and promote a culture of continuous improvement in the area of data analytics
“decoding”	the conversion of an encoded format back into the original sequence of characters

GLOSSARY OF TECHNICAL TERMS

“deep learning”	a subset of AI and machine learning that mimics the working of biological neural systems such as human brains and uses multi-layered neural networks to deliver state-of-the-art accuracy in tasks such as object detection and recognition, speech recognition and natural language processing. Deep learning differs from traditional machine learning techniques in that it can automatically learn representations from data such as images, video or text, without introducing hand-coded rules or human domain knowledge. Its highly flexible architecture can learn directly from raw data and can increase its predictive accuracy when provided with some data
“DevOps”	a set of practices that combines software development and IT operations. It intends to reduce the time between committing a change to a system and the change being placed into normal production, while ensuring high quality
“disaster recovery”	involves a set of policies, tools, and procedures to enable the recovery or continuation of vital technology infrastructure and systems following a natural or human-induced disaster
“distributed denial of service” or “DDoS”	Distributed denial of service (DDoS) attacks are a subclass of denial of service (DoS) attacks. In a distributed denial-of-service attack (DDoS attack), the incoming traffic flooding the victim originates from many different sources. More sophisticated strategies are required to mitigate against this type of attack, as simply attempting to block a single source is insufficient
“EB”	exabyte, which equals to 1,000,000,000 gigabytes
“edge computing”	a distributed computing paradigm that brings computation and data storage closer to the sources of data. Compared with cloud computing, edge computing is expected to improve response times and save bandwidth
“elastic block storage” or “EBS”	elastic block storage provides a range of options for storage performance and cost and raw block-level storage that can be attached to elastic compute cloud instances

GLOSSARY OF TECHNICAL TERMS

“elastic compute” or “elastic computing”	the ability to quickly expand or decrease computer processing, memory, and storage resources to meet changing demands without worrying about capacity planning and engineering for peak usage
“encoding”	the process of putting a sequence of characters (letters, numbers, punctuation, and certain symbols) into a specialized format for efficient transmission or storage
“failure recovery”	a procedure that allows for restart of a failed system in a way that either eliminates or minimizes the amount of incorrect system results
“GPU”	graphics processing unit
“IaaS”	infrastructure as a service, a category of cloud services that provides high-level application programming interface used to dereference various low-level details of underlying network infrastructure like physical computing resources, location, data partitioning, scaling, security, backup, etc.
“independent cloud service providers”	cloud service providers that are not belonging to any large-scale conglomerates that are involved in a wide range of businesses where they could potentially compete with their customers
“InfluxDB”	the Time Series Data Platform where developers build IoT, analytics, and cloud applications
“IoT”	Internet of things, the extension of internet connectivity into physical devices and everyday objects
“IT”	information technology
“key-value storage”	a type of nonrelational database that uses a simple key-value method to store data
“Kubernetes”	an open-source container orchestration system for automating software deployment, scaling, and management
“latency”	physically a consequence of the limited velocity at which any physical interaction can propagate

GLOSSARY OF TECHNICAL TERMS

“live patching”	a way of updating a running system without stopping it
“Micro-services”	an architectural and organizational approach to software development where software is composed of small independent services that communicate over well-defined application programming interface (API)
“MongoDB”	a source-available cross-platform document-oriented database program
“net dollar retention rate of Public Cloud Service Premium Customers”	is calculated by dividing the revenues from our Public Cloud Service Premium Customers, who were also our Public Cloud Service Premium Customers in the previous year, in the indicated period by the revenues from all of our Public Cloud Service Premium Customers in the previous corresponding period
“NoSQL”	“non-SQL” or “non-relational”. A NoSQL database provides a mechanism for storage and retrieval of data that is modeled in means other than the tabular relations used in relational databases
“OA”	office automation
“PaaS”	platform as a service, a category of cloud services that provides a platform allowing customers to develop, run, and manage applications without the complexity of building and maintaining the infrastructure typically associated with developing and launching an app
“PB”	petabyte, which equals to 1,000,000 gigabytes
“Premium Customer”	for a historical year, a customer with annual revenues of over RMB700,000
“R&D”	research and development
“Redis”	an in-memory data structure store, used as a distributed, in-memory key-value database, cache and message broker, with optional durability

GLOSSARY OF TECHNICAL TERMS

“SaaS”	software as a service, a category of cloud services that provides a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted
“SDK”	software development kit, a set of software development tools that can be used to create and develop applications
“server load balancing” or “SLB”	efficiently distributing incoming network traffic across a group of backend servers, also known as a server farm or server pool
“software-defined network”	an approach to network management that enables dynamic, programmatically efficient network configuration in order to improve network performance and monitoring, making it more like cloud computing than traditional network management
“TB”	terabit, which equals to 1,000 gigabytes
“transcoding”	the process of converting an audio or video file from one encoding format to another in order to increase the number of compatible target devices a media file can be played on
“VPN”	virtual private network, an encrypted connection to establish a protected network connection when using public network

FORWARD-LOOKING STATEMENTS

Certain statements in this Document are forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “aim”, “aspire”, “objective”, “target”, “schedules”, and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this Document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our future business development, financial condition and results of operations;
- our business strategies and plans to carry out these strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with our customers and other business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk Factors”.

FORWARD-LOOKING STATEMENTS

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution [REDACTED] against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this Document. Any such intentions may change in light of future developments.

All forward-looking statements in this Document are expressly qualified by reference to this cautionary statement as well as the risks and uncertainties discussed in the section headed “Risk Factors”.

RISK FACTORS

An [REDACTED] in the [REDACTED] involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in the [REDACTED]. The following is a description of what we consider to be our material risks. Any of the following risks could materially and adversely affect our business, financial condition, and results of operations. The market price of the [REDACTED] could significantly decrease due to any of these risks, and you may lose all or part of your [REDACTED].

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We have experienced rapid growth and expect our growth to continue, but if we fail to effectively manage our growth, then our business, results of operations and financial condition could be adversely affected.

We have experienced substantial growth in our business since inception. Our total revenues increased from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, and further to RMB9,060.8 million (US\$1,421.8 million) in 2021, and from RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US\$342.9 million) for the three months ended March 31, 2022. This growth has placed and may continue to place significant demands on our managerial, administrative, operational, financial and other resources. Furthermore, we intend to grow by expanding our business, increasing market penetration of our existing solutions and products and developing new ones. To manage this growth, we must develop and improve our existing administrative and operational systems, our financial and management controls, and further expand, train and manage our work force. In addition, the expansion of our systems and infrastructure will require us to commit substantial financial, operational and management resources before our revenues increase and without any assurances that our revenues will increase. Moreover, continued growth could strain our ability to maintain reliable service levels for our customers. If we fail to achieve the necessary level of efficiency as we grow, our growth rate may decline and [REDACTED] perceptions of our business and prospects may be adversely affected and the [REDACTED] of our Ordinary Shares and the ADSs could decline.

Moreover, our historical growth rates may not be indicative of our future growth or financial results. There is no assurance that we will be able to maintain our historical growth rates in future periods. Since China’s cloud service market is continuously evolving and being shaped by new technologies, our ability to continue our growth is subject to a number of uncertainties, including the overall development of China’s cloud service market and IT infrastructure.

RISK FACTORS

We have a history of net loss and we may not be able to achieve or subsequently maintain profitability.

We incurred net loss of RMB1,111.2 million, RMB962.2 million and RMB1,591.8 million (US\$249.8 million) in 2019, 2020 and 2021, respectively, and RMB382.2 million and RMB554.8 million (US\$87.5 million) in the three months ended March 31, 2021 and 2022, respectively. Our net loss has resulted primarily from our cost of revenues and investments made to grow our business, such as in research and development efforts. We expect our costs and expenses to increase in absolute amounts as we continue to grow our business. Moreover, we intend to continue to invest substantially in the foreseeable future in expanding our infrastructure, improving our technologies, and offering additional solutions and products, which is expected to cause our cost of revenues and research and development expenses to increase continuously in absolute amount. If we fail to achieve economies of scale through our efforts or the economies of scale achieved fail to reduce the loss margin, our profitability may be adversely affected. These efforts may be more costly than we expect and our revenues may not increase sufficiently to offset the expenses, which may result in significantly increased operating and net loss in the short term with no assurance that we will eventually achieve our intended long-term benefits or profitability. For a detailed discussion of our plan to maintain business sustainability and achieve future profitability, see “Business – Business Sustainability and Path to Profitability.”

To support our business growth, we are continuously optimizing and expanding our infrastructure including data centers, and investing substantially in our research and development efforts, which may negatively impact our cash flow, and may not generate the results we expect to achieve.

Our technological capabilities and infrastructure are critical to our success. We have been continuously optimizing and expanding our infrastructure and investing substantially in our research and development efforts. Our research and development expenses increased from RMB595.2 million in 2019 to RMB775.1 million in 2020, and further to RMB1,043.8 million (US\$163.8 million) in 2021. We also plan ahead and commit underlying resources including IDC costs based on our understanding in market prospects. Our IDC costs increased from RMB2,856.6 million in 2019, to RMB4,058.8 million in 2020, and further to RMB5,101.5 million (US\$800.5 million) in 2021. Our capital expenditures, primarily in connection with purchases of property and equipment and intangible assets, were RMB999.7 million, RMB1,591.6 million, and RMB735.4 million (US\$115.4 million) in 2019, 2020 and 2021, respectively, and RMB213.4 million and RMB622.4 million (US\$98.2 million) in the three months ended March 31, 2021 and 2022, respectively. The industry in which we operate is subject to rapid technological changes and is evolving quickly in terms of technological innovation. We need to invest significant resources, including financial and human resources, in research and development to lead technological advances in order to make our solutions and products innovative and competitive in the market. As a result, we expect that our research and development expenses, IDC costs and capital expenditures will continue to increase. Furthermore, as development results are inherently uncertain and the fluctuations of market prices of our products are out of our control, we might encounter practical difficulties in

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commercializing or gaining profits from our development activities. Our significant expenditures on research and development may not generate corresponding benefits. Given the fast pace with which the technology has been and will continue to advance, we may not be able to timely upgrade our technologies in an efficient and cost-effective manner, or at all. New technologies in our industry could render our technologies, our infrastructure or solutions that we are developing or expect to develop in the future obsolete or unattractive, thereby limiting our ability to recover related development costs, which could result in a decline in our revenues, profitability and market share.

We have recorded negative cash flows from operating activities historically. If we fail to collect accounts receivable from our customers in a timely manner, our business operations and financial results may be materially and adversely affected.

We have experienced net cash outflow from operating activities. We recorded net cash used in operating activities of RMB439.1 million, RMB290.4 million, and RMB708.9 million (US\$111.2 million) in 2019, 2020 and 2021, and RMB497.2 million and RMB626.0 million (US\$98.8 million) in the three months ended March 31, 2021 and 2022, respectively, and we may continue to incur net cash outflow from operating activities in the future. The cost of continuing operations could further reduce our cash position, and an increase in our net cash outflow from operating activities could adversely affect our operations by reducing the amount of cash available to meet the capital needs for our daily operation and future business expansion.

We typically extend to our customers credit terms ranging from 30 to 180 days, resulting in accounts receivable. We generally make a credit assessment of our customers before entering into an agreement with them. Nevertheless, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each customer. Furthermore, we also serve customers in certain rapidly evolving and competitive industries, some of which have also been highly regulated, and such customers’ financial soundness is subject to changes to the industry trend or relevant laws and regulations, which is beyond our control. Any change in our customers’ business and financial conditions may affect our collection of accounts receivable. Litigation may be necessary to enforce collection of accounts receivables. Such litigation could be costly, time-consuming and distracting to management, result in a diversion of significant resources, and may have an adverse effect on our business, results of operations and financial condition. Any delay or failure in payment may adversely affect our liquidity and cash flows, which in turn cause material adverse effects on our business operations and financial results.

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Although we have been increasing and diversifying our customer base, we receive a substantial portion of our revenues from a limited number of customers, and the loss of, or a significant reduction in usage by, one or more of our Premium Customers would result in lower revenues and could harm our business.

Our future success is dependent on establishing and maintaining successful relationships with a diverse set of customers. We currently receive a substantial portion of our revenues from a limited number of customers. In 2019, 2020 and 2021, our total revenues generated from Premium Customers accounted for 97.4%, 98.1% and 98.2% of our total revenues in the same periods, respectively. Revenues generated from our five largest customers accounted for a total of 65.7%, 61.5%, 50.5% and 48.2% of our total revenues in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. Our largest customer in each period during the Track Record Period accounted for approximately 30.9%, 28.1%, 21.9% and 17.9% of our total revenue for 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. Specifically, revenue generated from Xiaomi, one of our principal shareholders, accounted for 14.4%, 10.0%, 8.5% and 10.9%, of our total revenues in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. Although we have been increasing and diversifying our customer base, it is likely that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues for the foreseeable future and, in some cases, the portion of our revenues attributable to one single customer may increase in the future. The loss of one or more Premium Customers or a reduction in usage by any Premium Customer would reduce our revenues. If we fail to maintain existing customers or develop relationships with new customers, our business would be harmed.

If our market does not grow as we expect, or if we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, and changing customer needs, requirements and preferences, our products and solutions may become less competitive.

The market where we operate in is still at a relatively early stage with huge potential. There are uncertainties over the size and rate at which this market will grow, as well as whether our solutions and products will be widely adopted. Moreover, the cloud service industry, including public cloud and enterprise cloud, are subject to rapid technological change, evolving industry standards, changing regulations, as well as changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis, including our strategic adjustment of our existing product and solution offerings and development of new products and solutions. If we are unable to develop new solutions and products that satisfy our customers and provide enhancements and new features for our existing products that keep pace with rapid technological and industry change, our business, results of operations and financial condition could be adversely affected. If new technologies emerge that are able to deliver competitive products and services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete effectively.

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Our platform must also integrate with a variety of network, hardware, software platforms and technologies, and we need to continuously modify and enhance our products and platform to adapt to changes and innovation. For example, if customers adopt new software platforms or infrastructure, we may be required to develop new versions of our products to be compatible with those new software platforms or infrastructure. This development effort may require significant resources, which would adversely affect our business, results of operations and financial condition. In addition, we may not be able to keep track of the latest market developments in the IT industry and to provide relevant new products and solutions to the evolving market demand. Any failure of our products and platform to operate effectively with evolving or new software platforms and technologies could reduce the demand for our products. If we are unable to respond to these changes in a timely and cost-effective manner, our products may become less marketable and less competitive or obsolete, and our business, results of operations and financial condition could be adversely affected.

Data loss, security incidents and other attacks on our platform, products or solutions, or our global network infrastructure could lead to significant costs and disruptions that could harm our business, financial results, and reputation.

Our business is dependent on providing our customers with secure, reliable and high-quality cloud services. Maintaining the security and availability of our infrastructure, systems, platform, network, and the security of information and data we hold is a critical issue for us and our customers.

Attacks on our customers and our own network may be frequent and may happen in a variety of forms, including DDoS attacks, infrastructure attacks, botnets, malicious file attacks, cross-site scripting, credential abuse, ransomware, viruses, worms, and malicious software programs. Malicious actors may attempt to fraudulently induce our employees, customers or suppliers to disclose sensitive information through spamming, phishing, or other tactics. In addition, unauthorized parties may attempt to gain physical access to our facilities in order to infiltrate our information systems. Since our customers share our multi-tenant architecture, material attacks on any one of our customers could have a negative effect on other customers. These attacks may also significantly increase the bandwidth used on our platform and strain our network. If attacks like these were to occur in the future and if we do not have the systems and processes in place to respond to them, our business could be harmed.

In recent years, cyber-attacks have increased in size, sophistication, and complexity, increasing exposure for our customers and us. We may become an attractive target for attacks on our infrastructure intended to destabilize, overwhelm, or shut down our platform. The costs incurred by us to avoid or alleviate cyber or other security problems and vulnerabilities will be significant. However, our efforts to address these problems and vulnerabilities may not be successful. Any significant breach of our security measures could:

- lead to the dissemination of proprietary information or sensitive, personal, or confidential data about us, our employees, or our customers – including personally identifiable information of individuals involved with our customers and their end-users;

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- lead to interruptions or degradation of performance in our platform, products and solutions;
- threaten our ability to provide our customers with access to our platform, products and solutions, and negatively affect our abilities to retain existing customers and attract new customers;
- generate negative publicity about us;
- result in litigation and increased legal liability or fines; or
- lead to governmental inquiry or oversight.

Moreover, we use third-party technology and systems in a variety of technical and operational aspects of our business, including encryption and authentication technology, employee email, content delivery to customers, back-office support, among others. Similar security risks exist with respect to such third-parties. As a result, we are subject to the risk that cyber-attacks on our business partners and third-party suppliers may adversely affect our business even if an attack or breach does not directly impact our systems. It is also possible that security breaches sustained by our competitors could result in negative publicity for our entire industry that indirectly harms our reputation and diminishes demand for our platform.

Sanctions, export controls and other economic or trade restrictions imposed on Chinese companies may affect our business, financial condition and results of operations.

The U.S. government has added many Chinese companies and institutions to the Entity List under the Export Administration Regulations, and imposed targeted economic and trade restrictions on them that, if not waived, will limit their access to U.S.-origin goods and technologies, as well as goods and technologies that contain a significant portion of U.S.-origin goods and technologies. The United States has also in certain circumstances threatened to impose further export control, sanctions, trade embargoes, additional import tariffs and other heightened regulatory requirements on China and China-based companies. These sanctions, additional tariffs and actions have raised concerns that there may be increasing regulatory challenges or enhanced restrictions against China and other China-based technology companies, including us, in a wide range of areas. In addition, a number of other countries and jurisdictions, including China and the European Union, have adopted various export control and economic or trade sanction regimes. We believe the immediate and direct impacts on our business resulting from such actions or restrictions will not be material to our Group, because currently our sales to the entities on the Entity List, if any or on similar lists maintained by other countries or regions are in compliance with applicable laws and regulations in all material respects, and the sales amounts have represented a negligible portion of our results of operations. Nonetheless, given the important role played by Chinese high-tech companies on the Entity List in the global supply chain or in China for industries including telecommunications, information technology infrastructure, artificial intelligence and IoTs, prolonged restrictions against such companies could cause a material negative impact to all

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such industries, which may in turn materially and adversely affect our business, financial condition and results of operations. Similarly, we cannot predict whether the countries in which we operate or may operate in the future, could become subject to new or additional restrictions or actions imposed by the United States or other governments. Depending on the likelihood, type, effect and duration of any such restrictions or actions which may be implemented in the future, our research and development activities, financial condition and operations may be adversely affected.

In addition, each of the agreements between U.S.- and China-based companies can be terminated by either party, as applicable, under certain circumstances if necessary Chinese governmental approvals are revoked or become limited or impaired or if public law or regulatory action by the Chinese or U.S. government expressly prohibits or materially restricts the collaboration contemplated by the agreement. The risk of such an early termination event may have increased during the current environment of economic trade negotiations and tensions between the Chinese and U.S. governments.

U.S. sanctions and trade laws and regulations are complex and likely subject to frequent changes. The interpretation and enforcement of the relevant regulations and the imposition of sanctions and other restrictions involve substantial uncertainties, which may be driven by political and/or other factors that are out of our control or heightened by U.S. national security concerns. Such potential restrictions, as well as any associated inquiries or investigations or any other government actions, may be difficult or costly to comply with and may, among other things, delay or impede the development of our technology, products and solutions, hinder the stability of our supply chain, and may result in negative publicity, require significant management time and attention and subject us to fines, penalties, orders or restrictions that we cease or modify our existing business practices, any of which may have a material and adverse effect on our business, financial condition and results of operations. For instance, media reports on alleged implementation or violation of export control, sanctions, trade embargoes or other laws and rules which could be perceived as inappropriate or controversial, by us, our customers, business partners, investees or other parties not affiliated with or controlled by us, even on matters not involving us, could nevertheless damage our reputation and lead to regulatory investigations, fines and penalties against us. Such fines and penalties may be significant, and if we were publicly named or investigated by any regulator on the basis of suspected or alleged violations of export control, sanctions, trade embargoes or other laws and rules, even in situations where the potential amount or fine involved may be relatively small, our reputation could be significantly harmed. Any of these circumstances may cause the [REDACTED] of our Ordinary Shares and the ADSs to decline significantly, and materially reduce the value of your [REDACTED] in our Ordinary Shares and the ADSs.

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Our business depends on customers increasing their use of our products and solutions, if we fail to retain existing customers or increase the spending by our customers, our business, results of operations and financial condition could materially and adversely affected.

Our ability to grow and generate incremental revenues depends, in part, on our ability to maintain our existing customers and grow our relationships with existing customers and to have them increase their usage of and spending on our platform. If our customers do not increase their use of our products or the spending of our customers decline, then our revenues may decline and our results of operations may be harmed. We cannot accurately predict customers’ usage levels and the loss of customers or reductions in their usage levels of our products may each have a negative impact on our business, results of operations and financial condition. Any change in the competitive landscape, market trend or user behaviors may have a negative impact on our customers, thus harm their ability to make payments and maintain and increase the usage of our products and solutions. In addition, some of the industries where our customers operate are highly regulated. As the laws and regulations are evolving and some of them are relatively new, changes to the current laws and regulations may harm our business and results of operation. In addition, interpretation and enforcement of such laws and regulations involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine violation of applicable laws and regulations. If these laws and regulations or the uncertainty associated with their interpretation negatively impact the industries where our customers operate, our business may be adversely affected as well. Reductions in usage from existing customers and the loss of customers could cause our net dollar retention rate to decline in the future if customers are not satisfied with our products, the value proposition of our products or our ability to otherwise meet their needs and expectations.

Further, some of our customers may choose to develop their own solutions that do not include our products, or adopt a multi-cloud strategy decreasing usage of our products. They may also demand reductions in pricing as their usage of our products increases, which could have an adverse impact on our gross margin. If a significant number of customers cease using, or reduce their usage of our products, then we may not be able to achieve our growth target, and may need to spend significantly more on sales and marketing than we currently plan to spend in order to maintain or increase revenues from customers. Such additional sales and marketing expenditures could adversely affect our business, results of operations and financial condition.

If our expansion into new verticals is not successful, our business, prospects and growth momentum may be materially and adversely affected.

Leveraging our top-notch infrastructure resources and years of technology accumulation, we are able to provide innovative integrated cloud solutions specifically designed to address the diversified needs of our customers across our select verticals. We have a track record of successfully expanding into and becoming a leader in new verticals. We cannot assure you, however, that we will be able to maintain this momentum in the future. Expanding solution categories involves new risks and challenges. Our lack of familiarity with new verticals may make it more difficult for us to keep pace with the evolving customer demands and preferences.

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In addition, there may be one or more existing market leaders in any vertical that we decide to expand into. Such companies may have first-mover advantages, and may be able to compete more effectively than us by leveraging their experience in doing business in that market as well as their deeper industry insight and greater brand recognition among customers. We will need to comply with new laws and regulations applicable to these businesses, the failure of which would adversely affect our reputation, business, results of operations and financial condition. Expansion into any new vertical may place significant strain on our management and resources, and failure to expand successfully could have a material adverse effect on our business and prospects.

If the adoption of our cloud products and solutions by our customers is slower than we expected, our business, results of operations and financial condition may be adversely affected.

Our business has relied on the adoption of our cloud products and solutions by a broad array of customers. Our ability to further increase our customer base, achieve broader market acceptance of our products and solutions and achieve revenue growth will depend, in part, on our ability to effectively organize, focus and train our sales and marketing personnel. Our recent hires and planned hires may not become as productive as quickly as we expect and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business.

As we seek to increase the adoption of our products and solutions by our customers, we may incur higher costs and longer sales cycles. The decision to adopt our products and solutions may require the approval of multiple technical and business decision makers, including security, compliance, procurement, operations and IT. In addition, while customers may quickly deploy our products and solutions on a limited basis before they will commit to deploying our products and solutions at scale, they often require enterprise service capabilities, extensive education about our products and solutions and significant customer support time, engage in protracted pricing negotiations and seek to secure readily available development resources.

The market in which we participate is competitive, and if we do not compete effectively, our business, results of operations and financial condition could be harmed.

The cloud service market is competitive and rapidly evolving. The principal competitive factors in our market include platform scalability, reliability, completeness of product offerings, level of sophistication of solutions, credibility with developers, ease of integration and programmability, product features, security and performance, brand awareness and reputation, the strength of sales and marketing efforts, customer support, as well as the cost of deploying and using our products, among others.

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Some of our existing competitors and potential competitors have larger scale, greater brand name recognition, longer operating histories, more established customer relationships and greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer products, solutions or services that address one or a limited number of functions at lower prices, with greater depth than our products or in different geographies. Our current and potential competitors may develop and market new products, solutions and services with comparable functionality to ours, and this could force us to decrease prices in order to remain competitive. With the introduction of new products, solutions and services and new market entrants, we may experience more intensive competition in the future. In addition, some of our customers may choose to use our products and solutions and our competitors’ products and solutions at the same time.

If we are not able to maintain and enhance our brand and increase market awareness of us, or effectively develop and expand our marketing and sales capabilities, then our ability to attract new customers may be harmed and our business, results of operations and financial condition may be adversely affected.

We believe that maintaining and enhancing the “Kingsoft Cloud” brand identity and increasing market awareness of our Company, products and solutions, is critical to achieving widespread acceptance of our products and solutions, to strengthening our relationships with our existing customers and to attracting new customers. The successful promotion of our brand will depend largely on our continued marketing efforts, our ability to continue to offer high quality products and services, our ability to maintain relationships with bandwidth and hardware suppliers, our ability to be one of the thought leaders in the cloud service market and our ability to successfully differentiate our products and platform from competing products and services. Our brand promotion and thought leadership activities may not be successful or increase revenues. In addition, independent industry analysts often provide reviews of our products and competing products and services, which may significantly influence the perception of our products in the marketplace. If these reviews are negative or not as favorable as reviews of our competitors’ products and services, then our brand may be harmed.

We have been subject to negative media publicity for our cloud services. Any malicious or inadvertent negative allegations made by the media, short selling reports, or other parties about the foregoing or other aspects of our Company, including but not limited to our shareholders, management, business, compliance with law, financial condition or prospects, whether with merit or not, could severely hurt our reputation and harm our business and results of operations.

We may receive complaints from our customers on our products, pricing and customer support. If we do not handle customer complaints effectively, our brand and reputation may suffer, our customers may lose confidence in us and they may reduce or cease their use of our products. In addition, our customers may post and discuss on social media about our products, solutions, platform and relevant services. Our success depends, in part, on our ability to

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generate positive customer feedback and minimize negative feedback on social media channels where existing and potential customers seek and share information. If actions we take or changes we make to our products, solutions or platform upset these customers, their commentary could negatively affect our brand and reputation. Complaints or negative publicity about us, our products, solutions or platform could materially and adversely impact our ability to attract and retain customers, our business, results of operations and financial condition.

As we also provide services to a wide range of enterprise clients and institutions, negative publicity about such counterparties, including any failure by them to adequately protect customer information, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation.

The promotion of our brand also requires us to make substantial expenditures, and we anticipate that these expenditures will increase as our market becomes more competitive and as we expand into new markets. To the extent that these activities increase revenues, the increased revenues still may not be enough to offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, then our business may not grow, we may see our pricing power reduced relative to competitors and we may lose customers, all of which would adversely affect our business, results of operations and financial condition.

We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, or at all, our business, financial condition and results of operations may be materially and adversely affected.

We make investments from time to time in product development, technologies, branding, sales and marketing to remain competitive. During the Track Record Period, our principal sources of liquidity included bank loans, loans from related parties and the proceeds received from the issuance and sale of our shares. Our ability to obtain additional financing in the future is subject to a number of uncertainties, including those relating to:

- our future business development, financial condition and results of operations;
- general market conditions for financing activities; and
- macro-economic and other conditions in China and elsewhere.

As of May 31, 2022, we had cash and cash equivalents and short-term investments of RMB5,431.3 million. Although we believe that our business is relatively sufficient funded currently, and we expect to rely less on financing support from our existing shareholders and rely increasingly on net cash provided by operating activities and financing through capital markets and commercial banks for our liquidity needs as our business continues to grow and as we are a public company, we cannot assure you that we will be successful in our efforts to diversify our sources of capital and raise sufficient capital as we expect. If we cannot obtain sufficient capital, we may not be able to implement our growth strategies, and our business, financial condition and results of operations may be materially and adversely affected.

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We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, due to future capital needs and other business reasons, we may need to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and finance covenants that would restrict our operations.

We face risks associated with our acquisition of Camelot, and if we fail to successfully integrate our recently acquired business or any future targets into our own operations, our post-acquisition performance and business prospects may be adversely affected.

We acquired the controlling interests in Camelot in September 2021. Currently, we are still in the process of integrating Camelot into our existing enterprise cloud services. There can be no assurance that the acquired Camelot will bring benefits to us to the extent anticipated. We may not be able to successfully integrate Camelot into our existing business to achieve the expected synergies with our existing operations and to fulfill the contemplated purposes of this acquisition. These synergies are inherently uncertain, and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and are beyond our control. If implemented ineffectively or if impacted by unforeseen negative economic or market conditions or other factors, we may not realize the full anticipated benefits of the acquisition of Camelot. Our failure to meet the challenges involved in realizing the anticipated benefits of the acquisition of Camelot could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations. The acquisition and integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses and diversion of management’s attention, and we may record impairment charges or write-offs in connection therewith if the anticipated benefits of the acquisition fail to realize. We would be subject to and may not be able to successfully manage a variety of additional risks associated with respect to combining Camelot with us. These risks include, but are not limited to, the following:

- challenges in the integration of operations and systems and in managing the expanded operations;
- challenges in achieving anticipated business opportunities and growth prospects from combining the businesses of Camelot with the rest of our businesses;
- challenges in navigating complex regulatory requirements or to respond to future changes in regulatory environment in an effective and timely manner; and
- unanticipated additional costs and expenses resulting from integrating into our business additional personnel, operations, products, services, technology, internal controls and financial reporting responsibilities.

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Even if we achieve the expected benefits, they may not be achieved within the anticipated time frame. Also, the synergies from our acquisition of Camelot may be offset by costs incurred in the acquisition, losses of or disputes with key customers, suppliers, shareholders and employees of Camelot, increases in other expenses, operating losses, liabilities or problems in the business unrelated to our collaboration. As a result, there can be no assurance that these synergies will be achieved.

Additionally, Camelot may not provide us with the intellectual property rights, technology, R&D capability, or sales and marketing infrastructure we had anticipated, or they may be subject to unforeseen liabilities. We may be unable to successfully increase the efficiencies of the acquired businesses in the manner we contemplated or devote more resources and management attention than desirable to the integration and management of the acquired businesses. Hence, there can be no guarantee that we will be able to enhance our post-acquisition performance or grow our business through our recent or future acquisitions.

Our ability to maintain customer satisfaction depends in part on the consistency and quality of our customer support services through the product cycle. Failure to maintain continuous and high-quality customer support could have an adverse effect on our business, results of operation, and financial condition.

We believe that customer satisfaction is key to our business. In order to deliver high-level customer satisfaction, we must successfully assist our customers in deploying and continuing to use our products and solutions, resolving performance issues, addressing interoperability challenges with the customers’ existing IT infrastructure, and responding to security threats, cyber-attacks and performance and reliability problems that may arise from time to time. The IT architecture of our customers, particularly the larger organizations, are very complex and may require high levels of focused support to effectively utilize our platform and products. Because our platform and products are designed to be highly configurable and to rapidly implement customers’ reconfigurations, customer errors in configuring our platform and products can result in significant disruption to our customers. Increased demand for customer support, without corresponding increases in revenues, could increase our costs and adversely affect our business, results of operations, and financial condition.

There can be no assurance that we will be able to hire sufficient personnel as and when needed, particularly if our sales exceed our internal forecasts. To the extent that we are unsuccessful in hiring, training, and retaining adequate support resources, our ability to provide high-quality and timely support to our customers will be negatively impacted, and our customers’ satisfaction with our network could be adversely affected. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation, business, results of operations, and financial condition, particularly with respect to our large enterprise customers.

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We employ a pricing model and strategy that subjects us to various challenges that could make it difficult for us to derive sufficient value from our customers.

We primarily charge public cloud service customers on a monthly basis based on utilization and duration. We generally charge enterprise cloud service customers on a project basis. Such pricing model requires us to undertake significant projections and planning on our costs. If our projections and plans differ significantly from those actually incurred, our business could be harmed. We do not know whether our current or potential customers or the market in general will continue to accept this pricing model going forward and, if it fails to retain acceptance, our business could be harmed. In addition, if our competitors adopt new pricing models that become more attractive to customers, our business could be harmed. We also generally rely on telecommunication operators for network bandwidth and third-party servers or server racks based on expected usage from our customers. In certain of our arrangements with such telecommunication operators, we have made minimum purchase commitments to secure bandwidth resources, which may be underutilized. If our customers use our platform in a manner that is inconsistent with how we have invested in bandwidth, servers, and racks, our business could be harmed. Moreover, we may have to keep the price of our products and solutions on par with that of our competitors to remain in our competitive position. If we are not able to advance our technologies and effectively control costs, our business, results of operation and financial condition may be negatively affected.

Defects or errors in our products or solutions could diminish demand for our products or solutions, harm our business and results of operations and subject us to liability.

Our customers use our products for important aspects of their businesses, and any errors, defects or disruptions to our products and any other performance problems with our products could damage our customers’ businesses and, in turn, hurt our brand and reputation. We provide regular updates to our products, which have in the past contained, and may in the future contain, undetected errors, failures, vulnerabilities and bugs when first introduced or released. Real or perceived errors, failures or bugs in our products could result in negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position, lower customer retention or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. In addition, we do not carry insurance to compensate us for any losses that may result from claims arising from defects or disruptions in our products. As a result, our reputation and our brand could be harmed, and our business, results of operations and financial condition may be adversely affected.

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In addition, our solutions and products must interoperate with our customers’ existing internal networks and infrastructure. These complex internal systems are developed, delivered, and maintained by the customer and a myriad of vendors and service providers. As a result, the components of our customers’ infrastructure have different specifications, rapidly evolve, utilize multiple protocol standards, include multiple versions and generations of products, and may be highly customized. We must be able to interoperate and provide products to customers with highly complex and customized internal networks, which requires careful planning and execution. Further, when new or updated elements of our customers’ infrastructure or new industry standards or protocols are introduced, we may have to update or enhance our technologies and infrastructure to allow us to continue to provide our products to customers. Our competitors or other vendors may refuse to work with us to allow their products to interoperate with our platform and products, which could make it difficult for our platform and products to function properly in customer internal networks and infrastructures that include these third-party products.

We may not deliver or maintain interoperability quickly or cost-effectively, or at all. These efforts require capital investment and engineering resources. If we fail to maintain compatibility of our solutions, platform and products with our customers’ internal networks and infrastructures, our customers may not be able to fully utilize our solutions, platform and products, and we may, among other consequences, lose or fail to increase our market share and experience reduced demand for our products, which would materially harm our business, results of operations, and financial condition.

Our sales and onboarding cycles with customers can be long and unpredictable, and our sales and onboarding efforts require considerable time and expense, which may adversely affect our business, results of operations and financial condition.

The timing of our sales with our enterprise customers and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for these customers. In addition, for certain enterprise customers, the lengthy sales cycle for the evaluation and implementation of our products and solutions may also cause us to experience a delay between expenses for such sales efforts and the generation of corresponding revenues. The length of our sales cycle for these enterprise customers, from initial evaluation to payment, can range from one to six months and can vary substantially from customer to customer. We may have to spend significant money and resources before recognizing revenues from those enterprise customers.

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Similarly, the onboarding and ramping process with new customers can take several months. As the purchase of our products can be dependent upon customer initiatives, our sales cycle can extend to even longer periods of time. Customers frequently require considerable time to evaluate, test, and qualify our product offering prior to entering into or expanding a contract commitment. During the sales cycle, we spend significant time and money on sales and marketing and contract negotiation activities, which may not result in a completed sale. Additional factors that may influence the length and variability of our sales cycle include:

- the effectiveness of our sales force, particularly new salespeople, as we increase the size of our sales force;
- the discretionary nature of customers’ purchasing decisions and budget cycles;
- customers’ procurement processes, including their evaluation of our products and solutions;
- economic conditions and other factors affecting customer budgets;
- the regulatory environment in which our customers operate;
- integration complexity for a customer deployment;
- the customer’s familiarity with our products and solutions;
- evolving customer demands; and
- competitive conditions.

We face challenges from the evolving regulatory environment regarding cybersecurity, information security, privacy and data protection, and user attitude toward data privacy and protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any actual or alleged failure to comply with related laws and regulations regarding cybersecurity, information security, data privacy and protection could materially and adversely affect our business and results of operations.

We operate in the regulatory environment in which the protection of cybersecurity, information security and data privacy is evolving. We are subject to numerous laws and regulations that address cybersecurity, information security, privacy and data protection in various jurisdictions. In particular, on June 10, 2021, the Standing Committee of the National People’s Congress of China promulgated the Data Security Law (《數據安全法》), which took effect in September 2021. The Data Security Law sets forth data security and privacy related compliance obligations of entities and individuals carrying out data related activities. The Data Security Law also introduces a data classification and layered protection system based on the importance of data and the degree of impact on national security, public interests or legitimate rights and interests of individuals or organizations if such data is tampered with, destroyed,

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leaked or illegally acquired or used. In addition, the Data Security Law provides a national security review procedure for data activities that may affect national security, and imposes export restrictions on certain data and information.

In early July 2021, regulatory authorities in China launched cybersecurity investigations with regard to several China-based companies listed in the United States. On December 28, 2021, the CAC, together with several other governmental authorities, jointly released the Cybersecurity Review Measures (《網絡安全審查辦法》), which took effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, the purchase of network products and services by an operator of critical information infrastructure or the data processing activities of a network platform operator that affect or may affect national security will be subject to a cybersecurity review. In addition, network platform operators with personal information of over one million users shall be subject to cybersecurity review before listing abroad (國外上市). The competent governmental authorities may also initiate a cybersecurity review against the operators if the authorities believe that the network product or service or data processing activities of such operators affect or may affect national security. The cybersecurity review will evaluate, among others, the risk of critical information infrastructure, core data, important data, or the risk of a large amount of personal information being influenced, controlled or maliciously used by foreign governments after going public, and cyber information security risk. Given the Cybersecurity Review Measures came into effect recently, their interpretation, application and enforcement are subject to substantial uncertainties. On November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Administration Regulations on Cyber Data Security**”), which provides the circumstances under which data processors shall apply for cybersecurity review, including, among others, when (i) the data processors who process personal information of at least one million users apply for a “foreign” listing; and (ii) the data processors’ listing in Hong Kong affects or may possibly affect national security. However, as of the Latest Practicable Date, it provided no further explanation or interpretation as to how to determine what constitutes “affecting national security”. Data processors processing personal information of more than one million people shall also comply with the provisions for processing of important data stipulated in Draft Administration Regulations on Cyber Data Security for important data processors. Data processors dealing with important data or listing overseas should carry out an annual data security assessment by themselves or by entrusting data security service agencies, and each year before January 31, data security assessment report for the previous year shall be submitted to the districted city level cyberspace administration department. When data collected and generated within the PRC are provided by the data processors overseas, if such data includes important data, or if the relevant data processor is a critical information infrastructure operator or processes personal information of more than one million people, the data processor shall go through the security assessment of cross-border data transfer organized by the national cyberspace administration. As of the Latest Practicable Date, the Draft Administration Regulations on Cyber Data Security had not been formally adopted. It is uncertain whether and when the final regulation will be issued and take effect, how it will be enacted, interpreted and implemented, and whether or to what extent it will affect us.

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On July 30, 2021, the State Council promulgated the Regulations on Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), effective on September 1, 2021, which provide that a “critical information infrastructure” refers to an important network facility and information system in important industries such as public communications and information services, as well as other important network facilities and information systems that may seriously endanger national security, the national economy, the people’s livelihood, or the public interests in the event of damage, loss of function, or data leakage. The competent governmental authorities and regulatory authorities of the aforementioned important industries will be responsible for organizing the identification of critical information infrastructures in their respective industries. The competent governmental authorities shall also notify operators who are identified as “operators of critical information infrastructure” in accordance with these provisions. According to the Regulations on Security Protection of Critical Information Infrastructure, the competent PRC government authorities of important industries and sectors are responsible for identifying critical information infrastructures in their own industries and sectors based on the identification rules and informing the operator of the critical information infrastructure if such infrastructure is identified and designated as critical information infrastructure in a timely manner. The PRC government authorities have discretion in the identification of critical information infrastructures as well as the interpretation and enforcement of these regulations.

On August 20, 2021, the Standing Committee of the National People’s Congress of China promulgated the Personal Information Protection Law of the People’s Republic of China (《中華人民共和國個人信息保護法》), effective from November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. Different types of personal information and personal information processing will be subject to various rules on consent, transfer, and security. Entities handling personal information shall bear responsibilities for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle. Otherwise, the entities handling personal information could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

In the meantime, the PRC regulatory authorities have also enhanced the supervision and regulation on cross-border data transfer. On July 7, 2022, the CAC promulgated the Measures for the Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》), which will take effect from September 1, 2022. These measures require the data processor providing data overseas and falling under any of the following circumstances apply for the security assessment of cross-border data transfer by the national cybersecurity authority through its local counterpart: (i) where the data processor intends to provide important data overseas; (ii) where the critical information infrastructure operator and any data processor who has processed personal information of more than 1,000,000 people intend to provide personal information overseas; (iii) where any data processor who has provided personal information of 100,000 people or sensitive personal information of 10,000 people to overseas recipients accumulatively since January 1 of the last year intends to provide personal information overseas; and (iv) other circumstances where the security assessment of data cross-border

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transfer is required as prescribed by the CAC. Furthermore, the data processor shall conduct a self-assessment on the risk of data cross-border transfer prior to applying for the foregoing security assessment, under which the data processor shall focus on certain factors including, among others, the legitimacy, fairness and necessity of the purpose, scope and method of data cross-border transfer and the data processing of overseas recipients, the risks that the cross-border data transfer may bring to national security, public interests and the legitimate rights and interests of individuals or organizations as well as whether the cross-border data transfer related contracts or the other legally binding documents to be entered with overseas recipients have fully included the data security protection responsibilities and obligations. Given that the above measures were recently promulgated, their interpretation, application and enforcement and how they will affect our business operation are subject to substantial uncertainties, See "Regulations – Regulations Related to Cybersecurity and Data Security" and "Regulations – Regulations Relating to Privacy Protection."

As of the Latest Practicable Date, (i) we have not been informed by any PRC governmental authority of any requirement to file for approval for this [REDACTED]; (ii) we have not been subject to any material fines or administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to the infringement of cybersecurity and data protection laws and regulations; (iii) there is no leakage of data or personal information or violation of cybersecurity and data protection and privacy laws and regulations by us which will have a material adverse impact on our business operations; (iv) there have been no material cybersecurity and data protection incidents or infringement upon the rights of any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of the knowledge of the Company, threatened against or relating to the Company; and (v) we have implemented comprehensive cybersecurity and data protection policies, procedures and measures to safeguard personal information rights and ensure secured storage and transmission of data and prevent unauthorized access or use of data.

Furthermore, based on the facts that (i) the Cybersecurity Review Measures came into effect recently and the Draft Administration Regulations on Cyber Data Security have not been formally adopted, and the implementation and interpretation of both are subject to uncertainties, and (ii) we have not been involved in any investigations on cybersecurity review initiated by the CAC on such basis and nor have we received any inquiry, notice, warning, or sanctions in such respect, after consulting with our PRC Legal Adviser, our Directors are of the view that such regulations do not have a material adverse impact on our business operations and financial performance as of the Latest Practicable Date, and will not affect our compliance with laws and regulations in any material aspects as of the Latest Practicable Date. As of the Latest Practicable Date, we had not received any cybersecurity, data security and personal data protection related inquiries from any competent PRC regulatory authorities. As there might be newly issued explanations or implementation rules on the existing regulations, laws and opinions or the draft measures or regulations mentioned above might become effective, we will actively monitor future regulatory and policy changes to ensure strict compliance with all applicable laws and regulations.

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Given that the above mentioned newly promulgated laws, regulations and policies were recently promulgated or issued, or have not yet been formally promulgated or taken effect (as applicable), their enactment, interpretation, application and enforcement are subject to substantial uncertainties. We have incurred, and will continue to incur, significant expenses in an effort to comply with cybersecurity, privacy, data protection and information security related laws, regulations, standards and protocols, especially as a result of such newly promulgated laws and regulations. Despite our efforts to comply with applicable laws, regulations and policies relating to cybersecurity, privacy, data protection and information security, we cannot assure you that our practices, offerings, services or platform will meet all of the requirements imposed on us by such laws, regulations or policies. Any failure or perceived failure to comply with applicable laws, regulations or policies may result in inquiries or other proceedings being instituted against, or other lawsuits, decisions or sanctions being imposed on us by governmental authorities, users, consumers or other parties, including but not limited to warnings, fines, directions for rectifications, suspension of the related business and termination of our applications, as well as in negative publicity on us and damage to our reputation, any of which could have a material adverse effect on our business, results of operations, financial condition and prospects. The above mentioned newly promulgated laws, regulations, policies or relevant drafts may result in the publication of new laws, regulations and policies to which we may be subject, though the timing, scope and applicability of such laws or regulations are currently unclear. Any such laws, regulations or policies could negatively impact our business, results of operations and financial condition. We may be notified for cybersecurity review by the CAC if we were regarded as a critical information infrastructure operator by the CAC, or if our data processing activities and overseas [REDACTED] were regarded as having impact or potential impact to national security, and be required to make significant changes to our business practices, suspend certain business, or even be prohibited from providing certain service offerings in jurisdictions in which we currently operate or in which we may operate in the future. Such review could also result in negative publicity with respect to us and diversion of our managerial and financial resource. There can be no assurance that we would be able to complete the applicable cybersecurity review procedures in a timely manner, or at all, if we are required to follow such procedures.

Moreover, we may become subject to regulatory requirements as a result of utilization of our products and services by residents of, or travelers who visit, certain jurisdictions, such as the General Data Protection Regulation of the European Union, or the GDPR. Complying with additional or new regulatory requirements could force us to incur substantial costs or require us to change our business practices. Moreover, if a high profile security breach occurs with respect to our competitors, people may lose trust in the security of cloud service providers generally, including us, which could damage the reputation of the industry, result in heightened regulation and strengthened regulatory enforcement and adversely affect our business and results of operations.

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We expect that we will continue to face uncertainty as to whether our efforts to comply with evolving obligations under global data protection, privacy and security laws will be sufficient. From time to time, we may be subject to inspections conducted by governmental authorities. In the event that any failure or perceived failure by us to comply with applicable laws and regulations is identified during such inspections, we may be required to implement rectification measures in accordance with the inspection results. In addition, any failure or perceived failure by us to comply with applicable laws and regulations could result in reputational damage or proceedings or actions against us by governmental authorities, individuals or others. These proceedings or actions could subject us to significant civil or criminal penalties and negative publicity, require us to change our business practices, increase our costs and materially harm our business, prospects, financial condition and results of operations. In addition, our current and future relationships with customers, vendors and other third parties could be negatively affected by any proceedings or actions against us or current or future data protection obligations imposed on them under applicable law. Furthermore, a data breach affecting personal information could result in significant legal and financial exposure and reputational damage that could potentially have an adverse effect on our business.

Similar risks exist with respect to our business partners and our customers in relation to the process of personal data. Any failure of our partners or customers to comply with applicable laws and regulations could result in their reputational damage or governmental investigations, inquiries, enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity, which may harm our business partnership and have a negative impact on our business.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our products and solutions, and could adversely affect our business, results of operations and financial condition.

The future success of our business depends upon the continued use of the internet as a primary medium for commerce, communications and business applications. Chinese or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Changes in these laws or regulations could require us to modify our products and platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees or other charges for accessing the internet or conducting commerce via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, or result in reductions in the demand for internet-based products and services such as our products and platform. In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease-of-use, accessibility and quality of service. The performance of the internet and its acceptance as a business tool has been adversely affected by "viruses," "worms," and similar malicious programs. If the use of the internet is reduced as a result of these or other issues, then demand for our products could decline, which could adversely affect our business, results of operations and financial condition.

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Moreover, our business depends on the performance, reliability and security of the telecommunications and internet infrastructure in China and other countries and regions in which we operate or locate our assets. Substantially all access to the internet in China is maintained through certain telecommunication operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the internet through qualified international gateways, which are the only channels through which a domestic user can connect to the internet outside of China. We may face similar or other limitations in other countries in which we operate or locate our assets. We may not have access to alternative networks in the event of disruptions, failures or other problems with the internet infrastructure in China or elsewhere. In addition, the internet infrastructure in the countries and regions in which we operate may not support the demands associated with continued growth in Internet usage. We also have no control over the costs of the services provided by the telecommunications operators. If the prices that we pay for telecommunications and internet services rise significantly, our margins could be adversely affected.

We may have insufficient computing resources, transmission bandwidth and storage space, which could result in disruptions and our business, results of operations and financial condition could be adversely affected.

Our operations are dependent in part upon transmission bandwidth provided by third-party telecommunications network providers, and access to data centers that house our servers and other computing resources. There can be no assurance that we are adequately prepared for unexpected increases in bandwidth and data center demands by our customers. The bandwidth we have contracted to use or the data centers we have established may become unavailable for a variety of reasons, including service outages, payment disputes, network providers going out of business, natural disasters, networks imposing traffic limits, or governments adopting regulations that impact network operations. In some regions, bandwidth providers have their own services that compete with us, or they may choose to develop their own services that will compete with us. These bandwidth providers may become unwilling to sell us adequate transmission bandwidth at fair market prices, if at all. This risk is heightened where market power is concentrated with one or a few major networks. We also may be unable to move quickly enough to augment capacity to reflect growing traffic or security demands. Failure to put in place the capacity we require could result in a reduction in, or disruption of, service to our customers and ultimately a loss of those customers. Such a failure could result in our inability to acquire new customers.

Our services rely on the stable performance of servers, and any disruption to our servers due to internal and external factors could diminish demand for our products or solutions, harm our business, our reputation and results of operations and subject us to liability.

We rely in part upon the stable performance of our servers for provision of our solutions, products and services. Any disruption to our servers may happen due to internal and external factors, such as inappropriate maintenance, defects in the servers, cyber-attacks targeted at us or our customers, occurrence of catastrophic events or human errors. Such disruption could result in negative publicity, loss of or delay in market acceptance of our solutions and products, loss of competitive position, lower customer retention or claims by customers for losses sustained by them. In such an event, we may need to expend additional resources to help with

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recovering. In addition, we do not carry insurance to compensate us for any losses that may result from claims arising from disruption in servers. As a result, our reputation and our brand could be harmed, and our business, results of operations and financial condition may be adversely affected.

Currently, most of our servers are located at the IDCs in China, while a small part of them are located abroad. While we have electronic and, to a lesser extent, physical access to the components and infrastructure of our servers, we do not control the operation of our IDC suppliers, which may be vulnerable to damage or interruption from a variety of sources, including earthquakes, floods, fires, power loss, system failures, computer viruses, physical or electronic break-ins, human error, malfeasance, or interference, including by disgruntled employees, former employees, or contractors; terrorism; and other catastrophic events. Consequently, we may be subject to service disruptions as well as failures to provide adequate support for reasons that are outside of our control. We cannot assure that we can find alternative IDC suppliers when the demands for our servers surge or disruptions happen due to such catastrophic or *force majeure* events, which could also harm our business, results of operations and financial condition.

Our use of open source or third-party software could negatively affect our ability to sell our products and solutions, and subject us to possible litigation.

Our products and platform incorporate open source software, and we expect to continue to incorporate open source software in our products and platform in the future. Courts have interpreted few of the licenses applicable to open source software, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products and platform. Moreover, although we have implemented policies to regulate the use and incorporation of open source software into our products and platform, we cannot be certain that we have not incorporated open source software in our products or platform in a manner that is inconsistent with such policies. If we or our employees fail to comply with open source licenses, we may be subject to certain requirements, including requirements that we offer our products that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from generating revenues from customers using products that contained the open source software and required to comply with onerous conditions or restrictions on these products. In any of these events, we and our customers could be required to seek licenses from third parties in order to continue offering our products and platform and to re-engineer our products or platform or discontinue offering our products to customers in the event re-engineering cannot be accomplished on a timely basis. Any of the foregoing could require us to devote additional research and development resources to re-engineer our products or platform, could result in customer dissatisfaction and may adversely affect our business, results of operations and financial condition.

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Our reliance on third-party suppliers for certain essential services could adversely affect our ability to manage our business effectively and harm our business.

We rely on third-party suppliers for certain essential products and services to operate our network and provide solutions and products to our customers. For example, we generally rely on third-party suppliers for the servers that we use and we ordinarily purchase this equipment on a purchase-order basis. We also rely on third-party suppliers for bandwidth. We may experience shortages in components or delays in delivery, including as a result of natural disasters, increased demand in the industry or our suppliers lacking sufficient rights to supply the servers or IDCs in all jurisdictions in which we operate.

Our reliance on these suppliers exposes us to risks, including reduced control over production costs and constraints based on the then current availability, terms, and pricing of these products and services. We generally do not have any long-term contracts guaranteeing supply with these suppliers. If our supply of certain products and services is disrupted or delayed, there can be no assurance that additional supplies or services can serve as adequate replacements or that supplies will be available on terms that are favorable to us, if at all. Moreover, even if we can identify adequate replacements on substantially similar terms, our business could be adversely affected until those efforts were completed. Any disruption or delay in the supply of our hardware components may delay the opening of new network facilities, limit capacity expansion or replacement of defective or obsolete equipment at existing network facilities, or cause other constraints on our operations that could damage our customer relationships.

On January 17, 2017, the MIIT promulgated the Notice on Cleaning Up and Regulating the Internet Access Service Market, which prohibits the “multi-level sublease” and requires that enterprises providing internet data center services and internet access services shall not sublease the IP address, bandwidth or other network access resources they have obtained from basic telecommunication operators to other enterprises for providing internet data center services, internet access services or other services, and shall also conduct comprehensive self-inspection, rectify violations of the relevant regulations in a timely manner to ensure their business operations are in compliance with the applicable laws and regulations and the network facilities and network access resources are used in a compliant manner. The regulatory authorities shall urge enterprises in violation of the abovementioned requirements to make rectifications in a timely manner and take stern actions in accordance with the laws against enterprises that refuse to make such rectifications, and under serious circumstances, such enterprises may fail to pass the annual inspection, or the licenses or permits of such enterprises may not be renewed upon expiration and their cooperation with the basic telecommunications operators may be adversely affected. Due to the evolving regulatory environment and the fact that there is no further interpretations or applications from the competent authorities on this notice, we cannot be certain whether our third-party internet data center suppliers’ supplying of IP address and bandwidth to us under our historical or current cooperation with them will be determined as non-compliant activities, if it would be determined so, we may no longer be able to collaborate with such third-party internet data center suppliers, which may adversely affect our business, financial condition and results of operations. As of the Latest Practicable Date, we have not received any notice from any regulatory authority or from any third-party suppliers that would require such third-party suppliers or us to suspend or rectify our current business cooperation with such third party suppliers.

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Furthermore, defects or errors may be found in the products and services provided by third-party suppliers, which cause damage to our own system and hardware and also to the services and products we provide to our customers, which may subsequently adversely affect our customers' operations, thereby harming our reputation and business relationship with them. There is no assurance that all such issues would be detected and resolved on time or at all. We may also be subject to legal proceedings initiated by our customers in relation to such issues. In such event, there may be material adverse effects on our reputation and financial performance as we may need to incur additional cost to settle or defend these claims or legal actions.

We rely on third parties to provide certain support services to our products and solutions. If such parties' access to our platform, products and solutions is interrupted or delayed for any reason, or they fail to deliver quality services to the satisfaction of our customers, our business and results of operation may be harmed.

Some of our public service customers rely on their agents when selecting suppliers or service providers, to save them from the efforts of directly negotiating with a large number of different suppliers or service providers. We work closely with these agents and leverage their understanding of end users' demands, thereby developing tailored marketing strategies. Before a public service customer launches a project for cloud solutions, it typically lays out the goals it plans to achieve and the budget for the project and engages a third-party agent, which will provide various types of assistance in project deployment, such as advising on financing plan, selecting suppliers, managing construction and integrating work products of different suppliers. If such parties fail to continuously provide high quality services to our customers, our business may be harmed.

Any interruption or delay in such parties' access to our platform, products and solutions will negatively impact our customers. Our customers depend on the continuous availability of our network for the delivery and use of our products and solutions. If all or a portion of our network were to fail, they could lose access to the internet until such disruption is resolved or they deploy disaster recovery options that allow them to bypass our network. The adverse effects of any network interruptions on our reputation and financial condition may be heightened due to the nature of our business and our customers' expectation of continuous and uninterrupted internet access and low tolerance for interruptions of any duration. While we do not consider them to have been material, we have experienced, and may in the future experience, network disruptions and other performance problems due to a variety of factors.

Our business is subject to natural disasters, extreme weather conditions, health epidemics and other catastrophic incidents, and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism.

China has in the past experienced significant natural disasters, including earthquakes, extreme weather conditions, as well as health scares related to epidemic diseases, and any similar event could materially impact our business in the future. If a disaster or other disruption were to occur in the future that affects the regions where we operate our business, our

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operations could be materially and adversely affected due to loss of personnel and damage to property. Even if we are not directly affected, such a disaster or disruption could affect the operations or financial conditions of our customers, which could harm our results of operations. In addition, our business could be affected by public health epidemics, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus, Ebola virus or other diseases.

Although we maintain incident management and disaster response plans, in the event of a major disruption caused by a natural disaster or man-made problems, such as power disruptions, computer viruses, data security breaches or terrorism, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our development activities, lengthy interruptions in service, breaches of data security and loss of critical data, any of which could adversely affect our business, results of operations and financial condition.

The COVID-19 pandemic has disrupted our and our business partners' operations and it, or any future health epidemic or other adverse public health developments, may continue to do so.

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the novel coronavirus disease 2019, or COVID-19, outbreak a public health emergency of international concern, and on March 11, 2020 the World Health Organization declared the global COVID-19 outbreak a pandemic. The COVID-19 virus continues to spread and mutate rapidly worldwide, including where our customers, suppliers and other business partners are located and where we have business operations. During the COVID-19 pandemic, government authorities around the world have ordered businesses to close and people to remain at home while imposing significant restrictions on traveling and social gatherings. These measures have impacted, and may further impact, our workforce and operations, the operations of our customers and suppliers and other business partners. In addition, our business and results of operations could also be adversely affected to the extent the COVID-19 outbreak harms the business of our customers, who may experience reduced business volume, delay or suspend procurement of cloud services, or reduce their IT spending, which in turn may have a negative impact on the demands for our products and solutions. There continues to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the ultimate spread and constant mutation of the virus, the severity of the disease, the duration of the outbreak, the possibility of successive waves of outbreaks, further actions that may be taken by government authorities around the world to contain the virus or to treat its impact, and the scope and length of the resulting economic downturn. The global lockdown and travel restrictions have caused temporary disruption to our solutions to the extent that necessary on-site meetings, deployment and technical support had to be delayed or canceled.

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The economic downturn due to COVID-19 may adversely affect our customers’ ability to pay and customer demand for our products and services, which would adversely affect our operating results and financial condition. The global pandemic of COVID-19 continues to rapidly evolve, and we will continue to monitor the COVID-19 situation closely. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives, will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, any resurgence of COVID-19, such as the resurgence of COVID-19 in 2022, the actions to contain the disease or treat its impact, related restrictions on travel, and the duration, timing and severity of the impact on customer spending, including any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also heighten other risks described in this “Risk Factors” section. For additional information of the impact of COVID-19 on our business, see “Financial Information – Impact of COVID-19.”

Our strategy of investments and acquiring complementary businesses and assets may fail.

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic investments and acquisitions of businesses and assets that complement our existing business and help us execute our growth strategies. For example, in September 2021, we acquired the controlling interests in Camelot using a combination of cash and our ordinary shares as consideration. For more details, see “– We face risks associated with our acquisition of Camelot, and if we fail to successfully integrate our recently acquired business or any future targets into our own operations, our post-acquisition performance and business prospects may be adversely affected.” We may also cooperate with other business partners to expand our products and platform, which could involve discount pricing for, or investments in, other companies.

We intend to make other strategic investments and acquisitions in the future if suitable opportunities arise. Investments and acquisitions involve uncertainties and risks, including, but not limited to:

- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- non-occurrence of anticipated or speculative transactions and any resulting negative impact;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- in the case of investments where we do not obtain management and operational control, lack of influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in the investments;

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- possible unsatisfactory operational or financial performance, including financial loss, or fraudulent activities of a target business;
- possible loss of key employees of a target business;
- potential claims or litigation regarding our board’s exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board;
- diversion of resources and management attention;
- regulatory hurdles and compliance risks, including the anti-monopoly and competition laws, rules and regulations of China and other jurisdictions and the enhanced compliance requirement for outbound acquisitions and investment under the laws and regulations of China; and
- in the case of acquisitions of businesses or assets outside of China, the need to integrate operations across different business cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries and regions.

Any failure to address these risks successfully may have a material and adverse effect on our financial condition and results of operations. Investments and acquisitions may require a significant amount of capital, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for investments and acquisitions, we may dilute the value of our securities. If we borrow funds to finance investments and acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Moreover, acquisitions may also generate significant amortization expenses related to intangible assets. We are required to test our goodwill for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. We may also incur significant impairment charges to earnings for investments and acquired businesses and assets.

There can be no assurance that the acquired Camelot or other business or asset will bring the anticipated strategic benefits to us. We have relatively limited experience with operating the enterprise cloud services business and we may not be able to successfully integrate Camelot into our existing business.

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In addition, negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our existing shareholders;
- use cash that we may need in the future to operate our business;
- incur large charges or substantial liabilities;
- incur debt on terms unfavorable to us or that we turn out to be unable to repay;
- encounter difficulties in retaining key employees of the acquired company or integrating diverse software codes or business cultures;
- encounter difficulties in conducting sufficient and effective due diligence on potential targets and unforeseen or hidden liabilities or additional incidences of non-compliance, operating losses, costs and expenses that may adversely affect us following our acquisitions or investments or other strategic transactions; and
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

The occurrence of any of these foregoing could adversely affect our business, results of operations and financial condition.

Goodwill represented a significant portion of our total assets. If our goodwill is to be impaired, our results of operations and financial condition may be adversely affected.

As of March 31, 2022, we had goodwill of RMB4,609.8 million (US\$727.2 million) which primarily arose from our acquisition of controlling interest in Camelot completed in September 2021. For more information, see “History, Development and Corporate Structure – Acquisition of Camelot,” and “Financial Information – Critical Accounting Policies, Judgments and Estimates – Goodwill.” Goodwill represented a significant portion of the total assets on our consolidated balance sheet as of March 31, 2022. The value of goodwill is based on a number of assumptions made by the management. If any of these assumptions does not materialize, or if the performance of our business is not consistent with such assumptions, we may be required to have a significant write-off of our goodwill and record a significant impairment loss. Furthermore, our determination on whether goodwill is impaired requires an estimation of the fair value of the reporting units to which the goodwill is allocated, which depends on the expected future cash flows from the reporting units. If we determine the expected future cash flow to decrease, our goodwill may be impaired. Any significant impairment of goodwill could have a material adverse effect on our business, financial condition and results of operations.

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Our equity investments may affect our results of operations.

During the Track Record Period, we made certain equity investments. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our equity investments amounted to RMB114.9 million, RMB126.6 million, RMB207.2 million (US\$32.5 million) and RMB211.7 million (US\$33.4 million), respectively. We are subject to the risk that the companies in which we invest may make business, financial or management decisions with which we do not agree, and over which we do not have control, or that the majority shareholders, or the management, of these investee companies may take risks or otherwise act in a manner that does not serve our interests. In particular, the carrying value of our equity investments may be affected by a number of factors such as change in fair value, impairment, dilution, issuance of equity securities, and currency translation differences. Any of those above may adversely affect our business and results of operations.

In addition, our equity investments are subject to liquidity risk. Our equity investments are not as liquid as other investment products as there is no cash inflow until dividends are received or they are disposed of by us, even if our investee companies reported profits. Furthermore, our ability to promptly sell our interests in these investee companies in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control.

Our business depends substantially on the continuing efforts of our management and other key personnel, as well as a competent pool of talents that supports our existing operations and future growth. If we are unable to retain, attract, recruit and train such personnel, our business may be materially and adversely affected.

Our future success depends heavily on the continued contributions of our senior management, many of whom are difficult to replace. In particular, we rely on the expertise, experience and vision of our senior management team. If any of our senior management becomes unable or unwilling to continue to contribute their services to us, we may not be able to replace them easily, or at all. As a result, our business may be severely disrupted, and our financial condition and results of operations may be materially and adversely affected.

Additionally, our future success also depends on our ability to attract, recruit and train a large number of qualified employees and retain existing key employees. In particular, we rely on our top notch research and development team to develop our advanced algorithms and technologies and our experienced sales personnel to maintain relationships with our customers. In order to compete for talents, we may need to offer higher compensation, better trainings and more attractive career opportunities and other benefits to our employees, which may be costly and burdensome. We cannot assure you that we will be able to attract or retain a qualified workforce necessary to support our future growth. Furthermore, any disputes between us and our employees or any labor-related regulatory or legal proceedings may divert management and financial resources, negatively impact staff morale, reduce our productivity, or harm our

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reputation and future recruiting efforts. In addition, our ability to train and integrate new employees into our operations may not meet the demands of our growing business. Any of the above issues related to our workforce may materially and adversely affect our operations and future growth.

If we fail to implement and maintain an effective system of internal controls and identify a material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and [REDACTED] confidence and the [REDACTED] of Ordinary Shares and the ADSs may be materially and adversely affected.

As a public company in the United States, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and determine the effectiveness of our internal control over financial reporting, report any material weaknesses in such internal controls and provide a management report on internal control over financial reporting.

Our management has concluded that our internal control over financial reporting is effective as of December 31, 2021. Our independent registered public accounting firm has issued an attestation report included in our annual report on Form 20-F filed with the SEC for the fiscal year ended December 31, 2021, which has concluded that our internal control over financial reporting is effective as of December 31, 2021. However, there is no assurance that we or our auditor will not identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective for any future periods. If we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. However, if we fail to maintain effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which could cause [REDACTED] to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a negative impact on the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the Nasdaq, regulatory investigations and civil or criminal sanctions.

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We are in the process of prudently expanding our international operations, which exposes us to significant regulatory, economic and political risks, the failure to handle which may adversely affect our business, results of operations and financial condition.

We see great potentials in expanding our business and promoting our products and solutions globally. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks in addition to those we already face in China. Because of our limited experience with international operations, as well as developing and managing sales in international markets, our international expansion efforts may not be successful.

In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- the difficulty of managing and staffing international operations and the increased operations, travel, infrastructure and legal compliance costs associated with numerous international locations;
- our ability to effectively price our products in competitive international markets;
- new and different sources of competition;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- higher or more variable network service provider fees outside of China;
- the need to adapt and localize our products for specific countries;
- the need to offer customer support in various languages;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- difficulties with differing technical and environmental standards, data privacy and telecommunications regulations and certification requirements outside China, which could prevent customers from deploying our products or limit their usage;
- compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and United Kingdom Bribery Act of 2010;
- tariffs and other non-tariff barriers, such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries and regions;

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- adverse tax consequences;
- fluctuations in currency exchange rates, which could increase the price of our products outside of China, increase the expenses of our international operations and expose us to foreign currency exchange rate risk;
- currency control regulations, which might restrict or prohibit our conversion of other currencies into RMB;
- restrictions on the transfer of funds; and
- political or social unrest or economic instability in a specific country or region in which we operate, which could have an adverse impact on our operations in that location.

Also, we may incur additional costs in our international expansion efforts, and our pricing, costs and expenses for network service providers may be different outside of China from the domestic market, therefore our revenues and gross margin overseas are subject to uncertainties. As a result, our gross margin may be impacted and fluctuate as we expand our operations and customer base worldwide.

Our international operations may also be negatively affected by any deterioration of the political and economic relations between China and other countries and sanctions and export controls administered by the government authorities in the foreign countries in which we operate, and other geopolitical challenges.

Our failure to manage any of these risks successfully could harm our international operations, and adversely affect our business, results of operations and financial condition.

Our services to highly regulated organizations are subject to a number of challenges and risks, the failure to handle which may adversely affect our business, results of operations and financial condition.

We serve customers in highly regulated industries such as financial services, healthcare and other public service sectors, sales to which are subject to a number of challenges and risks. Selling to such highly regulated organizations can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Public service contracting requirements may change and in doing so restrict our ability to sell into the public service sector until we comply with the revised requirements. Demand and payment for our services are affected by public service sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public service sector demand for our services. In addition, demand of public service customers for our products and solutions may be reduced or diminished subject to the future relationship between China and the United States.

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Further, highly regulated organizations may demand shorter contract terms or other contractual provisions that differ from our standard arrangements, including terms that can lead those customers to obtain broader rights in our services than would be standard. Such organizations may have statutory, contractual, or other legal rights to terminate contracts with us due to a default or for other reasons, and any such termination may harm our business. In addition, these organizations may be required to publish the rates we negotiate with them, which could harm our negotiating leverage with other potential customers and in turn harm our business.

We and our business partners with which we collaborate are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and noncompliance with such laws can subject us to criminal penalties or significant fines and harm our business and reputation.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other anti-corruption, anti-bribery, anti-money laundering, and similar laws in China, the United States and other countries and regions in which we conduct activities. Anti-corruption and anti-bribery laws, which have been enforced aggressively and are interpreted broadly, prohibit companies and their employees and agents from promising, authorizing, making, or offering improper payments or other benefits to government officials and others in the public sector. We may also leverage our business partners, including sales partners, to sell our products and solutions and host many of our facilities for our network. Our transactions and settlement arrangements with business partners may be subject to anti-money laundering laws. We may also rely on our business partners to conduct our business abroad. We and our business partners may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we may be held liable for the corrupt or other illegal activities of our business partners and intermediaries, our employees, representatives, contractors, sales partners, even if we do not explicitly authorize such activities. Further, some of our international sales activity occurs, and some of our network infrastructure or data center is located, in parts of the world that are recognized as having a greater potential for business practices that violate anti-corruption, anti-bribery, anti-money laundering, or similar laws.

We cannot assure you that all of our employees and agents have complied with, or in the future will comply with, our policies and applicable law. The investigation of possible violations of these laws, including internal investigations and compliance reviews that we may conduct from time to time, could have a material adverse effect on our business. Noncompliance with these laws could subject us to investigations, severe criminal or civil sanctions, settlements, prosecution, loss of export privileges, suspension or debarment from Chinese government contracts and other contracts, other enforcement actions, the appointment of a monitor, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, whistleblower complaints, adverse media coverage and other consequences. Other internal and government investigations, regulatory proceedings, or litigation, including private litigation filed by our shareholders, may also follow as a consequence. Any investigations, actions, or sanctions could materially harm our reputation, business, results of operations, and financial condition. Further, the promulgation of new laws,

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rules or regulations or new interpretations of current laws, rules or regulations could impact the way we do business in other countries, including requiring us to change certain aspects of our business to ensure compliance, which could reduce revenues, increase costs, or subject us to additional liabilities.

Certain of our products and solutions are subject to telecommunications-related regulations, and future legislative or regulatory actions could adversely affect our business, results of operations and financial condition.

Some of our products and solutions are subject to existing or potential telecommunication laws and regulations in China. If we do not comply with these rules and regulations, we could be subject to enforcement actions, fines, loss of licenses and possibly restrictions on our ability to operate or offer certain of our products. For example, if we enable or offer database solutions that are controversial because of their impact on human rights, privacy, employment, or other social issues, we may experience brand or reputational harm or even penalties. Any enforcement action by the competent authorities, which may be a public process, would hurt our reputation in the industry, possibly impair our ability to sell our products to customers and could adversely affect our business, results of operations and financial condition.

If we do not comply with any current or future rules or regulations that apply to our business, we could be ordered to rectify our illegal activities, subject to confiscation of illegal gains, fines or business suspension, or may be required to obtain additional license or approvals, and we cannot assure you that we will be able to timely obtain or maintain all the required licenses or approvals or make all the necessary filings in the future, and we may have to restructure our offerings, exit certain markets or raise the price of our products. In addition, any uncertainty regarding whether particular regulations apply to our business, and how they apply, could increase our costs or limit our ability to grow. Any of the foregoing could adversely affect our business, results of operations and financial condition.

Activities of our customers or the content of their websites and other internet properties could subject us to liability.

Through our network, we provide a wide variety of products that enable our customers to exchange information, conduct business, and engage in various online activities both domestically and internationally. Our customers may use our platform and products in violation of applicable law or in violation of our terms of service or the customer’s own policies. The existing laws relating to the liability of providers of online products and services for activities of their users are highly unsettled and in flux both within China and internationally. We may be subject to lawsuits and/or liability arising from the conduct of our customers from time to time. Additionally, the conduct of our customers may subject us to regulatory enforcement actions and/or liability. We may be a defendant in a number of lawsuits both in China and abroad, alleging copyright infringement based on content that is made available through our customers’ websites. There can be no assurance that we will not face litigation or regulatory

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enforcement actions in the future or that we will prevail in any litigation we may face. An adverse decision in one or more of these lawsuits or enforcement action could materially and adversely affect our business, results of operations, and financial condition.

Litigations may subject us to claims arising from activities of our customers and content on their websites for large potential damages based on a significant number of online occurrences under statutory or other damage theories. Such claims may result in liability that exceeds our ability to pay. Even if claims against us are ultimately unsuccessful, defending against such claims will increase our legal expenses and divert management’s attention from the operation of our business, which could materially and adversely impact our business and results of operations.

Policies and laws in this area remain highly dynamic, and we may face additional theories of intermediary liability in various jurisdictions. For example, the European Union (the EU) approved a copyright directive that will impose additional obligations on online platforms and failure to comply could give rise to significant liability. Other new laws like this may also expose internet companies like us to significant liability. We may incur additional costs to comply with these new laws, which may have an adverse effect on our business, results of operations, and financial condition.

Failure to comply with laws and regulations applicable to our business could subject us to fines and penalties and could also cause us to lose customers or otherwise harm our business.

Our business is subject to regulation by various governmental agencies in China, including agencies responsible for monitoring and enforcing compliance with various legal obligations, such as value-added telecommunication laws and regulations, privacy and data protection-related laws and regulations, intellectual property laws, employment and labor laws, workplace safety, environmental laws, consumer protection laws, governmental trade laws, import and export controls, anti-corruption and anti-bribery laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in China. These laws and regulations impose added costs on our business. Non-compliance with applicable regulations or requirements could subject us to:

- investigations, enforcement actions, and sanctions;
- mandatory changes to our network and products;
- disgorgement of profits, fines, and damages;
- civil and criminal penalties or injunctions;
- liability for breaches of agreements with, and claims for damages by our customers;
- termination of contracts;

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- loss of intellectual property rights;
- failure to obtain, maintain or renew certain licenses, approvals, permits, registrations or filings necessary to conduct our operations; and
- temporary or permanent debarment from sales to public service organizations.

If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be adversely affected. In addition, responding to any action will likely result in a significant diversion of our management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could materially harm our business, results of operations, and financial condition.

Additionally, companies in the technology industry have recently experienced increased regulatory scrutiny. Any reviews by regulatory agencies or legislatures may result in substantial regulatory fines, changes to our business practices, and other penalties, which could negatively affect our business and results of operations. Changes in social, political, and regulatory conditions or in laws and policies governing a wide range of topics may cause us to change our business practices. Further, our expansion into a variety of new fields also could raise a number of new regulatory issues. These factors could negatively affect our business and results of operations in material ways.

Moreover, we are exposed to the risk of actual or alleged misconduct, unscrupulous business practices, errors, failure to functions or other non-compliance by us, our management, employees, any companies we acquire or invest in or by its affiliates or current or former employees before, during or after our acquisition or investments, and parties that we collaborate with, who may from time to time be subject to litigation and regulatory investigations and proceedings or otherwise face potential liability and penalties in relation to noncompliance with applicable laws and regulations, which could harm our reputation and business.

Misconduct and omissions by our employees or business partners could harm our business and reputation.

Misconduct and omissions by our employees could subject us to liability or negative publicity. Although we have implemented strict human resources risk management policies, and we have in place an employee handbook approved by our management and distributed to all our employees that contains broad internal rules and guidelines and cover areas such as best commercial practices, work ethics, fraud prevention mechanisms and regulatory compliance, there can be no assurance that our employees will not engage in misconducts or omissions that could materially and adversely affect our business, financial condition and results of operations.

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Misconduct by our business partners could subject us to disruption of business, negative publicity or liability. Although we maintain strict standards in choosing our business partners, we cannot assure you our business partners providers will not engage in misconducts or omissions. Any misconduct by our business partners may affect our operations and reputation, which may in turn affect our business, results of operations and financial condition.

We may in the future be subject to legal proceedings and litigation, including intellectual property or contractual disputes, which are costly and may subject us to significant liability and increased costs of doing business. Our business may be adversely affected if it is alleged or determined that our technology infringes the intellectual property rights of others.

The cloud service industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual property rights. Companies in the cloud service industry are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims or rights against their use. In addition, many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Any litigation may also involve patent holding companies or other adverse patent owners that have no relevant product revenues and against which our patents may therefore provide little or no deterrence. If a third party is able to obtain an injunction preventing us from accessing such third-party intellectual property rights, or if we cannot obtain license or develop technology for any infringing aspect of our business, we would be forced to limit or stop selling products impacted by the claim or injunction or cease business activities covered by such intellectual property, and may be unable to compete effectively. Any inability to obtain license of third-party technology in the future would have an adverse effect on our business or operating results, and would adversely affect our ability to compete. We may also be contractually obligated to indemnify our customers in the event of infringement of a third party's intellectual property rights. We may receive demands for such indemnification from time to time. Furthermore, some customers may choose to settle their payments with us through parties not directly contracted with us. Despite our internal control measures, we could be subject to possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors. In addition, certain of our agreements with our customers and/or third-party service providers may include uncertainties on pricing, fees and others, which may expose us to potential claims as well. Responding to such claims, including those currently pending, regardless of their merit, can be time-consuming, costly to defend in litigation, and damage our reputation and brand.

Lawsuits are time-consuming and expensive to resolve and they divert management's time and attention. We may not have insurance to cover potential claims of this type or to indemnify us for all liability that may be imposed. We cannot predict the outcome of lawsuits, and the results of any such actions may harm our business.

RISK FACTORS

We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property could adversely affect our business, results of operations and financial condition.

Our success depends, in part, on our ability to protect our brand and the proprietary methods and technologies that we develop under patent and other intellectual property laws in China and foreign jurisdictions so that we can prevent others from using our inventions and proprietary information. As of March 31, 2022, we have registered 474 patents, 620 trademarks, 372 copyrights, and 129 domain names in China and overseas. There can be no assurance that any patents that have been issued or that may be issued in the future will provide significant protection for our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology and our business, results of operations and financial condition may be adversely affected.

We have obtained licenses from Kingsoft Group to use some of its registered trademarks during their terms of registration, including “金山雲” and “Kingsoft Cloud,” and some of its trademarks, which are still in the process of registration applications or renewal, during the period of such applications and the term of the registrations if such trademarks have been registered afterwards. We have also obtained licenses from Kingsoft Group to use some of its registered patents during their terms of registration. However, we cannot assure you that Kingsoft Group will continue to authorize us to use the trademarks and patents, and if they do not, our business may be materially and adversely impacted. For example, if we are not authorized by Kingsoft Group to use such trademarks, we may not be able to use the relevant brand names and domain names, which may materially harm our market awareness and brand recognition.

There can be no assurance that the particular forms of intellectual property protection that we seek, including business decisions about when to file trademark applications and patent applications, will be adequate to protect our business. We may have to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights, determine the validity and scope of our proprietary rights or those of others, or defend against claims of infringement or invalidity. Such litigation could be costly, time-consuming and distracting to management, result in a diversion of significant resources, the narrowing or invalidation of portions of our intellectual property and have an adverse effect on our business, results of operations and financial condition. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights or alleging that we infringe the counterclaimant’s own intellectual property. Any of our patents, copyrights, trademarks or other intellectual property rights could be challenged by others or invalidated through administrative process or litigation.

We also rely, in part, on confidentiality agreements and non-compete agreements with our business partners, employees, consultants, advisors, customers and others in our efforts to protect our proprietary technology, processes and methods. These agreements may not effectively prevent disclosure of our confidential information, and it may be possible for unauthorized parties to copy our software or other proprietary technology or information, or to

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develop similar software independently with us lacking an adequate remedy for unauthorized use or disclosure of our confidential information. In addition, others may independently discover our trade secrets and proprietary information, and in these cases we would not be able to assert any trade secret rights against those parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position. In addition, to the extent we expand our international activities, our exposure to unauthorized copying, transfer and use of our proprietary technology or information may increase.

We cannot be certain that our means of protecting our intellectual property and proprietary rights will be adequate or that our competitors will not independently develop similar technology. If we fail to meaningfully protect our intellectual property and proprietary rights, our business, results of operations and financial condition could be adversely affected.

Leakage or misappropriation of know-how, confidential information and trade secrets from unauthorized copying, use or disclosure could have an adverse impact on our reputation and operations.

During the course of providing our services, we may have access to and be entrusted with information that is confidential in nature, such as information that relates to our customers' systems, operations, raw data or affairs. While we have adopted measures to protect the confidentiality of our customers' information, including our internal control manual and the nondisclosure arrangements with our employees, there is no assurance that the steps taken by us will successfully prevent any leakage or misappropriation of confidential information of our customers. Any leakage or misappropriation of confidential information of our customers could expose us to complaints or claims, which may materially and adversely affect our reputation and business operations.

In addition, we seek to protect our know-how, confidential information and trade secrets, in part, by entering into non-disclosure and confidentiality agreements or other means to such effect, with parties who have access to them, such as our employees. Despite these efforts, any of these parties may breach such agreements, intentionally or unintentionally and disclose our proprietary information and we may not be aware of or able to obtain adequate remedies for such breaches. The unauthorized disclosure and/or misappropriation of trade secrets is difficult to detect and/or to prove. As such, it is difficult, expensive and time-consuming to establish trade secret misappropriation claims, with no guarantee of success or adequate remedies. Such disclosures could also lead to a loss of trade secret protection, which could materially and adversely affect our business, competitive position, financial conditions and results of operations.

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Significant impairment of our long-lived assets could materially impact our financial position and results of our operations.

We have recorded a significant amount of long-lived assets, primarily including our property and equipment and intangible assets. We evaluate our long-lived assets for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of the long-lived assets in an asset group may not be fully recoverable. When these events occur, we evaluate the recoverability of long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. The application of long-lived asset impairment test requires significant management judgment. If our estimates and judgments are inaccurate, the fair value determined could be inaccurate and the impairment may not be adequate, and we may need to record additional impairments in the future. We did not record any impairment of our long-lived assets in 2019, 2020 and 2021, and the three months ended March 31, 2022. However, we may record significant impairments on long-lived assets in the future. Any significant impairment losses charged against our long-lived assets could have a material adverse effect on our results of operations.

We experience fluctuations in our financial results and key metrics, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or [REDACTED], the [REDACTED] of our Ordinary Shares and the ADSs and the value of your [REDACTED] could decline.

Our operating results, as well as our key metrics have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance and period-to-period comparisons of our operating results and key metrics may not be meaningful. In addition to the other risks described herein, factors that may affect our operating results include the following:

- macro-economic and other conditions in China and worldwide;
- fluctuations in demand for or pricing of our solutions and products;
- our ability to attract new customers;
- our ability to retain our existing customers;
- fluctuations in the usage of our products by our customers, which is directly related to the amount of revenues that we recognize from our customers;

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- fluctuations in customer delays in purchasing decisions in anticipation of new products or product enhancements by us or our competitors;
- changes in customers’ budgets and in the timing of their budget cycles and purchasing decisions;
- the timing of customer payments and any difficulty in collecting accounts receivable from customers;
- potential and existing customers choosing our competitors’ products or developing their own products in-house;
- timing of new functionality of our existing platform;
- the political or economic relationships between China and the United States;
- the stability and management of our supply chain;
- our ability to control costs, including our operating expenses;
- the amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses, including commissions;
- the amount and timing of non-cash expenses, including share-based compensation, impairment of long-lived assets, and other non-cash charges;
- the amount and timing of costs associated with recruiting, training, and integrating new employees;
- the effects of acquisitions or other strategic transactions;
- expenses in connection with acquisitions or other strategic transactions;
- general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate;
- the ability to maintain our relationship with business partners;
- the impact of new accounting pronouncements;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers;

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- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our platform; and
- awareness of our brand and our reputation in our target markets.

Any of the foregoing and other factors may cause our results of operations to vary significantly. If our quarterly results of operations fall below the expectations of [REDACTED] and securities analysts who follow our shares, the [REDACTED] of our Ordinary Shares and the ADSs could decline substantially, and our business could be harmed.

The estimates of market opportunity, forecasts of market growth included in this document may prove to be inaccurate, and any real or perceived inaccuracies may harm our reputation and negatively affect our business. Even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts included in this document are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The variables that go into the calculation of our market opportunities are subject to change over time, and there is no guarantee that any particular number or percentage of addressable companies covered by our market opportunities estimates will purchase our products and solutions at all or generate any particular level of revenues for us. Even if the market in which we compete meets the size estimates and growth forecasted in this document, our business could fail to grow for a variety of reasons, including reasons outside of our control, such as competition in our industry. The information has not been independently verified by us, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

We face exposure to foreign currency exchange rate fluctuations, and such fluctuations could adversely affect our business, results of operations and financial condition.

The conversion of Renminbi into foreign currencies, including Hong Kong dollars and the U.S. dollars, is based on rates set by the People’s Bank of China. The value of the Renminbi against Hong Kong dollars, the U.S. dollar and other currencies has in the past fluctuated significantly, and may in the future continue to do so, affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against Hong Kong dollars

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and the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi, Hong Kong dollars and the U.S. dollar in the future. Substantially all of our revenues and costs are denominated in Renminbi.

We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of Renminbi may materially and adversely affect our results of operations and financial position reported in Renminbi when translated into U.S. dollars and Hong Kong dollars, and the value of, and any dividends payable on, the ADSs in U.S. dollars and the Ordinary Shares in Hong Kong dollars. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into U.S. dollars or Hong Kong dollars for the purpose of making payments for dividends on our Ordinary Shares or ADSs or for other business purposes, appreciation of the U.S. dollar or Hong Kong dollar against the Renminbi would have a negative effect on the U.S. dollar or Hong Kong dollar amount.

We have granted, and may continue to grant, share-based awards, which will increase our share-based compensation and may have an adverse effect on our results of operations.

We have adopted various equity incentive plans, including a share option scheme adopted in February 2013 (as amended in June 2013, May 2015 and December 2016), or the 2013 Share Option Scheme, a share award scheme adopted in February 2013 (as amended in January 2015, March 2016, June 2016, December 2018 and November 2019), or the 2013 Share Award Scheme, and a share incentive plan adopted in November 2021, or the 2021 Share Incentive Plan. For details, see “Appendix IV – Statutory and General Information – D. Equity Incentive Plans.” In addition, we granted share-based awards in connection with our acquisitions. In 2019, 2020 and 2021, and the three months ended March 31, 2021 and 2022, we incurred share-based compensation of RMB121.3 million, RMB330.1 million and RMB434.4 million (US\$68.2 million) and RMB123.1 million and RMB93.2 million (US\$14.7 million), respectively. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based awards in the future. As a result, our expenses associated with share-based compensation will increase, which may have an adverse effect on our results of operations.

Increases in labor costs and uncertainties in labor-related regulatory requirements in the PRC may adversely affect our business and results of operations.

China’s economy has experienced increases in labor costs in recent years. China’s overall economy and the average wage in China are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our staff costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products or services, our profitability and results of operations may be materially and adversely affected.

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In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Compared with its predecessors, the current Labor Contract Law of the PRC imposes stricter requirements on employers in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees’ probation and unilaterally terminating labor contracts, further increasing our labor-related costs such as by limiting our ability to terminate some of our employees or otherwise change our employment or labor practices in a cost-effective manner. In addition, as the interpretation and implementation of labor-related laws and regulations are still developing, we cannot completely eliminate the labor-related risks, and cannot assure you that we have complied or will be able to comply with all labor-related law and regulations including those relating to obligations to make full social insurance payments and contribute to the housing provident funds. If we are deemed to have violated relevant labor laws and regulations, we could be subject to labor disputes and government investigation, and may be required to provide additional compensation to our employees, and our business, financial condition and results of operations will be adversely affected. In addition, any labor shortages, major labor disputes, increased labor cost or other factors affecting our labor force in relation thereto, may adversely affect our business, profitability and reputation.

Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other related regulations of the PRC may have an adverse impact on our financial conditions and results of operation.

PRC laws and regulations require us to pay several statutory social welfare benefits for our employees, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund. The amounts of our contributions for our employees under such benefit plans are calculated based on certain percentage of salaries, including bonuses and allowances, up to a maximum amount specified by the local government from time to time at locations where we operate. During the Track Record Period and up to the Latest Practicable Date, we had not made full contributions to the social insurance plan and housing provident fund based on the actual salary level of some of our employees as prescribed by relevant laws and regulations. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim or request from the relevant employees that require us to make payments or impose upon us administrative penalties for insufficient contributions. We have made provisions of nil, nil, RMB15.0 million and RMB14.3 million in our consolidated statements of comprehensive profit or loss for the shortfall in our social insurance and housing provident fund contributions for the years ended December 31, 2019, 2020 and 2021 and three months ended March 31, 2022, respectively.

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Pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. We cannot assure you that the relevant government authorities will not require us to pay the outstanding amount within a prescribed time and impose late charges or fines on us, which may materially and adversely affect our business, financial condition and results of operations.

We face certain risks relating to the real properties that we lease, which may adversely affect our business.

We lease real properties for our office and other uses in China. Some of the ownership certificates or other similar proofs of certain leased properties have not been provided to us by the relevant lessors. Therefore, we cannot assure you that such lessors are entitled to lease the relevant real properties to us. If the lessors are not entitled to lease the real properties to us and the owners of such real properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners. As of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties without obtaining proper ownership proof. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased real properties, we could be required to vacate the properties, in which event we could only initiate the claim against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be interrupted.

Certain of our leased properties' current usages are not in conformity with the permitted usages prescribed in the relevant title certificates. Nonconformity with the property's planned use may lead to fines imposed by the competent authority, and in extreme case, government order to revoke the lease or reclaim the land. In addition, certain of our leased properties are subject to mortgages. If the mortgagees foreclose our leased properties with prior-registered mortgages, we may be unable to continue the use of such properties.

The lease agreements for some of our leased properties have not been registered with the PRC governmental authorities as required by the PRC laws. Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each of our lease agreements that has not been registered with the relevant PRC governmental authorities.

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As of the Latest Practicable Date, for the lease agreements which have not been registered with the government authorities, we are not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of the relevant leased properties. However, we cannot assure you that the government authorities will not impose fines on us due to our failure to register any of our lease agreements, which may negatively impact our financial condition.

We currently do not have any business insurance coverage.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies in more developed economies. Currently, we do not have any business liability or disruption insurance to cover our operations, which is a general market practice in cloud service industry. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured business disruptions may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

We may be required to change our registered address or relocate our operating offices under PRC law.

Under PRC law, the registered address of a company shall be its main premises for business operations. If a company intends to set up other premises for business operation outside its registered address, the company shall register those premises for business operation as branch offices with the relevant local market regulation authorities at the place where the premises are located and obtain business licenses for them as branch offices.

Currently, some of our subsidiaries have set up premises for business operations outside their registered addresses as the operating addresses, and use these premises as the main premises for business operations. We may not be able to change the registered address of our subsidiaries to its operating addresses or register such premises as branch offices in a timely manner or at all due to complex procedural requirements and relocation of branch offices from time to time. In the future, we may expand our business to additional locations in China and we may fail to update the registered address for our subsidiaries or register those premises as branch offices in a timely manner. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including but not limited to fines, being listed on the List of Enterprises with Serious Illegal and Dishonest Acts and publicized to the public. As of the Latest Practicable Date, we have not received any regulatory or governmental penalties in relation to the registered address of our subsidiaries. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be materially and adversely affected.

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RISKS RELATING TO OUR RELATIONSHIPS WITH KINGSOFT GROUP AND XIAOMI GROUP

If we are no longer able to benefit from our business cooperation with Kingsoft Group or Xiaomi Group and its ecosystem, our business may be adversely affected.

Kingsoft Corporation is a leading software company in China. Mr. Lei Jun, our chairman of the Board, exercises significant influence over Kingsoft Group as he currently serves the chairman of the board and a non-executive director of Kingsoft Corporation and is deemed to be interested in 22.63% of total issued shares in Kingsoft Corporation as of March 31, 2022. Xiaomi, another major shareholder of our Company and controlled by Mr. Lei Jun, is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Our business has benefited from Kingsoft Group’s and Xiaomi Group’s brand names, strong market positions and ecosystems. We cooperate with Kingsoft Group and Xiaomi Group in various areas, such as cross-referrals and devices for IoT – smart living solutions. We cannot assure you that we will be able to continue to benefit from our relationships with Kingsoft Group and Xiaomi Group in the future. To the extent that we cannot maintain our relationships with Kingsoft Group and Xiaomi Group on terms favorable to us, or at all, we will need to find replacement for services and device providers, which may not be done in a timely manner and/or on commercially reasonable terms, or at all, and we may lose access to key strategic assets, which could result in material and adverse effects on our business and results of operations.

Kingsoft Group and Xiaomi Group are our existing customers, from which we received a portion of revenues. Failure to maintain the relationships with them would result in lower revenues and could adversely impact our business, operation results and financial conditions.

We have derived, and believe that we will continue to derive, a portion of our revenues from Kingsoft Group and Xiaomi Group. Revenues from Kingsoft Group in the aggregate accounted for 2.8%, 1.8%, 1.7% and 2.2% of our total revenues in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. Revenues from Xiaomi Group in the aggregate accounted for 14.4%, 10.0%, 8.5% and 10.9% of our total revenues in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. We cannot assure you that we will be able to maintain the customer relationships with Kingsoft Group and Xiaomi Group in the future. Any failure to maintain close relationships with them will result in declines in our revenues, which could have an adverse effect on our business, results of operations and financial condition.

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Any policy changes, punishment or litigation against Kingsoft Group or Xiaomi Group, or any negative developments in Kingsoft Group’s or Xiaomi Group’s market position, brand recognition or financial condition may materially and adversely affect our reputation, business, results of operations and financial condition.

We have benefited, and expect to continue to benefit, significantly from Kingsoft Group’s and Xiaomi Group’s strong brand recognitions, which enhance our reputation and credibility. Any policy changes, punishment or litigation against Kingsoft Group or Xiaomi Group, or any negative publicity associated with Kingsoft Group or Xiaomi Group, or any negative development with respect to their market positions, financial conditions or compliance with applicable legal or regulatory requirements will likely have an adverse impact on our reputation and brand. If Kingsoft Group’s or Xiaomi Group’s market position weakens, the effectiveness of our sales and marketing through them may be impaired, which may in turn have a negative impact on our business, financial condition and results of operations.

Certain existing shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other shareholders.

Two of our principal shareholders, Kingsoft Corporation and Xiaomi, have substantial influence over our Company. As of the Latest Practicable Date, Kingsoft Corporation beneficially owned 37.4% of our issued and outstanding shares and Xiaomi beneficially owned 11.8% of our issued and outstanding shares. Mr. Lei Jun, one of our Directors, also serves as the chairman and a non-executive director at Kingsoft Corporation, and serves as the chairman, the chief executive officer and an executive director at Xiaomi. Mr. Zou Tao, one of our Directors, also serves as an executive Director and the chief executive officer at Kingsoft Corporation. Dr. Ye Hangjun, one of our directors, also serves as a general manager of business segment of Xiaomi. As of the Latest Practicable Date, none of our other Directors or executive officers holds any position at Kingsoft Group or Xiaomi Group.

They may take actions that are not in the best interest of us or our other shareholders and conflicts of interest between them and us may arise as a result of their operation of or investment in businesses that compete with us. Such concentration of ownership and corporate governance mechanism may discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of a premium for their shares as part of a sale of our Company and may reduce the price of our Ordinary Shares and the ADSs. These actions may be taken even if they are opposed by our other shareholders. In addition, such significant concentration of share ownership and corporate governance mechanism may adversely affect the trading price of our Ordinary Shares and the ADSs due to [REDACTED] perception that conflicts of interest may exist or arise.

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We may have conflicts of interest with Kingsoft Group or Xiaomi Group and we may not be able to resolve such conflicts on terms favorable to us.

Conflicts of interest may arise between Kingsoft Group or Xiaomi Group and us in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified mainly include the following:

- Collaboration with Kingsoft Group and Xiaomi Group. We have a number of cooperation arrangements with Kingsoft Group and Xiaomi Group, respectively. These collaboration arrangements may be less favorable to us than similar arrangements negotiated between unaffiliated third parties. Specifically, pursuant to the strategic cooperation and anti-dilution framework agreements entered into with each of Kingsoft Group and Xiaomi Group, respectively, the Company has granted each of Kingsoft Group and Xiaomi Group an anti-dilution right to acquire new Shares under the [REDACTED] up to such amount so as to maintain the same shareholding percentage in the total issued share capital of our Company immediately before and after the [REDACTED]. See “Substantial Shareholders” for further details.
- Allocation of business opportunities. There may arise business opportunities in the future that both we, Kingsoft Group and/or Xiaomi Group, are interested in and which may complement each of our respective businesses. Kingsoft Group and Xiaomi Group hold a large number of business interests, some of which may directly or indirectly compete with us. Kingsoft Group and Xiaomi Group may decide to take up business opportunities themselves, which would prevent us from taking advantage of those opportunities.
- [REDACTED] in our Company. Subject to any lock-up arrangements Kingsoft Corporation and Xiaomi may have with us and the [REDACTED] and applicable securities laws, Kingsoft Group or Xiaomi Group may decide to sell all or a portion of the shares that they hold in our Company to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other shareholders or holders of our Shares.
- Developing business relationships with Kingsoft Group’s and Xiaomi Group’s competitors. We may be limited in our ability to do business with Kingsoft Group’s and Xiaomi Group’s competitors, which may limit our ability to serve the best interests of our Company and our other shareholders or holders of our Shares.
- Our Directors may have conflicts of interest. Certain of our directors are also directors and/or employees of Kingsoft Group and/or Xiaomi Group. Despite our policies in relation to conflict of interests, we cannot assure you that these relationships will not create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for Kingsoft Group, Xiaomi Group and us.

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Kingsoft Group and Xiaomi Group may from time to time make strategic decisions that they believe are in the best interests of their businesses, which may be different from the decisions that we would have made on our own. Kingsoft Group’s and Xiaomi Group’s decisions with respect to us or our business may favor Kingsoft Group and Xiaomi Group and therefore the Kingsoft Group and Xiaomi Group shareholders, which may not necessarily be aligned with our interests and the interests of our other shareholders. Kingsoft Group and Xiaomi Group may make decisions that may disrupt or discontinue our collaborations with Kingsoft Group and Xiaomi Group. If Kingsoft Group and Xiaomi Group were to compete with us, our business, financial condition, results of operations and prospects could be materially and adversely affected. Although we have an audit committee, consisting of independent non-executive directors, to review and approve all proposed related party transactions, including those between Kingsoft Group or Xiaomi Group and us, we may not be able to resolve all potential conflicts of interest, and even if we do so, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder.

There might be discrepancies between our continuing disclosures on our financial and operating results and those of Kingsoft Group due to differences in accounting policies and data consolidation on the group level.

As a [REDACTED] company on the Stock Exchange, Kingsoft Corporation has been required to disclose its consolidated financial results. As a subsidiary controlled by and an important business unit of Kingsoft Group before our initial public offering on Nasdaq in May 2020, our historical financial results have been included in the consolidated financial statements of Kingsoft Corporation under IFRS since our inception. After our initial public offering on Nasdaq, we are an associate of Kingsoft Corporation. Their consolidated financial statements will thus record a share of loss from us and will also disclose our summary financial information under IFRS. The financial results disclosed in this document and those to be disclosed or to be furnished to SEC are prepared in accordance with U.S. GAAP and may not be consistent with Kingsoft Corporation’s financial statements due to different accounting policies.

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RISKS RELATING TO OUR CORPORATE STRUCTURE AND THE CONTRACTUAL ARRANGEMENTS

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules relating to the agreements that establish the Contractual Arrangement for our operations in China, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with our Consolidated Affiliated Entities and, consequently, significantly affect the financial condition and results of operations performance of our Company. If the PRC government finds such agreements that establish the structure for operating our businesses in China non-compliant with relevant PRC laws, regulations, and rules, or if these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interests in our Consolidated Affiliated Entities.

Foreign investment in the value-added telecommunication services industry in China is extensively regulated and subject to numerous restrictions. Pursuant to the Special Management Measures for the Entry of Foreign Investment (Negative List) (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**2021 Negative List**”), published by the NDRC and the Ministry of Commerce on December 27, 2021 and effective on January 1, 2022, and other applicable laws, regulations and rules, foreign investment is not permitted in the types of business that do not fall within China’s commitment to the WTO to open up, and as for the value-added telecommunications business types which fall within China’s commitment to the WTO, except as otherwise stipulated by the state, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication services provider.

We are a Cayman Islands company and our PRC subsidiaries are currently considered as foreign-invested enterprises. Accordingly, our PRC subsidiaries are not eligible to provide value-added telecommunication services in China. To ensure strict compliance with the PRC laws and regulations, we conduct such business activities through our Consolidated Affiliated Entities. We have entered into a series of Contractual Arrangements with our Consolidated Affiliated Entities and their shareholders, which enable us to (i) exercise effective control over our Consolidated Affiliated Entities, (ii) receive substantially all of the economic benefits and absorb substantially all of the economic losses of our Consolidated Affiliated Entities, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in our Consolidated Affiliated Entities when and to the extent permitted by PRC law. As a result of these Contractual Arrangements, we have control over and are the primary beneficiary of our Consolidated Affiliated Entities and hence consolidate their financial results as our Consolidated Affiliated Entities under U.S. GAAP.

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If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in the value-added telecommunication services, or if the PRC government otherwise finds that we, our Consolidated Affiliated Entities, or any of their subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on our operation through any transactions between our PRC subsidiaries and our Consolidated Affiliated Entities;
- imposing fines, confiscating the income from our PRC subsidiaries or our Consolidated Affiliated Entities, or imposing other requirements with which our PRC subsidiaries or our Consolidated Affiliated Entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our Consolidated Affiliated Entities; or
- deregistering the equity pledges of our Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our Consolidated Affiliated Entities.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. We also cannot be certain that equity interests in our Consolidated Affiliated Entities will be disposed of in accordance with the Contractual Arrangements among our PRC subsidiaries, our Consolidated Affiliated Entities, and nominee shareholders of our Consolidated Affiliated Entities. In addition, new PRC laws, regulations, and rules may be introduced to impose additional requirements, posing additional challenges to our corporate structure and Contractual Arrangements. If any of these occurrences results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact its economic performance and/or our failure to receive the economic benefits from our Consolidated Affiliated Entities, and/or our inability to claim our contractual control rights over the assets of our Consolidated Affiliated Entities that conduct substantially all of our operations in China, we may not be able to consolidate the Consolidated Affiliated Entities in our consolidated financial statements in accordance with U.S. GAAP, which could materially and adversely affect our financial condition and results of operations and cause our Ordinary Shares and ADSs to significantly decline in value or become worthless.

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Uncertainties exist with respect to the interpretation and implementation of Foreign Investment Law and its implementing rules and other foreign investment related laws and regulations and how they may impact our business, financial condition and results of operations.

The variable interest entity structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015, or the 2015 Draft FIL, according to which, variable interest entities that are controlled via Contractual Arrangements would also be deemed as foreign-invested entities, if they are ultimately “controlled” by foreign investors. In March 2019, the PRC National People’s Congress promulgated the Foreign Investment Law, and in December 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law of the People’s Republic of China, or the Implementing Rules, to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both became effective from January 1, 2020. Pursuant to the Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Foreign Investment Law and the Implementing Rules do not introduce the concept of “control” in determining whether a company would be considered as a foreign-invested enterprise, nor do they explicitly provide whether the variable interest entity structure would be deemed as a method of foreign investment. However, the Foreign Investment Law has a catch-all provision that includes into the definition of “foreign investments” made by foreign investors in China in other methods as specified in laws, administrative regulations, or as stipulated by the State Council, and as relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the Foreign Investment Law, the possibility cannot be ruled out that the concept of “control” as stated in the 2015 Draft FIL may be embodied in, or the variable interest entity structure adopted by us may be deemed as a method of foreign investment by, any of such future laws, regulations and rules. If our Consolidated Affiliated Entities were deemed as a foreign-invested enterprise under any of such future laws, regulations and rules, and any of the businesses that we operate would be in the “negative list” for foreign investment and therefore be subject to foreign investment restrictions or prohibitions, further actions required to be taken by us under such laws, regulations and rules may materially and adversely affect our business, financial condition and results of operations.

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Furthermore, if foreign investment related laws, administrative regulations or rules change in the future, we may need to take further actions with respect to our Consolidated Affiliated Entities for the purpose of having better operational control on our Consolidated Affiliated Entities or continuously satisfying applicable requirements of the stock exchange where we [REDACTED]. For example, the Administrative Regulations on Foreign-Invested Telecommunications Enterprises were recently amended by the State Council and took effect on May 1, 2022 (the “**2022 FITE Regulations**”). The 2022 FITE Regulations canceled the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version. Given this new regulatory development and any further detailed implementing rules that the PRC governmental authority may formulate in the future, we may need to take further actions with respect to the Consolidated Affiliated Entities for the purpose of having better operational control on the Consolidated Affiliated Entities or satisfying applicable requirements of the stock exchange where we [REDACTED], which will be subject to a number of uncertainties, including adjusting the contractual arrangements with the Consolidated Affiliated Entities, registration of the transfer of the equity interests of the Consolidated Affiliated Entities and their subsidiaries, registration of the new equity pledges, and obtaining additional operating permits or making amendments to our current operating permits, including the VAT Licenses. However, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance, financial conditions and business operations.

We rely on Contractual Arrangements with our Consolidated Affiliated Entities and the Registered Shareholders for a large portion of our business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on Contractual Arrangements with Zhuhai Kingsoft Cloud and Kingsoft Cloud Information and the Registered Shareholders to operate our business in China. These Contractual Arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities. For example, our Consolidated Affiliated Entities and the Registered Shareholders could breach their Contractual Arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. The revenues contributed by our Consolidated Affiliated Entities and their subsidiaries constituted substantially all of our revenues in 2019, 2020 and 2021. If our Consolidated Affiliated Entities cease to transfer economic benefits to us, our business, results of operations and financial condition would be materially and adversely affected, and the price of our Ordinary Shares and the ADSs may decline significantly.

If we had direct ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our Consolidated Affiliated Entities, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the

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current Contractual Arrangements, we rely on the performance by our Consolidated Affiliated Entities and the Registered Shareholders of their respective obligations under the contracts to exercise control over our Consolidated Affiliated Entities. The shareholders of our Consolidated Affiliated Entities may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate a certain portion of our business through the Contractual Arrangements with our Consolidated Affiliated Entities and the Registered Shareholders. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and arbitration, litigation or other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See “– Any failure by our Consolidated Affiliated Entities or the Registered Shareholders to perform their obligations under our Contractual Arrangements with them would have a material and adverse effect on our business.” Therefore, our Contractual Arrangements with our Consolidated Affiliated Entities and the Registered Shareholders may not be as effective in controlling our business operations as direct ownership.

Any failure by our Consolidated Affiliated Entities or the Registered Shareholders to perform their obligations under our Contractual Arrangements with them would have a material and adverse effect on our business.

If our Consolidated Affiliated Entities or the Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we could be limited in our ability to enforce the Contractual Arrangements that give us effective control over our business operations in the PRC and may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure will be effective under PRC law. For example, if the shareholders of our Consolidated Affiliated Entities refuse to transfer their equity interest in our Consolidated Affiliated Entities to our PRC subsidiaries or their designee after we exercise the purchase option pursuant to these Contractual Arrangements, or if they otherwise act in bad faith or otherwise fail to fulfill their contractual obligations, we may have to take legal actions to compel them to perform their contractual obligations. In addition, if there are any disputes or governmental proceedings involving any interest in such shareholders’ equity interests in our Consolidated Affiliated Entities, our ability to exercise shareholders’ rights or foreclose the share pledges according to the Contractual Arrangements may be impaired. If these disputes or proceedings were to impair our control over our Consolidated Affiliated Entities, we may not be able to maintain effective control over our business operations in the PRC and thus would not be able to continue to consolidate our Consolidated Affiliated Entities’ financial results, which would in turn result in a material adverse effect on our business, operations and financial condition.

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Our Contractual Arrangements are governed by PRC law. Accordingly, these contracts would be interpreted in accordance with PRC law, and any disputes would be resolved in accordance with PRC legal procedures, which may not protect you as much as those of other jurisdictions, such as the United States.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. Meanwhile, there are very few precedents and little formal guidance as to how Contractual Arrangements in the context of Consolidated Affiliated Entities should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these Contractual Arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected. See “– Risks Relating to Doing Business in China – Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in policies, laws and regulations in China, could adversely affect us.”

The shareholders of our Consolidated Affiliated Entities may have actual or potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The shareholders of our Consolidated Affiliated Entities may have actual or potential conflicts of interest with us. These shareholders may not remain as shareholders of our Consolidated Affiliated Entities, or may breach, or cause our Consolidated Affiliated Entities to breach, or refuse to renew, the existing Contractual Arrangements we have with them and our Consolidated Affiliated Entities, which would have a material and adverse effect on our ability to effectively control our Consolidated Affiliated Entities and receive economic benefits from them, which may result in deconsolidation of our Consolidated Affiliated Entities. For example, the shareholders may be able to cause our agreements with our Consolidated Affiliated Entities to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor. Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders

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and our Company. If we cannot resolve any conflict of interest or dispute between us and these shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Contractual Arrangements in relation to our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we, our subsidiaries or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your [REDACTED].

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements between our Consolidated Affiliated Entities, our subsidiaries and us were not entered into on an arm’s-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the income of our Consolidated Affiliated Entities in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our Consolidated Affiliated Entities for PRC tax purposes, which could in turn increase its tax liabilities without reducing our PRC subsidiaries’ tax expenses. In addition, the PRC tax authorities may impose interest and/or other penalties on our Consolidated Affiliated Entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our Consolidated Affiliated Entities’ tax liabilities increase or if they are required to pay interest and/or other penalties on the adjusted but unpaid taxes.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could severely disrupt our business, render us unable to conduct some or all of our business operations and constrain our growth.

As part of our Contractual Arrangements with our Consolidated Affiliated Entities, our Consolidated Affiliated Entities hold certain assets, licenses and permits that are critical to our business operations, including the Value-added Telecommunications Business Operation License. The Contractual Arrangements contain terms that specifically obligate our Consolidated Affiliated Entities’ shareholders to ensure the valid existence of the Consolidated Affiliated Entities and restrict the disposal of material assets of the Consolidated Affiliated Entities. However, in the event the Consolidated Affiliated Entities’ shareholders breach the terms of these Contractual Arrangements and voluntarily liquidate any of our Consolidated Affiliated Entities, or any of our Consolidated Affiliated Entities declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of or encumbered without our consent, we may be unable to conduct some or all of our business operations or otherwise benefit from the assets held by the Consolidated Affiliated Entities, which could have a material adverse effect on our business, financial condition and

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results of operations. Furthermore, under the Contractual Arrangements, our Consolidated Affiliated Entities may not, in any manner, sell, transfer, mortgage or dispose of their material assets or legal or beneficial interests in the business without our prior consent. If any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of the assets of the Consolidated Affiliated Entities, thereby hindering our ability to operate our business as well as constrain our growth.

RISKS RELATING TO DOING BUSINESS IN CHINA

A severe or prolonged downturn in the PRC or global economy could materially and adversely affect our business, results of operations and financial condition.

The global macro-economic environment is facing challenges, including the adverse impact on the global economies and financial markets as the COVID-19 outbreak continues to evolve into a worldwide health crisis in 2020, and the recent Russia-Ukraine crisis. The growth of the PRC economy has slowed down since 2012 compared to the previous decade and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa and over the conflicts involving Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes, and the trade disputes between the United States and China. The ongoing trade tensions between the United States and China may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. Economic conditions in China are sensitive to global economic conditions, changes in domestic economic and political policies, and the expected or perceived overall economic growth rate in China. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing in recent years. Although growth of China’s economy remained relatively stable, there is a possibility that China’s economic growth may materially decline in the near future. Any severe or prolonged slowdown in the global or PRC economy may materially and adversely affect our business, results of operations and financial condition.

We may be adversely affected by political tensions between the United States and China.

Political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of Hong Kong and the central government of the PRC and the executive orders issued by former U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with ByteDance Ltd., Tencent Holdings Ltd. and the respective

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subsidiaries of such companies, the executive order issued in November 2020 that prohibits U.S. persons from transacting publicly traded securities of certain “Communist Chinese military companies” named in such executive order, the executive order issued in January 2021 that prohibits such transactions as are identified by the U.S. Secretary of Commerce with certain “Chinese connected software applications,” including Alipay and WeChat Pay, as well as the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures promulgated by the Ministry of Commerce of the PRC, on January 9, 2021, which will apply to situations where the extra-territorial application of foreign legislation and other measures, in violation of international law and the basic principles of international relations, unjustifiably prohibits or restricts the citizens, legal persons or other organizations of China from engaging in normal economic, trade and related activities with a third State (or region) or its citizens, legal persons or other organizations. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any legislation were to be enacted or any regulations were to be adopted along these lines, it could negatively affect the attitudes of [REDACTED] towards China-based issuers listed in the United States in general, which also could have a material and adverse impact on the [REDACTED] of our Ordinary Shares and the ADSs.

Changes in China’s economic, or social conditions or government policies could have a material adverse effect on our business and operations.

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China’s economic growth through allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing in recent years. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could potentially have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and results of operations, lead to a reduction in demand for our services and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and

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results of operations may be adversely affected by government control over capital investments or changes in tax regulations. The Chinese government also has significant authority to exert influence on the ability of a China-based issuer, such as our Company, to conduct its business and control over [REDACTED] conducted overseas and/or foreign investments in such issuer. The Chinese government may intervene or influence the operations of a China-based issuer at any time, which could result in a material change in the Company’s operations and/or the value of our Ordinary Shares and/or ADSs. In particular, there have been recent statements by the PRC government indicating an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such regulatory oversight or control could significantly limit or completely hinder our ability to [REDACTED] or continue to [REDACTED] to [REDACTED] and cause the value of our Ordinary Shares and ADSs to significantly decline or become worthless. See “– Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in policies, laws and regulations in China, could adversely affect us.” In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operations.

Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in policies, laws and regulations in China, could adversely affect us.

The PRC legal system is based on written statutes and court decisions that have limited precedential value. The PRC legal system is evolving rapidly, and therefore the interpretations and enforcement of many laws, regulations and rules may contain inconsistencies and uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. These uncertainties may impede our contractual, property and procedural rights, which could adversely affect our business, financial condition and results of operations.

The PRC government has significant oversight and discretion over the conduct of our business and may intervene with or influence our operations as the government deems appropriate to further regulatory, political and societal goals. The PRC government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could adversely affect our business,

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financial condition and results of operations. Furthermore, the PRC government has also recently indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted overseas and foreign investment in China-based companies like us. Any such action, once taken by the PRC government, could significantly limit or completely hinder our ability to offer or continue to [REDACTED] to [REDACTED] and cause the value of such [REDACTED] to significantly decline or in extreme cases, become worthless.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in this document based on foreign laws.

We are a company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China, and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Shareholder claims that are common in the United States, including securities law class actions and fraud claims, generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such regulatory cooperation with the securities regulatory authorities in the United States has not been efficient in the absence of a mutual and practical cooperation mechanism. According to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties.

The filing, approval or other administrative requirements of the CSRC or other PRC government authorities may be required in connection with the [REDACTED] under PRC law.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-Owned Assets Supervision and Administration Commission, the State Taxation Administration, the State Administration for Industry and Commerce, which has been merged into the SAMR, the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的

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規定》) (the “**M&A Rules**”), which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle that is controlled by PRC domestic companies or individuals and that has been formed for the purpose of an overseas listing of securities through acquisitions of PRC domestic companies or assets to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

While the application of the M&A Rules remains unclear, we believe, based on the advice of our PRC Legal Adviser, that the CSRC approval abovementioned under the M&A Rules is not required in the context of the [REDACTED] because (1) our wholly foreign-owned PRC subsidiaries were not established through mergers or acquisitions of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company; and (2) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. There can be no assurance that the relevant PRC government agencies, including the CSRC, would reach the same conclusion as our PRC Legal Adviser.

Furthermore, the PRC government authorities may strengthen oversight over offerings that are conducted overseas and/or foreign investment in overseas-listed China-based issuers like us. Such actions taken by the PRC government authorities may intervene our operations at any time, which are beyond our control. For instance, the relevant PRC governments promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities (《關於依法從嚴打擊證券違法活動的意見》), among which, it is mentioned that the administration and supervision of overseas-listed China-based companies will be strengthened, and the special provisions of the State Council on overseas issuance and listing of shares by such companies will be revised, clarifying the responsibilities of domestic industry competent authorities and regulatory authorities. However, due to lack of further interpretations or applications from the competent authorities on such opinions, there are still uncertainties regarding the interpretation and implementation of these opinions, and any new rules or regulations promulgated in the future may impose additional requirements on us.

On December 24, 2021, the CSRC published the draft Regulations of the State Council on the Administration of Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Administrative Provisions**”) and the draft Measures for the Record-Filing of Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Filing Measures**”) for public comments till January 23, 2022. Pursuant to these drafts, a filing-based regulatory system will be applied to both “direct overseas offering and listing” and “indirect overseas offering and listing” of PRC domestic companies. The “indirect overseas offering and listing” of PRC domestic companies refers to such securities offering and listing in an overseas market made in the name of an offshore entity, but based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. If

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the issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) the total assets, net assets, revenues or profits of the domestic operating entity or entities of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; (ii) most of the senior managers in charge of business operation and management of the issuer are Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China. As of the Latest Practicable Date, it remains uncertain when the final Administrative Provisions and Filing Measures will be adopted and whether they will be adopted in the current draft form. If the Administrative Provisions and Filing Measures are adopted in the current form before the [REDACTED] is completed, we may be required to file the relevant documents with the CSRC and complete the filing procedures with the CSRC in connection with the [REDACTED]. Failure to complete the filing under the Administrative Provisions and Filing Measures may subject a PRC domestic company to a warning and a fine of RMB1 million to RMB10 million. In the event of a serious violation of the Administrative Provisions, the PRC domestic company may be ordered to discontinue the related business or suspend its operations for rectification, and its permits or business licenses may be revoked.

Furthermore, on April 2, 2022, the CSRC published the draft Provisions on Strengthening the Confidentiality and Archives Management Related to Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Draft Confidentiality and Archives Management Provisions, for public comments. Pursuant to the Draft Confidentiality and Archives Management Provisions, PRC domestic companies that seek to offer and list securities in overseas markets shall establish confidentiality and archives system. The PRC domestic companies shall obtain approval from the competent authority and file with the confidential administration department at the same level when providing or publicly disclosing documents and materials related to state secrets or secrets of the governmental authorities to the relevant securities companies, securities service agencies or the offshore regulatory authorities or providing or publicly disclosing such documents and materials through its offshore listing entity, and shall complete corresponding procedures when providing or publicly disclosing documents and materials which may adversely influence national security and the public interest to the relevant securities companies, securities service agencies or the offshore regulatory authorities or providing or publicly disclosing such documents and materials through its offshore listing entity. The PRC domestic companies shall provide written statements on the implementation on the aforementioned rules to the relevant securities companies and securities service agencies and the PRC domestic companies shall not provide accounting files to an overseas accounting firm unless such firm comply with the corresponding procedures. As of the Latest Practicable Date, the Draft Confidentiality and Archives Management Provisions were released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty.

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As of the Latest Practicable Date, we have not received any formal inquiry, notice, warning, sanction, or any regulatory objection to the [REDACTED] from the CSRC or any other PRC regulatory agencies that have jurisdiction over our operations. If the CSRC or other PRC regulatory authorities subsequently determines that we need to obtain their approval or complete the required filing or other administrative procedures for the [REDACTED], or if such government authorities promulgate any interpretation or implement rules that would require us to obtain approvals from the CSRC or other regulatory authorities or complete required filing or other administrative procedures for the [REDACTED], it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing or other administrative procedures, or obtain any waiver of aforesaid requirements if and when procedures are established to obtain such waiver. Any failure to obtain or delay in obtaining such approval or completing such filing or other required administrative procedures for the [REDACTED], or a rescission of any such approval obtained by us, could subject us to sanctions by the CSRC or other PRC regulatory agencies. In any such event, these regulatory authorities may also impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the [REDACTED] from the [REDACTED] into the PRC or take other actions that could adversely affect our business, operating results and financial condition, as well as our ability to complete the [REDACTED]. The CSRC or any other PRC government authorities may also take actions requiring us, or making it advisable for us, to halt the [REDACTED] before settlement and delivery of our Ordinary Shares [REDACTED] by this document. Consequently, if you engage in [REDACTED] or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that such settlement and delivery may not occur. Any uncertainties or negative publicity regarding such approval requirements could materially and adversely affect the [REDACTED] of our Ordinary Shares and the ADSs.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including for services of any debt we may incur. The ability of our PRC subsidiaries to pay dividends and other distributions on equity, in turn, depends on the payment they receive from our Consolidated Affiliated Entities as service fees pursuant to certain Contractual Arrangements among our PRC subsidiaries, our Consolidated Affiliated Entities and our Consolidated Affiliated Entities' shareholders entered into to comply with certain restrictions under PRC law on foreign investment. Please refer to the sections headed “Contractual Arrangements” and “Connected Transactions” in this document for further details.

Our PRC subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and

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each of our Consolidated Affiliated Entities and their subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of each of their registered capitals. These reserves are not distributable as cash dividends. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

To address the persistent capital outflow and the RMB’s depreciation against the U.S. dollar in the fourth quarter of 2016, the People’s Bank of China and SAFE, implemented a series of capital control measures in subsequent months, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, the Circular on Promoting the Reform of Foreign Exchange Management and Improving Authenticity and Compliance Review, issued on January 26, 2017, provides that the banks shall, when dealing with dividend remittance transactions from a domestic enterprise to its offshore shareholders of more than US\$50,000, review the relevant board resolutions, original tax filing form and audited financial statements of such domestic enterprise based on the principal of genuine transaction. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries’ dividends and other distributions may be subject to tightened scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless reduced under treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are tax resident. Pursuant to the tax agreement between Mainland China and Hong Kong, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Under administrative guidance, a Hong Kong resident enterprise must meet the following conditions, among others, in order to apply the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Nonresident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, nonresident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. Accordingly, our Hong Kong subsidiary may be

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able to benefit from the 5% withholding tax rate for the dividends it receives from our PRC subsidiaries, if it satisfies the conditions prescribed under the relevant tax rules and regulations. However, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future. Accordingly, there is no assurance that the reduced 5% will apply to dividends received by our Hong Kong subsidiary from our PRC subsidiaries. This withholding tax will reduce the amount of dividends we may receive from our PRC subsidiaries.

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under PRC law, legal documents for corporate transactions, including agreements and contracts, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC market regulation authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit the application which will then be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or Consolidated Affiliated Entities. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries and from making loans to our Consolidated Affiliated Entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and our Consolidated Affiliated Entities. We may make loans to our PRC subsidiaries and Consolidated Affiliated Entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our PRC subsidiaries in China.

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Any loans to our PRC subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. In addition, a foreign invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of a foreign invested enterprise shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities investments other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective June 2015, which was amended on in December 2019, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China.

On October 23, 2019, SAFE issued the Circular on Further Promoting Cross-Border Trade and Investment Facilitation, or Circular 28, which took effect on the same day. Circular 28, subject to certain conditions, allows foreign-invested enterprises whose business scope does

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not include investment, or non-investment foreign-invested enterprises, to use their capital funds to make equity investments in China. As of the Latest Practicable Date, its interpretation and implementation in practice are still subject to substantial uncertainties.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or Consolidated Affiliated Entities or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or Consolidated Affiliated Entities when needed.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your [REDACTED].

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our Company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and Consolidated Affiliated Entities to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Shares.

Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.

Among other things, the M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that Ministry of Commerce be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such

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transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress of China and effective in 2008, as most recently amended on June 24, 2022 and effective from August 1, 2022, requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the relevant anti-monopoly authority before they can be completed. In addition, the Measures for the Security Review of Foreign Investment promulgated by the NDRC and the Ministry of Commerce in December 2020 specify that in respect of foreign investments in military, national defense-related areas or in locations in proximity to military facilities, or foreign investments that would result in acquiring the actual control of enterprises in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, information technology, internet products and services, financial services and technology sectors, the foreign investor or the relevant party in China in relation to the foregoing foreign investments is required to proactively report to the designated governmental authorities in advance and shall not proceed the foreign investments until the governmental authorities decide whether to initiate the security review. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations and other applicable laws and regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the competent governmental authority, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, or otherwise adversely affect us.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, which requires PRC residents (including PRC individuals and PRC corporate entities) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

SAFE Circular 37 requires registration with, and approval from, Chinese government authorities in connection with direct or indirect control of an offshore entity by PRC residents. The term “control” under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by PRC residents in the offshore special purpose vehicles, or SPVs, by means of acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. In addition, any PRC resident who is a direct or

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indirect shareholder of an SPV is required to update its filed registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder of such SPV fails to make the required registration or to update the previously filed registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contributions into its subsidiary in China. On February 13, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

These regulations may have a significant impact on our present and future structuring and investment. We have requested or intend to take all necessary measures to require our shareholders who to our knowledge are PRC residents to make the necessary applications, filings and amendments as required under these regulations. We further intend to structure and execute our future offshore acquisitions in a manner consistent with these regulations and any other relevant legislation. However, because it is presently uncertain how the SAFE regulations and any future legislation concerning offshore or cross-border transactions will be interpreted and implemented by the relevant government authorities in connection with our future offshore financings or acquisitions, we cannot provide any assurances that we will be able to comply with, qualify under, or obtain any approvals required by the regulations or other legislation. Furthermore, we cannot assure you that any PRC shareholders of our Company or any PRC company into which we invest will be able to comply with those requirements. Any failure or inability by such individuals or entities to comply with SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign exchange-denominated loans from, our Company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas-listed company, and complete certain other procedures. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. In addition, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local branches before they obtain the incentive shares or exercise the share options. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been or will be granted incentive shares or options are or will be subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions, and there may be additional restrictions on the ability of them to exercise their stock options or remit proceeds gained from sale of their stock into the PRC. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law.

If we are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with its “de facto management body” within the PRC is considered a “resident enterprise” and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, production, personnel, accounts and properties of an enterprise. In 2009, the State Taxation Administration issued a circular, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Taxation Administration’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to this circular, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident enterprise by virtue of having its “de facto management body” in China, and will be subject to PRC enterprise income tax on its

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global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that our Company is not a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that our Company or any of our offshore subsidiaries is a PRC resident enterprise for enterprise income tax purposes, our Company or the relevant offshore subsidiaries will be subject to PRC enterprise income on its worldwide income at the rate of 25%. Furthermore, if we are treated as a PRC tax resident enterprise, we will be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our Ordinary Shares and the ADSs. In addition, non-resident enterprise shareholders (including holders of our Ordinary Shares and the ADSs) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of ADSs or ordinary shares, if such gains are treated as derived from a PRC source. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to our non-PRC individual shareholders (including holders of our Ordinary Shares and the ADSs) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source). These rates may be reduced by an applicable tax treaty, but it is unclear whether our non-PRC shareholders would, in practice, be able to obtain the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our Ordinary Shares and the ADSs.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, which may have a material adverse effect on our financial condition and results of operations.

On February 3, 2015, the State Taxation Administration issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, which came into effect on February 3, 2015. This notice redefines the applicable scope to expand the subject of the indirect share transfers to China taxable assets, which includes equity investments in PRC resident enterprises, assets of Chinese establishments and immovable properties in China. In addition, this notice has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. This notice also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets.

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On October 17, 2017, the State Taxation Administration issued the Announcement on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, which came into effect on December 1, 2017, and further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

Where a non-resident enterprise transfers taxable assets in China indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity whose equity is transferred, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our Company may be subject to filing obligations or taxed if our Company is transferor in such transactions, and may be subject to withholding obligations if our Company is transferee in such transactions, under the abovementioned rules. For transfer of shares in our Company by [REDACTED] who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the abovementioned rules. As a result, we may be required to expend valuable resources to comply with abovementioned rules or their applicable tax related requirements or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our [REDACTED] with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB.

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This lack of the PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and [REDACTED] in our ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause [REDACTED] and potential [REDACTED] in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs may be delisted and our ADSs and shares prohibited from trading on a national securities exchange or through any other method that is within the jurisdiction of the SEC to regulate, including through over-the-counter trading under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China. On December 16, 2021, PCAOB issued the HFCAA Determination Report, according to which our auditor is identified as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. Under the current law, delisting and prohibition from trading in the U.S. could take place in 2024. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your [REDACTED].

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China’s, the Holding Foreign Companies Accountable Act, or the HFCAA has been signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADS from being traded on a national securities exchange or in the over-the counter trading market in the U.S. Accordingly, under the current law this could happen in 2024.

On December 2, 2021, the SEC adopted final amendments to its rules implementing the HFCAA (the “**Final Amendments**”). The Final Amendments include requirements to disclose information, including the auditor name and location, the percentage of shares of the issuer owned by governmental entities, whether governmental entities in the applicable foreign jurisdiction with respect to the auditor has a controlling financial interest with respect to the issuer, the name of each official of the Chinese Communist Party who is a member of the board of the issuer, and whether the articles of incorporation of the issuer contains any charter of the Chinese Communist Party. The Final Amendments also establish procedures the SEC will follow in identifying issuers and prohibiting trading by certain issuers under the HFCAA.

On December 16, 2021, the PCAOB issued the HFCAA Determination Report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. In June 2022, we were conclusively identified

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by the SEC under the HFCAA as having filed audit reports issued by a registered public accounting firm that cannot be inspected or investigated completely by the PCAOB in connection with our filing of the annual report on Form 20-F for the fiscal year ended December 31, 2021.

The HFCAA or other efforts to increase U.S. regulatory access to audit information could cause [REDACTED] uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected. Additionally, whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ended December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our control. If we are unable to meet the PCAOB inspection requirement in time, we could be delisted from the Nasdaq Stock Market and our ADSs will not be permitted for trading “over-the-counter” either. Such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the [REDACTED] of our Ordinary Shares and the ADSs. Also, such a delisting would significantly affect our ability to [REDACTED] on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

The potential enactment of the Accelerating Holding Foreign Companies Accountable Act would decrease the number of non-inspection years from three years to two years, thus reducing the time period before our ADSs may be delisted or prohibited from over-the-counter trading. If this bill were enacted, our ADS could be delisted from the exchange and prohibited from over-the-counter trading in the U.S. in 2023.

On June 22, 2021, the U.S. Senate passed a bill known as the Accelerating Holding Foreign Companies Accountable Act, to amend Section 104(i) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7214(i)) to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded over-the-counter if the auditor of the registrant’s financial statements is not subject to PCAOB inspection for two consecutive years, instead of three consecutive years as currently enacted in the HFCAA.

On February 4, 2022, the U.S. House of Representatives passed the America Competes Act of 2022 which includes the exact same amendments as the bill passed by the Senate. The America Competes Act however includes a broader range of legislation not related to the HFCAA in response to the U.S. Innovation and Competition Act passed by the Senate in 2021. The U.S. House of Representatives and U.S. Senate will need to agree on amendments to these respective bills to align the legislation and pass their amended bills before the President can sign into law. It is unclear when the U.S. Senate and U.S. House of Representatives will resolve the differences in the U.S. Innovation and Competition Act and the America Competes Act of 2022 bills currently passed, or when the U.S. President will sign on the bill to make the amendment into law, or at all.

In the case that the bill becomes the law, it will reduce the time period before our ADSs could be delisted from the exchange and prohibited from over-the-counter trading in the U.S. from 2024 to 2023.

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RISKS RELATING TO OUR ORDINARY SHARES AND THE ADSs

The [REDACTED] of our Ordinary Shares and the ADSs may be volatile, which could lead to substantial losses to [REDACTED].

The trading price of the ADSs has been volatile since the ADSs started to trade on the Nasdaq Global Select Market on May 8, 2020. The trading price of the ADSs could continue to fluctuate widely due to factors beyond our control. The [REDACTED] of our Ordinary Shares, likewise, can be volatile for similar or different reasons. In particular, the business and performance and the market price of the shares of other companies engaging in similar business to ours or those with operations located mainly in China that have listed their securities in Hong Kong or the United States may affect [REDACTED] of our Ordinary Shares and the ADSs. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies’ securities after their offerings, including technology companies and transaction service platforms, may affect the attitudes of [REDACTED] toward Chinese companies listed in Hong Kong and/or the United States, which consequently may impact the [REDACTED] performance of our Ordinary Shares and/or ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of [REDACTED] towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant [REDACTED] fluctuations that are not related to the Group’s operating performance. In addition, a portion of our ADSs may be traded by short sellers, which may further increase the volatility of the trading price of our ADSs. All these fluctuations and incidents may have a material and adverse effect on the [REDACTED] of our Ordinary Shares and/or our ADSs.

In addition to market and industry factors, the [REDACTED] of our Ordinary Shares and the ADSs may be highly volatile for factors specific to our own operations, including the following:

- macro-economic factors in China
- variations in our revenues, earnings, or cash flow;
- fluctuations in operating metrics;
- announcements of new investments, acquisitions, strategic partnerships, capital raisings or capital commitments or joint ventures by us or our competitors;
- announcements of new offerings, solutions and services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;

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- detrimental negative publicity about us, our services or our industry;
- announcements of new regulations, rules or policies relevant to our business;
- additions or departures of key personnel;
- allegations of a lack of effective internal control over financial reporting, inadequate corporate governance policies, or allegations of fraud, among other things, involving China-based issuers;
- our major shareholders’ business performance and reputation;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- regulatory developments affecting us or our industry;
- political or trade tensions between the United States and China;
- actual or potential litigation or regulatory investigations;
- any share repurchase program;
- proceedings instituted by the SEC against PRC-based accounting firms, including our independent registered public accounting firm;
- fluctuations of exchange rates among Renminbi, the Hong Kong dollar and the U.S. dollar; and
- sales or perceived potential sales of additional Ordinary Shares or ADSs.

Any of these factors may result in large and sudden changes in the [REDACTED] at which our Ordinary Shares or the ADSs will [REDACTED]. Furthermore, the stock exchanges on which our Ordinary Shares and the ADSs are [REDACTED] in general experience [REDACTED] fluctuations that are often unrelated or disproportionate to the operating performance of companies like us. These broad market and industry fluctuations may adversely affect the [REDACTED] of our Ordinary Shares or the ADSs.

In the past, shareholders of public companies have often brought securities class action suits against companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether successful or not, could harm our reputation and restrict our ability to [REDACTED] in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

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If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our securities, the [REDACTED] for our Ordinary Shares and the ADSs and [REDACTED] could decline.

The [REDACTED] market for our Ordinary Shares and the ADSs depends in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our Ordinary Shares or the ADSs or publishes inaccurate or unfavorable research about our business, the [REDACTED] for our Ordinary Shares or the ADSs would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly and timely, we could lose visibility and attractiveness in the financial markets, which, in turn, could cause the [REDACTED] for our Ordinary Shares or the ADSs to decline.

Substantial future sales or perceived sales of our Ordinary Shares or the ADSs in the public market following the [REDACTED] could materially and adversely affect the [REDACTED] of our Ordinary Shares or the ADSs.

Sales of our Ordinary Shares or the ADSs in the public market, or the perception that these sales could occur, could cause the [REDACTED] of our securities to decline. Shares held by our existing shareholders may be available for sale subject to the volume and other restrictions as applicable provided in Rules 144 and 701 under the Securities Act and the applicable lock-up agreements, including those entered into in connection with the [REDACTED]. We cannot predict what effect, if any, market sales of securities held by our significant shareholders, management team or any other shareholder or the availability of these securities for future sale will have on the [REDACTED] of our Ordinary Shares or the ADSs.

Techniques employed by short sellers may drive down the [REDACTED] of our Ordinary Shares or the ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. Short sellers hope to profit from a decline in the price of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as short sellers expect to pay less in that purchase than they received in the sale. As it is in the short sellers' interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of

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adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or enforcement actions by the SEC or other U.S. authorities. It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations, and any [REDACTED] in our Ordinary Shares or the ADSs could be greatly reduced or even rendered worthless.

Because we do not expect to pay dividends in the foreseeable future after the [REDACTED], you must rely on a price appreciation of our Ordinary Shares or the ADSs for a return on your [REDACTED].

We do not expect to pay any cash dividends in the foreseeable future after the [REDACTED]. Therefore, you should not rely on an [REDACTED] in our Ordinary Shares or the ADSs as a source for any future dividend income. Our Board has complete discretion as to whether to distribute dividends, subject to Cayman Islands law. Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions (if any) received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your [REDACTED] in our Ordinary Shares or the ADSs will likely depend entirely upon any future price appreciation of such securities. There is no guarantee that our Ordinary Shares or the ADSs will appreciate in value after the [REDACTED] or even maintain the price at which you purchased them. You may not realize a return on your [REDACTED] in our Ordinary Shares or the ADSs and you may even lose your entire [REDACTED].

Holders of the ADSs may not have the same voting rights as the holders of our Ordinary Shares and may not be able to exercise their right to direct how our Ordinary Shares represented by the ADSs are voted.

Holders of the ADSs do not have the same rights as our registered shareholders. Holders of the ADSs will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings and will only be able to exercise the voting rights that are carried by the underlying Ordinary Shares represented by the ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, holders of the ADSs may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask holders of the ADSs for their instructions, then upon receipt of voting instructions from holders of the ADSs, the depositary will try, as

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far as practicable, to vote the underlying Ordinary Shares represented by the ADSs in accordance with the instructions. If we do not instruct the depositary to ask holders of the ADSs for their instructions, the depositary may still vote in accordance with instructions it receives, but it is not required to do so. Holders of the ADSs will not be able to directly exercise their right to vote with respect to the Ordinary Shares represented by the ADSs unless holders of the ADSs withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under the Articles, the minimum notice period required to be given by our Company to our registered shareholders for convening a general meeting is seven business days.

When a general meeting is convened, holders of the ADSs may not receive sufficient advance notice of the meeting to surrender their ADSs for the purpose of withdrawal of our Ordinary Shares represented by such ADSs and become the registered holder of such shares to allow them to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under the Articles that will become effective immediately prior to completion of this [REDACTED], for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent holders of the ADSs from surrendering ADSs for the purpose of withdrawing our Ordinary Shares represented by such ADSs and becoming the registered holder of such shares prior to the record date, so that they would not be able to attend the general meeting or to vote directly. If we ask for instructions, the depositary will notify holders of the ADSs of the upcoming vote and will arrange to deliver our voting materials to them. We have agreed to give the depositary at least 40 days' prior notice of shareholder meetings. Nevertheless, there is no guarantee that holders of the ADSs will receive the voting materials in time to ensure that holders of the ADSs can instruct the depositary to vote the Ordinary Shares represented by their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out voting instructions from holders of the ADSs. This means that holders of the ADSs may not be able to exercise their right to direct how our Ordinary Shares represented by their ADSs are voted and they may have no legal remedy if our Ordinary Shares represented by their ADSs are not voted as they have requested.

You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong or U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by the Articles, the Companies Act and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England and Wales, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The

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rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in Hong Kong or some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than Hong Kong or the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. Moreover, while under Delaware law, controlling shareholders owe fiduciary duties to the companies they control and their minority shareholders, under Cayman Islands law, our controlling shareholder does not owe any such fiduciary duties to our Company or to our minority shareholders. Accordingly, our controlling shareholder may exercise their powers as shareholders, including the exercise of voting rights in respect of their shares, in such manner as they think fit.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the Memorandum and Articles, the register of mortgages and charges and any special resolutions passed by shareholders) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of the board of directors or controlling shareholder than they would as public shareholders of a company incorporated in the United States.

It may be difficult for overseas regulators to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

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Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands and substantially all of our assets are located outside of Hong Kong or the United States. Substantially all of our current operations are conducted in China. In addition, some of our current directors and officers are nationals and residents of countries and regions other than Hong Kong or the United States. Most of the assets of these persons are located outside Hong Kong or the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in Hong Kong or the United States in the event that you believe that your rights have been infringed under Hong Kong laws or the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Holders of the ADSs may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Ordinary Shares provides that, to the fullest extent permitted by law, holders of the ADS waive the right to a jury trial for any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository were to oppose a jury trial based on this waiver, the court would have to determine whether the waiver was enforceable based on the facts and circumstances of the case in accordance with applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, or by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this would be the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before [REDACTED] in the ADSs.

If owners or holders of the ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, owners or holders of the ADSs may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depository. If a lawsuit is brought against us or the depository under the deposit agreement,

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it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including outcomes that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or the ADSs serves as a waiver by any owners or holders of the ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Holders of the ADSs may experience dilution of their holdings due to the inability to participate in rights [REDACTED].

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. However, we cannot make such rights available to holders of the ADSs in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depository will not distribute rights to holders of the ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of the ADSs, or are registered under the provisions of the Securities Act. The depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of the ADSs may be unable to participate in our rights [REDACTED] and may experience dilution of their holdings as a result.

Holders of the ADSs may be subject to limitations on the transfer of the ADSs.

The ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems it expedient in connection with the performance of its duties. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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Our Articles give us power to take certain actions that could discourage a third party from acquiring us, which could limit our Shareholders’ opportunity to sell their Shares, including Ordinary Shares and the ADSs, at a premium.

Our Articles contain provisions to limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our Shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our Company in a tender offer or similar transaction. Subject to any applicable rules and regulations of authorities of places where securities of the Company are [REDACTED], and on the conditions that (a) no new class of shares with voting rights superior to those of the Ordinary Shares will be created; and (b) any variations in the relative rights as between the different classes will not result in the creation of a new class of shares with voting rights superior to those of the Ordinary Shares, our Board has the authority, without further action by our Shareholders, to issue shares in one or more series and to fix their designations, powers, preferences, privileges and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Ordinary Shares, including Ordinary Shares represented by ADSs.

However, our exercise of any such power that may limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions under our Articles after the [REDACTED] will be subject to our overriding obligations to comply with all applicable Hong Kong laws and regulations, the Listing Rules, and the Codes on Takeovers and Mergers and Share Buy-backs.

We have discretion as to how we will use the [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return to our shareholders. For details, see “Future Plans and Use of [REDACTED] – Use of [REDACTED].” However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the [REDACTED] from this [REDACTED].

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We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Select Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer, which may be difficult for overseas regulators to conduct investigation or collect evidence within China.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.

As a Cayman Islands exempted company listed on the Nasdaq, we are subject to corporate governance listing standards of Nasdaq. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We have followed and intend to continue to follow Cayman Islands corporate governance practices in lieu of the corporate governance requirements of the Nasdaq that listed companies must have a majority of independent directors and that the audit committee consists of at least three members. To the extent that we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under Nasdaq corporate governance

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listing standards applicable to U.S. domestic issuers. In addition, if we are subject to listing standards or other rules or regulations of other jurisdictions in the future, those requirements may further change the degree of protection for our shareholders to the extent they differ from the Nasdaq listing standards applicable to U.S. domestic issuers.

You should read the entire document carefully, and we caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].

Subsequent to the date of this Document but prior to the completion of the [REDACTED], there may be press and media coverage regarding us and the [REDACTED], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong when making your [REDACTED] decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decisions as to whether to [REDACTED] in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document.

Your [REDACTED] in our Ordinary Shares or ADSs may be impacted if we are encouraged to issue CDRs in the future.

PRC government authorities have issued new rules that allow PRC technology companies listed outside China to list on the mainland stock market through the creation of Chinese Depositary Receipts, or CDRs. However, as the CDR mechanism is newly established, there are substantial uncertainties in the interpretation and implementation of these rules. We might consider and be encouraged by the evolving PRC governmental policies to issue CDRs and allow [REDACTED] to trade our CDRs on PRC stock exchanges in the future. However, there are uncertainties as to whether a pursuit of CDRs in China would bring positive or negative impact on your [REDACTED] in our Ordinary Shares or ADSs.

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RISKS RELATING TO THE [REDACTED] AND THE [REDACTED]

An active [REDACTED] market for our Ordinary Shares on the Hong Kong Stock Exchange might not develop or be sustained and [REDACTED] of our Ordinary Shares might fluctuate significantly.

Following the completion of the [REDACTED], we cannot assure you that an active [REDACTED] market for our Ordinary Shares on the Hong Kong Stock Exchange will develop or be sustained. The [REDACTED] price or liquidity for the ADSs on the Nasdaq Global Select Market might not be indicative of those of our Ordinary Shares on the Hong Kong Stock Exchange following the completion of the [REDACTED]. If an active [REDACTED] market of our Ordinary Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the [REDACTED], the [REDACTED] and liquidity of our Ordinary Shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai, and Shenzhen stock exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and PRC investors to trade eligible equity securities listed in each other’s markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai, and Shenzhen markets. Stock Connect allows PRC [REDACTED] to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, PRC investors would not otherwise have a direct and established means of engaging in Southbound Trading. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a [REDACTED] on the Hong Kong Stock Exchange. It is unclear whether and when our Ordinary Shares of our Company, a company with a [REDACTED] in Hong Kong upon the [REDACTED], will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Ordinary Shares for trading through Stock Connect will affect PRC [REDACTED] ability to [REDACTED] our Ordinary Shares and therefore may limit the liquidity of the [REDACTED] of our Ordinary Shares on the Hong Kong Stock Exchange.

Since there will be a gap of several days between [REDACTED] of our Ordinary Shares, the price of the ADSs traded on the Nasdaq Global Select Market may fall during this period and could result in a fall in the [REDACTED] of our Ordinary Shares to be [REDACTED] on the Hong Kong Stock Exchange.

The [REDACTED] of our Shares sold in the [REDACTED] is expected to be determined on the [REDACTED]. However, our Ordinary Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be a few Business Days after the [REDACTED]. As a result, [REDACTED] may not be able to sell or otherwise deal in our Ordinary Shares during that period. Accordingly, holders of our Ordinary Shares are subject to the risk that the [REDACTED] of our Ordinary Shares could fall when [REDACTED] commences as a result of adverse market conditions or other adverse developments that could occur between the [REDACTED] and the time [REDACTED] begins. In particular, as the ADSs will continue to be traded on the Nasdaq Global Select Market and their price can be volatile, any fall in the price of the ADSs may result in a fall in the [REDACTED] of our Ordinary Shares to be [REDACTED] on the Hong Kong Stock Exchange.

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The characteristics of the U.S. capital markets and the Hong Kong capital markets are different.

Upon the [REDACTED], we will be subject to the Hong Kong Stock Exchange and the Nasdaq Global Select Market [REDACTED] and regulatory requirements concurrently. The Nasdaq Global Select Market and the Hong Kong Stock Exchange have different [REDACTED] hours, [REDACTED] characteristics (including [REDACTED] and liquidity), [REDACTED] rules, and [REDACTED] bases (including different levels of retail and institutional participation). As a result of these differences, the [REDACTED] of our Ordinary Shares and the ADSs representing them might not be the same, even allowing for currency differences. Fluctuations in the price of the ADSs due to circumstances peculiar to its home capital market could materially and adversely affect the [REDACTED] of our Ordinary Shares. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historic market prices of the ADSs may not be indicative of the performance of our securities (including our Ordinary Shares) after the [REDACTED].

We may fail to meet our publicly announced guidance or other expectations about our business, which could cause our stock price to decline.

We may from time to time provide guidance regarding our expected financial and business performance. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process, and our guidance may not ultimately be accurate in all respects. Our guidance is based on certain assumptions, such as those relating to operating costs and expenses. If our guidance varies from actual results, the market value of our Ordinary Shares and/or ADSs could decline significantly.

There is uncertainty as to whether Hong Kong stamp duty will apply to the [REDACTED] of the ADSs or deposits in or withdrawals from the ADS facility following our [REDACTED] in Hong Kong and [REDACTED] of our Ordinary Shares on the Stock Exchange.

In connection with our [REDACTED] of Ordinary Shares in Hong Kong, or the [REDACTED], we will establish a branch register of members in Hong Kong, or [REDACTED]. Our Ordinary Shares that are [REDACTED] on the Hong Kong Stock Exchange, including those to be issued in the [REDACTED] and those that would be deferred upon surrender of ADSs for the purpose of withdrawal, will be registered on the [REDACTED], and the trading of these Shares on the Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate deposits in and withdrawals from the ADS facility and [REDACTED] between the Nasdaq Global Select Market and the Stock Exchange, we also intend to move a portion of our issued Ordinary Shares from our register of members maintained in the Cayman Islands to our Hong Kong [REDACTED].

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.26% of the greater of the consideration for, or the value of, shares transferred, with 0.13% payable by each of the buyer and the seller. See “Information about This Document and the [REDACTED] – [REDACTED].”

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To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the [REDACTED] or deposits in or withdrawals from ADS facilities of companies that are [REDACTED] in both the United States and Hong Kong and that have maintained all or a portion of their common shares, including common shares represented by ADSs, in their Hong Kong [REDACTED]. However, it is unclear whether, as a matter of Hong Kong law, the [REDACTED] of ADSs or deposits in or withdrawals from ADS facilities of these [REDACTED] companies constitutes a sale or purchase of the underlying Hong Kong-registered common shares that is subject to Hong Kong stamp duty. We advise [REDACTED] to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the [REDACTED] these transactions, the [REDACTED] price and the value of your [REDACTED] in our Ordinary Shares and/or ADSs may be affected.

The deposit of our Ordinary Shares for delivery of ADSs and the surrender of ADSs for cancelation and withdrawal of our Ordinary Shares may adversely affect the liquidity or [REDACTED] of our securities.

The ADSs are currently traded on the Nasdaq Global Select Market. Subject to compliance with U.S. securities laws and the terms of the deposit agreement, holders of our Ordinary Shares may deposit Ordinary Shares with the depository for delivery of ADSs. Any holder of ADSs may also withdraw the underlying Ordinary Shares represented by the ADSs pursuant to the terms of the deposit agreement for [REDACTED] on the Hong Kong Stock Exchange. In the event that a substantial number of Ordinary Shares are deposited with the depository for delivery of ADSs or that a substantial number of ADSs are surrendered for cancelation and withdrawal of our Ordinary Shares, the liquidity and [REDACTED] of our Ordinary Shares on the Hong Kong Stock Exchange and the ADSs on the Nasdaq Global Select Market may be adversely affected.

The time required for the deposit of our Ordinary Shares for delivery of ADSs and the surrender of ADSs for cancelation and withdrawal of our Ordinary Shares might be longer than expected and [REDACTED] might not be able to settle or effect any sale of their securities during this period, and such actions may involve costs.

There is no direct [REDACTED] or settlement between the Nasdaq Global Select Market and the Hong Kong Stock Exchange on which the ADSs and our Ordinary Shares are respectively [REDACTED]. In addition, the time differences between Hong Kong and New York, unforeseen market circumstances, or other factors may delay the deposit of Ordinary Shares for delivery of the ADSs or the surrender of ADSs for cancelation and withdrawal of our Ordinary Shares. [REDACTED] will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, we cannot assure you that any deposit of our Ordinary Shares for delivery of ADSs or surrender of ADSs for cancelation and withdrawal of our Ordinary Shares will be completed in accordance with the timelines that [REDACTED] may anticipate.

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Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Ordinary Shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs, and annual service fees. As a result, shareholders who deposit Ordinary Shares for delivery of ADSs or surrender ADSs for cancellation and withdrawal of our Ordinary Shares may not achieve the level of economic return they may anticipate.

We incur increased costs as a result of being a public company.

As a public company listed on the Nasdaq Stock Market, we incur and will continue to incur significant legal, accounting and other expenses for compliance with regulatory requirement. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costlier.

In addition, we will also incur additional costs as a result of the [REDACTED] on the Hong Kong Stock Exchange. We expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements from regulatory authorities. In addition, we may incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to relevant rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

We may be subject to securities litigation, which is expensive and could divert management attention.

Companies that have experienced volatility in the volume and market price of their shares have been subject to an increased incidence of securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

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Purchasers of our Ordinary Shares will incur immediate and significant dilution and may experience further dilution if we issue additional shares or other equity securities in the future, including pursuant to the share incentive schemes.

The [REDACTED] of the [REDACTED] is higher than the net tangible asset value per Ordinary Share immediately prior to the [REDACTED]. Therefore, purchasers of the [REDACTED] in the [REDACTED] will experience an immediate dilution in pro forma net tangible asset value. In order to expand our business, we may consider offering and issuing additional shares or other equity securities in the future. Purchasers of the [REDACTED] may experience dilution in the net tangible asset value per share of their Ordinary Shares if we issue additional shares or other equity securities in the future at a price which is lower than the net tangible asset value per Ordinary Share at that time. Furthermore, we may issue ordinary shares pursuant to the share incentive schemes, which would further dilute Shareholders’ interests in our Company.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to our industry. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Sponsors, the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

WAIVERS AND EXEMPTIONS

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

No.	Rules	Subject matter
1.	Rule 8.12 of the Listing Rules	Management Presence in Hong Kong
2.	Rules 3.28 and 8.17 of the Listing Rules	Joint Company Secretaries
3.	Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of Appendix 16 to, the Listing Rules	Use of U.S. GAAP
4.	Paragraph 26 of Part A of Appendix 1 to the Listing Rules	Disclosure of Change in the Share Capital
5.	Note (1) to Rules 17.03(9) of the Listing Rules	Exercise Price of Options to be Granted Pursuant to the 2021 Share Incentive Plan after [REDACTED]
6.	Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to, the Listing Rules and paragraph 10(d) of Part 1 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements of the 2013 Share Option Scheme
7.	Chapter 14A of the Listing Rules	Continuing Connected Transactions
8.	[REDACTED]	[REDACTED]
9.	[REDACTED]	[REDACTED]
10.	[REDACTED]	[REDACTED]

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant’s executive directors must be ordinarily resident in Hong Kong.

Since our headquarters and most of the business operations of our Group are managed and conducted outside Hong Kong, and the executive Director of our Company ordinarily resides outside Hong Kong, our Company considers that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of the existing executive Director and/or appointment of additional executive Directors. Our Company does not have and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

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Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed Mr. Wang Yulin, our executive Director, and Ms. So Ka Man, our joint company secretary, as the authorized representatives of our Company, to be the principal channel of communication with the Stock Exchange. Each of them has confirmed that he/she can be readily contactable by phone and email to deal promptly with inquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters on short notice. As and when the Stock Exchange wishes to contact the Directors on any matters, each of the authorized representatives will have means to contact all of the Directors promptly at all times. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorized representatives;
- (b) in addition to the appointment of the authorized representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his/her mobile phone number, office phone number and email address, have been provided to the Stock Exchange and each of the authorized representatives, our joint company secretaries and the Compliance Adviser (as defined below) who have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period as and when required;
- (c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Guotai Junan Capital Limited (the “**Compliance Adviser**”) as our compliance adviser for the period commencing from the date of our [REDACTED] until the date on which our Company announces our financial results and distributes our annual report for the first full financial year after the date of our [REDACTED]. The Compliance Adviser will act as our Company’s additional and alternative channel of communication with the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication among us, our authorized representatives, Directors and other officers and the Compliance Adviser, and will keep the Compliance Adviser fully informed of all communications and dealings between the Stock Exchange and us. Our Company will also inform the Stock Exchange promptly should there be any change in the Compliance Adviser. Meetings with the Stock Exchange and the Directors can be arranged through our Company’s authorized representatives or the Compliance Adviser, or directly with the Directors with reasonable notice; and
- (d) in addition to the Compliance Adviser’s role and responsibilities after the [REDACTED] to provide advice to our Company on the continuing requirements under the [REDACTED] Rules and other applicable security laws and regulations in Hong Kong, our Company will retain a Hong Kong legal adviser to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the [REDACTED].

WAIVERS AND EXEMPTIONS

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles they played;
- (b) familiarity with the Listing Rules and other relevant law and regulations, including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Wang Yi (“**Ms. Wang**”) and Ms. So Ka Man (“**Ms. So**”) as our joint company secretaries. Ms. Wang has been responsible for legal matters of our Group and worked as our Board secretary since May 2021. She has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules. While Ms. Wang may not be able to solely fulfill the requirements of the Listing Rules, our Company believes that it would be in the best interests of our Company and the corporate governance of our Company to appoint Ms. Wang as our joint company secretary due to her thorough understanding of the internal administration and business operations of our Group.

Ms. So is a chartered secretary, a chartered governance professional and a fellow of both The Hong Kong Chartered Governance Institute (HKCGI) (formerly “The Hong Kong Institute of Chartered Secretaries”) and The Chartered Governance Institute (CGI) (formerly “The Institute of Chartered Secretaries and Administrators”), and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

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Accordingly, while Ms. Wang does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Ms. Wang may be appointed as a joint company secretary of our Company. Pursuant to the Guidance Letter HKEX-GL108-20, the waiver will be for a fixed period of time (“**Waiver Period**”) and on the following conditions: (i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by our Company.

The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that Ms. So, as a joint company secretary of our Company, will work closely with, and provide assistance to, Ms. Wang in the discharge of her duties as a joint company secretary and in gaining the relevant company secretary experience as required under Rule 3.28 of the Listing Rules to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. Given Ms. So’s professional qualifications and experience, she will be able to explain to both Ms. Wang and our Company the relevant requirements under the Listing Rules. She will also assist Ms. Wang in organizing board meetings and Shareholders’ meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. So is expected to work closely with Ms. Wang, and will maintain regular contact with Ms. Wang, the Directors and the senior management of our Company. The waiver will be revoked immediately if Ms. So ceases to provide assistance to Ms. Wang as the joint company secretary for the three-year period after [REDACTED] and if there are material breaches of the Listing Rules by our Company. In addition, Ms. Wang will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the [REDACTED].

In the course of preparation of the [REDACTED], Ms. Wang attended a training seminar on the respective obligations of the Directors and senior management and our Company under the relevant Hong Kong laws and the Listing Rules provided by our Company’s Hong Kong legal adviser, Davis Polk & Wardwell, and has been provided with the relevant training materials. Our Company will further ensure that Ms. Wang has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer [REDACTED] on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, both Ms. Wang and Ms. So will seek and have access to advice from our Company’s Hong Kong legal and other professional advisers as and when required. Our Company has appointed Guotai Junan Capital Limited as the Compliance Adviser upon our

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[REDACTED] pursuant to Rule 3A.19 of the Listing Rules, which will act as our Company’s additional channel of communication with the Stock Exchange, and provide professional guidance and advice to our Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations. Prior to the end of the three-year period, the qualifications and experience of Ms. Wang and the need for ongoing assistance of Ms. So will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Ms. Wang, having benefited from the assistance of Ms. So for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the “relevant experience” within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

Please refer to “Directors and Senior Management” for further information regarding the qualifications of Ms. Wang and Ms. So.

USE OF U.S. GAAP

Rules 4.10 and 4.11 of, and note 2.1 to paragraph 2 of Appendix 16 to, the Listing Rules require the Company to prepare its financial statements in the document and the subsequent financial reports issued after [REDACTED] to be in conformity with: (a) Hong Kong Financial Reporting Standards (“HKFRS”); (b) IFRS; or (c) China Accounting Standards for Business Enterprises in the case of companies incorporated in China. Rule 19.12 requires an accountants’ report of an overseas issuer to have been audited to a standard comparable to that required by the Hong Kong Institute of Certified Public Accountants or by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Rule 19.13 states that accountants’ reports are required to conform to financial reporting standards acceptable to the Stock Exchange, which are normally HKFRS or IFRS. Rule 19.14 states that where the Stock Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, the report will be required to conform with financial reporting standards acceptable to the Stock Exchange. In such cases, the Stock Exchange will normally require the report to contain a reconciliation statement setting out the financial effect of the material differences (if any) from either HKFRS or IFRS. Rule 19.25A states that the annual accounts are required to conform with financial reporting standards acceptable to the Stock Exchange, which are normally HKFRS or IFRS. Where the Stock Exchange allows annual accounts to be drawn up otherwise than in conformity with HKFRS or IFRS, the annual accounts will be required to conform with financial reporting standards acceptable to the Stock Exchange. In such cases the Stock Exchange will normally require the annual accounts to contain a reconciliation statement setting out the financial effect of the material differences (if any) from either HKFRS or IFRS.

In Guidance Letter HKEX-GL111-22 (“GL111-22”), the Stock Exchange has indicated that it has accepted that the financial statements and accountants’ reports of overseas issuers with, or seeking, a dual-primary or secondary listing in the United States and on the Stock Exchange can be prepared in conformity with U.S. GAAP. GL111-22 further provides that, an overseas issuer adopting a body of financial reporting standards other than HKFRS or IFRS for the preparation of its financial statements must include a reconciliation statement setting out the financial effect of any material differences between those financial statements and financial statements prepared using HKFRS or IFRS in its accountants’ reports and annual/interim/quarterly reports.

WAIVERS AND EXEMPTIONS

As a company listed on the Nasdaq, the Company uses Generally Accepted Accounting Principles in the U.S., or the U.S. GAAP, and corresponding audit standards for the filing of its financial statements with the SEC as determined by the United States Public Company Accounting Oversight Board. U.S. GAAP is well recognized and accepted by the international investment community, particularly among technology companies, and significant progress has been made in the convergence between U.S. GAAP and IFRS. Additionally, we note that it might lead to confusion among the Company’s [REDACTED] and shareholders if the Company was required to adopt different accounting standards for its disclosures in Hong Kong from those in the U.S. aligning the accounting standards used for disclosures in both markets will alleviate any such confusion.

Our Company has applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19.13 and 19.25A of, and note 2.1 to paragraph 2 of Appendix 16 to, the Listing Rules to allow the financial statements and accountants’ report in the listing document to be prepared based on U.S. GAAP, subject to the following conditions:

- (a) the Company will include (i) a description of the relevant key differences between U.S. GAAP and IFRS and whether there is any concrete proposal to converge or substantially converge U.S. GAAP with IFRS; and (ii) a statement showing the financial effect of any material differences between the financial statements during the track record period prepared using U.S. GAAP and IFRS (“**Reconciliation Statement**”) in the accountants’ report with a view to enabling investors to appraise the impact of the two accounting standards on the Company’s financial statements; such Reconciliation Statement is included as a note to the audited accountants’ report;
- (b) the Company will include a similar Reconciliation Statement mentioned in paragraph (a) above for its interim and annual reports issued after its [REDACTED] on the Stock Exchange; such Reconciliation Statements will be included as a note to the audited financial statements in the annual reports or reviewed financial statements in the interim reports. Where the relevant financial statements are not audited or reviewed by auditors, the Reconciliation Statements required to be included as a note to such financial statements should be reviewed by the Company’s auditor in accordance with a standard comparable to the International Standard on Assurance Engagements 3000 or the Hong Kong Standard on Assurance Engagements 3000;
- (c) the Company will use HKFRS or IFRS in the preparation of the Company’s financial statements in the event that the Company is no longer listed in the U.S. or has no obligation to make financial disclosure in the U.S.;
- (d) the Company will comply with Rules 4.08, 19.12, 19.14 and 19.25A of, and note 2.6 to paragraph 2 of Appendix 16 to the Listing Rules and paragraphs 30-33 of GL111-22; and

WAIVERS AND EXEMPTIONS

- (e) the waiver request will not be applied generally and is based on the specific circumstances of the Company.

WAIVER IN RELATION TO THE DISCLOSURE REQUIREMENTS WITH RESPECT TO CHANGE IN THE SHARE CAPITAL

We have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements of paragraph 26 of Part A of Appendix 1 to the Listing Rules in respect of disclosing the particulars of any alterations in the capital of any member of the Group within the two years immediately preceding the issue of this Document.

The Company has identified 11 entities that the Company considers to be major subsidiaries and Consolidated Affiliated Entities primarily responsible for the track record results of the Group (the “**Principal Entities**”, and each a “**Principal Entity**”). For further details, please see the section headed “History, Development and Corporate Structure – Our Major Subsidiaries and Operating Entities” in this Document. As of March 31, 2022, the Company has over 60 subsidiaries and Consolidated Affiliated Entities. It would be unduly burdensome for the Company to disclose the information in respect of its non-Principal Entities as required under paragraph 26 of Part A of Appendix 1 to the Listing Rules, which would not be material or meaningful to investors. The Principal Entities include, among others, all significant members of the Group under the financial threshold of Regulation S-X in the U.S. By way of illustration, after intercompany eliminations, the aggregate revenue and total tangible assets of the Principal Entities in respect of which the relevant information is disclosed represent approximately 99.3%, 98.1%, 89.3% and 76.2%, and 92.5%, 95.2%, 80.2% and 77.5% of the Group’s total revenue and total tangible assets for each of the period comprising the Track Record Period, respectively. The Principal Entities and the Company hold all material assets, material intellectual property rights and other material proprietary technologies of the Group. The remaining entities in the Group are insignificant to the overall results of the Group and the revenue contribution of each of the non-Principal Entities is individually insignificant to the Group.

As such, particulars of the changes in the share capital of the Company and the Principal Entities are disclosed in the sections headed “History, Development and Corporate Structure”, “Statutory and General Information – A. Further Information about Our Company – 2. Changes in share capital of our Company” and “– 3. Changes in the share capital of our major subsidiaries and operating entities” in Appendix IV.

EXERCISE PRICE OF OPTIONS TO BE GRANTED PURSUANT TO THE 2021 SHARE INCENTIVE PLAN AFTER THE [REDACTED]

Note (1) to Rule of the Listing Rules states that the exercise price of an option must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant.

WAIVERS AND EXEMPTIONS

Since the listing of the Company’s ADSs on the Nasdaq on May 8, 2020, it has been the Company’s practice to issue options exercisable into ADSs (each of which represents 15 underlying Shares) under the 2013 Share Option Scheme. Although no further grant of share options will be made under the 2013 Share Option Scheme upon the [REDACTED], the Company will continue to issue options exercisable into ADSs under the 2021 Share Incentive Plan after the [REDACTED]. By definition, ADSs are denominated in U.S. dollars, and the exercise price for options with respect to ADSs will necessarily be presented in U.S. dollars. Pursuant to the waiver from strict compliance with Rules 4.10 and 4.11 of, and Note 2.1 to Paragraph 2 of Appendix 16, to the Listing Rules described under the subsection headed “– Use of U.S. GAAP” above, the Company will continue to prepare its accounts based on U.S. GAAP after the [REDACTED] in line with its established practice of granting options with exercise prices and RSUs with grant values denominated in U.S. dollars and tied to the market price of its Nasdaq-traded ADSs.

On the basis that (a) the method for determining the exercise price of the options based on the market price of ADSs substantially replicates the requirement in Note (1) to Rule 17.03(9) of the Listing Rules, and (b) it has been the Company’s practice to issue options exercisable into ADSs with exercise prices denominated in U.S. dollars, and the Company will continue to grant options under the 2021 Share Incentive Plan with exercise prices based on the market price of its ADSs which are denominated in U.S. dollars after the [REDACTED], the Company has applied for, and the Stock Exchange [has granted], a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules such that the Company will be able to determine the exercise price for grants under its share option schemes based on the higher of: (i) the per-share closing price of the Company’s ADSs on the Nasdaq on the date of grant, which must be a Nasdaq trading day; and (ii) the average per-share closing price of the Company’s ADSs on the Nasdaq for the five Nasdaq trading days immediately preceding the date of grant, subject to the condition that the Company shall not issue any share options with an exercise price denominated in Hong Kong dollars unless such exercise price complies with Note (1) to Rule 17.03(9) of the Listing Rules.

WAIVER AND EXEMPTION IN RELATION TO THE 2013 SHARE OPTION SCHEME

Rule 17.02(1)(b) of the Listing Rules requires a [REDACTED] applicant to, inter alia, disclose in the document full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options.

Paragraph 27 of Appendix 1A to the Listing Rules requires a [REDACTED] applicant to disclose, inter alia, particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement, provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof, or to employees under a share option scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees.

WAIVERS AND EXEMPTIONS

Under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the document must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, that is to say, (a) the period during which it is exercisable; (b) the price to be paid for shares or debentures subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures must be specified in the document.

As of the Latest Practicable Date, we have granted outstanding share options to 608 grantees under the 2013 Share Option Scheme on the terms set out in the paragraph headed "Statutory and General Information – D. Equity Incentive Plans", including five members of senior management and 603 other employees of our Group, to acquire an aggregate of 49,728,765 Shares, representing approximately [REDACTED]% of our Shares in issue immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans).

We have applied to (i) the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) the SFC for a certificate of exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the share options and certain grantees in this Document on the ground that the waiver and the exemption will not prejudice the interest of the [REDACTED] public and strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) we have granted outstanding share options to a total of 608 grantees under the 2013 Share Option Scheme to acquire an aggregate of 49,728,765 Shares representing approximately [REDACTED]% of our Shares in issue immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans), including five members of senior management and 603 other employees of our Group;
- (b) our Directors consider that it would be unduly burdensome to disclose in this Document full details of all the share options granted by us to each of the grantees, which would require a substantial number of pages of additional disclosure that does not provide any material information to the [REDACTED] public and would significantly increase the cost and time required for information compilation and document preparation for strict compliance with such disclosure requirements;

WAIVERS AND EXEMPTIONS

- (c) material information on the share options has been disclosed in this Document to provide prospective [REDACTED] with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the share options in making their [REDACTED] decision, and such information includes:
- (i) a summary of the latest terms of the 2013 Share Option Scheme;
 - (ii) the aggregate number of Shares subject to the share options and the percentage of our Shares of which such number represents;
 - (iii) the dilutive effect and the impact on earnings per Share upon full exercise or vesting of the share options immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans);
 - (iv) full details of the outstanding share options granted to our Directors and members of senior management and connected persons (if any), on an individual basis, are disclosed in this Document, and such details include all the particulars required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
 - (v) with respect to the share options granted by our Company under the 2013 Share Option Scheme to employees who are not Directors, senior management and connected persons of the Company, other than those referred to in subparagraph (iv) above, the following details are disclosed in this Document, including the aggregate number of such grantees and the number of Shares subject to the share options, the consideration paid for and the date of the grant of the share options and the exercise period and exercise price for the share options; and
 - (vi) the particulars of the waiver and certificate of exemption granted by the Stock Exchange and the SFC, respectively;

the above disclosure is consistent with the conditions ordinarily expected by the Stock Exchange in similar circumstances as set out in Guidance Letter HKExGL11-09 issued in July 2009 and updated in March 2014 by the Stock Exchange;

- (d) the 603 other employees of our Group, who are not Directors, members of senior management and connected persons of the Company, have been granted share options under the 2013 Share Option Scheme to acquire an aggregate of 43,873,283 Shares, respectively, which are not material in the circumstances of our Company, and the exercise or vesting in full of such share options will not cause any material adverse change in the financial position of our Company;

WAIVERS AND EXEMPTIONS

- (e) our Directors consider that noncompliance with the above disclosure requirements would not prevent our Company from providing potential [REDACTED] with sufficient information for an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Group and will not prejudice the interests of the [REDACTED] public; and
- (f) a full list of all the grantees containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance will be made available for public inspection in accordance with the paragraph headed “Documents Delivered to the Registrar of Companies and Available on Display – Document Available for Inspection” in Appendix V.

The Stock Exchange [has granted] us a waiver from strict compliance with the relevant requirements under the Listing Rules subject to the conditions that disclosure in respect of the information referred to in subparagraph (c) above has been made in this Document and the list of all the grantees referred to in subparagraph (f) above will be made available for public inspection.

The SFC [has granted] us a certificate of exemption under Section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, subject to the conditions that:

- (a) full details of the share options granted to our Directors, members of senior management and connected persons (if any), on an individual basis, be disclosed in this Document, and such details include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) with respect to the share options granted by our Company under the 2013 Share Option Scheme to employees, other than those referred to in subparagraph (a) above, the following details, including (i) the aggregate number of such grantees and the number of Shares subject to the share options; (ii) the consideration paid for the grant of the share options; (iii) the exercise period and the exercise price for the share options; and (iv) the vesting period of the share options, be disclosed in this Document;
- (c) a full list of all the grantees (including the persons referred to in subparagraph (a) above) who have been granted share options to acquire Shares under the 2013 Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with the paragraph headed “Documents Delivered to the Registrar of Companies and Available on Display – Document Available for Inspection” in Appendix V; and
- (d) the particulars of the exemption be set forth in this Document and that this Document will be issued on or before [REDACTED].

WAIVERS AND EXEMPTIONS

CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions of our Company under the Listing Rules following the completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (where applicable) (i) the announcement and independent shareholders’ approval requirements, (ii) the annual cap requirement, and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, please refer to “Connected Transactions.”

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

WAIVERS AND EXEMPTIONS

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
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Executive Director and Non-executive Directors

Mr. Lei Jun (雷軍) <i>Chairman and Non-executive Director</i>	Room 19E, Suite A Hua Ting Jia Yuan No. 6 of Beisanhuan Zhonglu Chaoyang District Beijing PRC	Chinese
Mr. Zou Tao (鄒濤) <i>Vice Chairman and Non-executive Director</i>	Room 4904, Floor 49, Building 21, Gree Plaza No. 215 Gongbei Shihua West Road Xiangzhou District Zhuhai, Guangdong Province PRC	Chinese
Mr. Wang Yulin (王育林) <i>Executive Director and Chief Executive Officer</i>	6-5-602, Shimao Olin Garden No. 1 Qinglin Road Chaoyang District Beijing PRC	Chinese
Dr. Ye Hangjun (葉航軍) <i>Non-executive Director</i>	No. 12, Building 12, Napa Valley Xiaotangshan Town Changping District Beijing PRC	Chinese

Independent Non-Executive Directors

Mr. Yu Mingto (喻銘鐸)	6F, No. 203, Qingtian Street Da'an District Taipei	Chinese (Taiwan)
Mr. Wang Hang (王航)	04B102, Jinguan New Town, No. 12, Xinxiwang Road, Wuhou District Chengdu, Sichuan Province PRC	Chinese
Ms. Qu Jingyuan (曲靜淵)	No. 302, Unit 1, Building 3 No. 10 Yard Fangyuan Nanli Chaoyang District Beijing PRC	Chinese

Further information of our Directors is disclosed in the section headed “Directors and Senior Management”.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

(in alphabetical order)

China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre

1 Harbour View Street

Central

Hong Kong

J.P. Morgan Securities (Far East) Limited

28/F, Chater House

8 Connaught Road Central

Hong Kong

UBS Securities Hong Kong Limited

52/F, Two International Finance Centre,

8 Finance Street, Central

Hong Kong

[REDACTED]

Legal Advisers to Our Company

As to Hong Kong and U.S. laws

Davis Polk & Wardwell

18th Floor

The Hong Kong Club Building

3A Chater Road

Hong Kong

As to PRC law

Fangda Partners

27/F, North Tower, Beijing Kerry Centre

1 Guanghai Road, Chaoyang District

Beijing

PRC

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbor Road
Wanchai
Hong Kong

**Legal Advisers to the Joint Sponsors
and the [REDACTED]**

As to Hong Kong and U.S. laws

Simpson Thacher & Bartlett
35th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC law

Han Kun Law Offices
9/F, Office Tower C1, Oriental Plaza
No. 1 East Chang An Ave
Beijing, 100738
PRC

**Reporting Accountants and
Independent Auditor**

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**
2504 Wheelock Square
1717 Nanjing West Road
Shanghai
PRC

[REDACTED]

CORPORATE INFORMATION

Registered Office in the Cayman Islands	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and Principal Place of Business in the PRC	Building E, Xiaomi Science and Technology Park No. 33 Xierqi Middle Road Haidian District Beijing, 100085 PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
Company Website	<u>ir.ksyun.com</u> <i>(the information contained on this website does not form part of this Document)</i>
Joint Company Secretaries	Ms. Wang Yi (王軼) Building E, Xiaomi Science and Technology Park No. 33 Xierqi Middle Road Haidian District Beijing, 100085 PRC Ms. So Ka Man (蘇嘉敏) <i>(fellow of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute)</i> 5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
Authorized Representatives	Mr. Wang Yulin (王育林) Building E, Xiaomi Science and Technology Park No. 33 Xierqi Middle Road Haidian District Beijing, 100085 PRC Ms. So Ka Man (蘇嘉敏) 5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong

CORPORATE INFORMATION

Audit Committee

Mr. Yu Mingto (喻銘鐸) (*Chairman*)

Ms. Qu Jingyuan (曲靜淵)

Mr. Wang Hang (王航)

Compensation Committee

Ms. Qu Jingyuan (曲靜淵) (*Chairlady*)

Mr. Lei Jun (雷軍)

Mr. Yu Mingto (喻銘鐸)

Nomination Committee

Mr. Lei Jun (雷軍) (*Chairman*)

Mr. Wang Yulin (王育林)

Ms. Qu Jingyuan (曲靜淵)

Mr. Yu Mingto (喻銘鐸)

Mr. Wang Hang (王航)

Corporate Governance Committee

Mr. Zou Tao (鄒濤) (*Chairman*)

Mr. Wang Yulin (王育林)

Dr. Ye Hangjun (葉航軍)

Ms. Qu Jingyuan (曲靜淵)

[REDACTED]

Compliance Adviser

Guotai Junan Capital Limited

26/F-28/F, Low Block

Grand Millennium Plaza

181 Queen’s Road Central

Hong Kong

Principal Bank

**Industrial and Commercial Bank of China
(Asia) Limited**

34/F, ICBC Tower

3 Garden Road Central

Hong Kong

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

SOURCES OF INFORMATION

The Company commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of the cloud service industries in China as well as all over the world.

Frost & Sullivan is an independent global consulting firm, founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. It has over 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We are contracted to pay a fee of RMB700,000 to Frost & Sullivan in connection with the preparation of the F&S Report.

During the preparation of the market research report, Frost & Sullivan performed both (i) primary research, which involved in-depth interviews with leading industry participants and industry experts; and (ii) secondary research, which involved review of company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Unless otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications. The F&S Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain a steady growth in the next decade; (ii) China’s social, economic and political environment is likely to remain stable in the forecast period from 2021 to 2026, which ensures the stable and healthy development of the China’s cloud service industries; and (iii) COVID-19 pandemic will affect the global economy stability in the short term. Our Directors confirm that after taking reasonable care, there has been no material adverse change in the overall market information since the date of the F&S Report that would materially qualify, contradict or have an impact on such information. The reliability of the F&S Report may be affected by the accuracy of the foregoing assumptions and factors.

INDUSTRY OVERVIEW

INTRODUCTION OF CLOUD SERVICE

Cloud services offer on-demand access to a shared pool of configurable computing and storage IT resources which can be readily deployed and easily scaled. It is one of the world’s fastest growing IT industries, according to Frost & Sullivan, with a growth CAGR of 20.8% from 2017 to 2021. As the world is marching towards the era of digital transformation, cloudization, which refers to the process of cloud adoption, becomes an inevitable process for enterprises and organizations. According to Frost & Sullivan, the market size of global cloud service increased from US\$260.2 billion in 2017 to US\$554.8 billion in 2021 and will further reach US\$1,323.0 billion in 2026. With the benefits of cloudization continuing to manifest in different industries, the cloud service market is expected to continue its strong growth in the future.

Historically, enterprises invested in in-house IT infrastructure and equipment to support the growing needs for computing, storage and delivery resources. However, these traditional IT models created massive complexity, cost, technical debt, and a tangled web of dependencies for enterprises. In recent years, with the trending of digital transformation, the enterprise-level technology industry has undergone a massive transition from in-house hardware and software to on-demand cloud services. This transition is driven by a wide variety of benefits that cloud service offers, compared with the traditional IT model:

- **Cost reduction.** Cloud services significantly reduce enterprises’ upfront capital expenditures and ongoing expenses for purchasing, installing, maintaining, and upgrading their own IT infrastructure. Instead of hiring, training, and managing professional staff that operate and maintain IT models, enterprises can entrust these tasks to professional cloud services providers and enjoy instant, reliable, and cost-efficient services on a pay-as-you-go basis.
- **Agility, scalability and reliability.** Enterprises’ storage and computing demand varies from time to time as they proceed to different development stages. Cloud services allow enterprises to scale up or down their capacity in response to their demands flexibly and timely. Instead of upgrading or downgrading their own IT infrastructure, which may be time- and cost-consuming, enterprises can rely on cloud service providers for ready-to-use cloud capacity that fulfills their varying commercial needs. Underpinned by the latest and secured IT resources, cloud service providers deliver consistent and reliable high-performance services with added benefits on data protection and disaster recovery.
- **Technological innovation.** Cloud technology is a new approach to create and build next generation applications, unlocking the potential for solutions that traditional IT models cannot offer, including big data analytics, machine learning, edge computing and beyond.

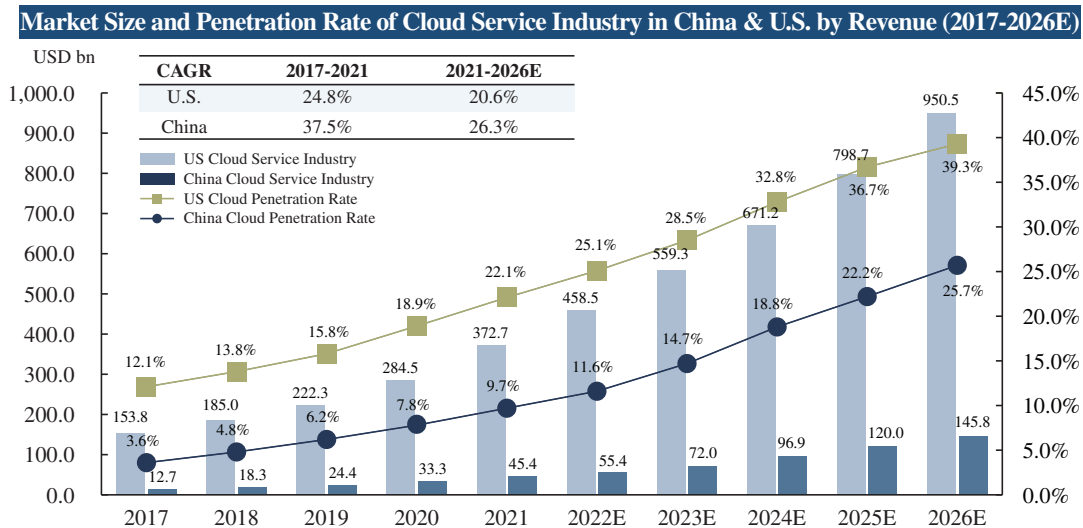
INDUSTRY OVERVIEW

OVERVIEW OF THE U.S. AND CHINA’S CLOUD SERVICE MARKET

The cloud service market has been undergoing strong and steady growth since 2014 with the U.S. being the largest market and China replacing European Union becoming the second largest market in the world since 2018, according to Frost & Sullivan.

Compared to the U.S. cloud service market, the Chinese market is still at a relatively early stage with tremendous potential, given its relatively lower cloud service penetration rate and multi-cloud deployment rate and, as a result, its smaller market size. According to Frost & Sullivan, the size of U.S. cloud services market increased from US\$153.8 billion in 2017 to US\$372.7 billion in 2021, representing a CAGR of 24.8%, and is expected to reach US\$950.5 billion in 2026, representing a CAGR of 20.6% from 2021 to 2026. The Chinese market size increased from US\$12.7 billion in 2017 to US\$45.4 billion in 2021, representing a CAGR of 37.5%, and is expected to reach US\$145.8 billion in 2026, representing a CAGR of 26.3% from 2021 to 2026. While the cloud services as a percentage of total IT spending in the U.S. was 12.1% and 22.1% in 2017 and 2021, respectively, and is expected to reach 39.3% in 2026, the same percentage in China was 3.6%, 9.7%, respectively, and is expected to reach 25.7% in 2026.

The below chart shows the market size and penetration rate of cloud service in the U.S. and China:

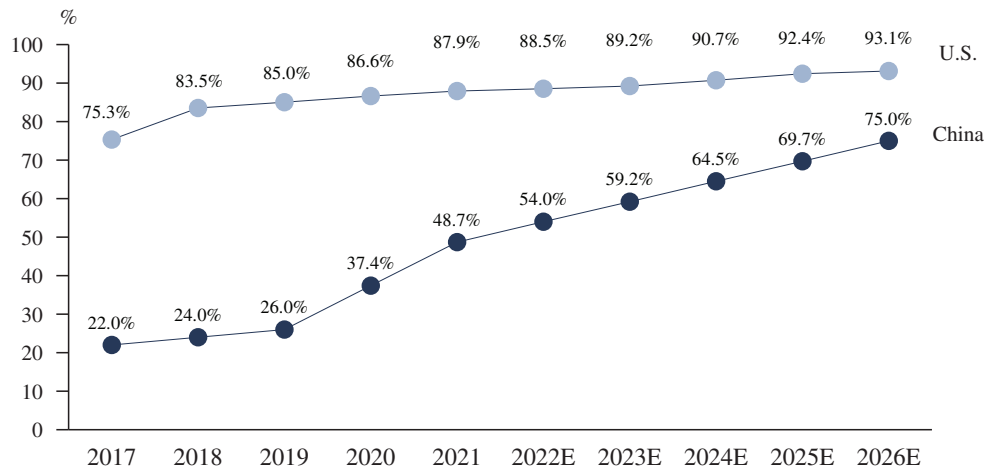


Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Driven by the need to prevent data loss and downtime due to localized component failure in a single cloud, to ensure continued high-quality performance, to reduce latency by geographical distribution of processing requests and to minimize the dependency on a single cloud service provider, and in light of the evolving regulatory environment, multi-cloud deployment becomes an essential trend in China. In 2021, while 87.9% of enterprises with over 1,000 employees deployed multi-cloud in the U.S., only 48.7% of those in China were doing the same. China’s multi-cloud deployment rate is expected to further increase to 75.0% in 2026, approaching that in the U.S., being expected at 93.1%.

Multi-Cloud Deployment Rate of Cloud Service Industry in China & U.S. (2017-2026E)



Source: Frost & Sullivan Report

Note: Multi-cloud deployment rate is calculated among enterprises with over 1,000 employees.

According to Frost & Sullivan, the key difference between the cloud service markets of China and the U.S. in development is the maturity level of IT infrastructure. While the U.S. developed its cloud service market with a first mover advantage, building on its relatively mature IT infrastructure with low telecommunication costs, high network penetration, high broadband penetration, and advanced R&D integration, China started to construct its IT infrastructure and cloud service market simultaneously at a relatively later stage with a higher demand for dedicated and local cloud deployment. However, as cloud service markets in both the U.S. and China are driven by fast development of the internet industry and digital transformation of enterprises (initially internet enterprises, currently also traditional enterprises and public service organizations), the two cloud service markets present certain similarities:

- Cloud infrastructure businesses, such as computing and storage, are the primary business of leading cloud services companies in the U.S. and China, with similar growth rates and long-term steady-state margins.
- Public cloud contributes the bulk of growth, with an overall trend towards multi-cloud deployments.

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- The scale of dedicated deployment of cloud service continues to grow as traditional industries deepen their digital transformation, becoming a focus for cloud service providers.
- Leading cloud service vendors have accumulated their market shares, and are expected to continue to acquire market shares, especially for public cloud.

In summary, China’s cloud service market resembles the technical and macro-environmental foundations similar to that of the booming U.S. cloud service industry and is developing rapidly.

CHINA’S CLOUD SERVICE MARKET

According to Frost & Sullivan, based on the industries and verticals of customers, China’s cloud service market could be divided into (i) services for internet enterprises, or internet cloud service market, and (ii) services for non-internet enterprises, mainly traditional enterprises and organizations.

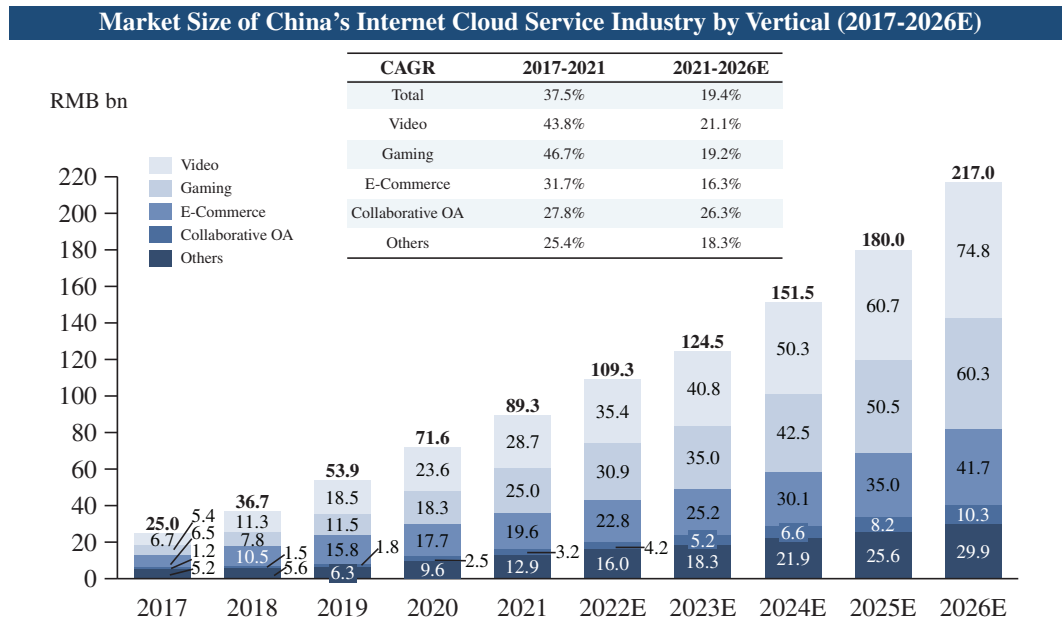
China’s Internet Cloud Service Market

Internet cloud refers to cloud services provided to internet companies, including video, gaming, e-commerce, collaborative office automation and others. The massive data demand of the internet industry is one of the main drivers of China’s cloud service market. The internet enterprises adopt cloud services early, and the percentage of companies choosing cloud service is higher than that of other industries. The cloud service penetration in enterprises is measured by the number of enterprises that have implemented cloud service (either private or public) divided by the total number of enterprises.

The internet cloud service market in China grew from RMB25.0 billion in 2017 to RMB89.3 billion in 2021, with a CAGR of 37.5%. With the increasing number of internet companies adopting cloud services and the growing expenditure on cloud computing, the internet cloud service market in China is expected to reach RMB217.0 billion in 2026, representing a CAGR of 19.4% from 2021 to 2026.

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The following chart sets forth the market size and growth of China’s internet cloud service market and its sub-sectors:



Source: Frost& Sullivan Report

Note: Due to rounding, numbers may not add up precisely to the totals.

China’s Non-internet Cloud Service Market

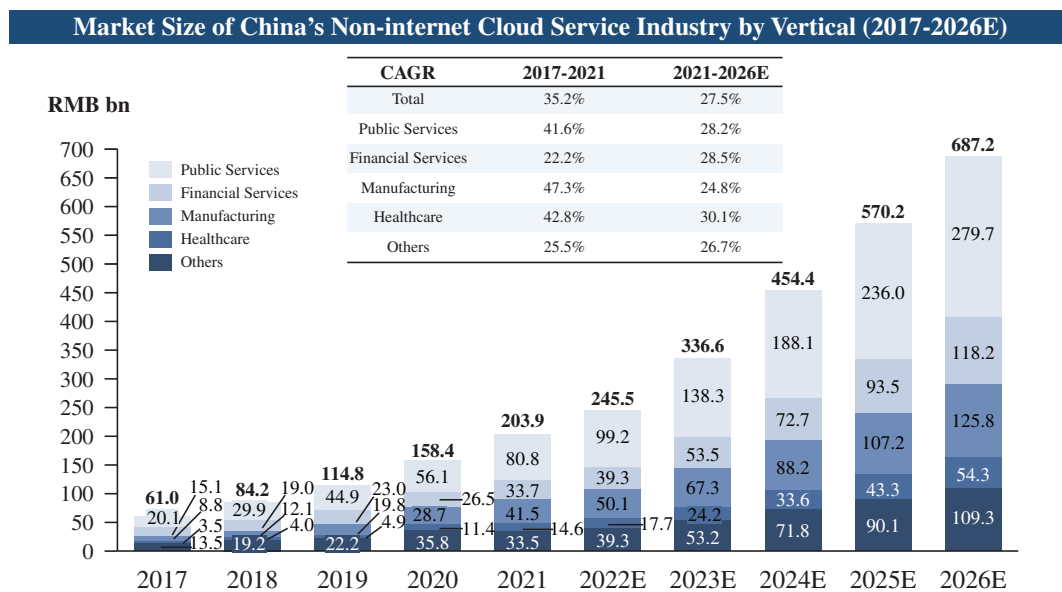
Non-internet cloud service mainly refers to the utilization of cloud technology to aid traditional non-internet enterprises and organizations in carrying out digital transformation. Due to their complicated operation structure and process, they generally have higher demand for compatibility, reliability, privacy, and security on cloud products with dedicated services and customized local deployment.

Since 2015, the State Council of the People’s Republic of China and Ministry of Industry and Information of the People’s Republic of China have published various policies and instructions to facilitate cloud technology and cloudization in China, especially for traditional enterprises and organizations. Following the deepening process of digital transformation, cloud technology continues to integrate with the daily operations of traditional enterprises and organizations, and the adoption of dedicated services provided by cloud vendors evolved as an inevitable trend for their digital transformation. To seize the opportunities of this trend, cloud service providers must be able to migrate, build, manage, and operate the exclusive cloud service in multiple regions for traditional clients and to satisfy their strong demand for data security and advanced technical support. As China’s non-internet enterprises start to embrace cloudization, cloud service providers with dedicated and full-stack deployment capacity have become customers’ primary choice.

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In 2021, the cloud service penetration rate among non-internet enterprises in China was only 26.8%, as compared to 93.5% among internet enterprises. As traditional non-internet industries, such as public services, financial services, manufacturing, and healthcare, start to tap into the agility, flexibility and scalability of cloud service, the massive demand further drives the development of the non-internet cloud service market. The market size increased from RMB61.0 billion in 2017 to RMB203.9 billion in 2021, representing a CAGR of 35.2%, and is expected to reach RMB687.2 billion in 2026, representing a CAGR of 27.5% from 2021 to 2026.

The following chart sets forth the market size and growth of China’s non-internet cloud service market and its sub-sectors:



Source: Frost & Sullivan Report

Note: Due to rounding, numbers may not add up precisely to the totals.

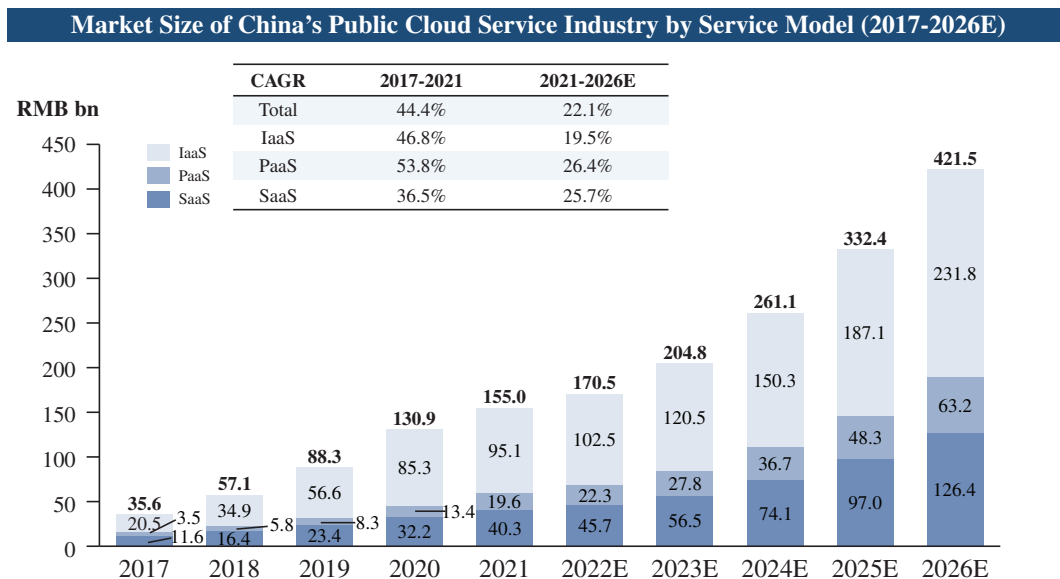
China’s Public Cloud Service Market

Public cloud is a crucial part of China’s overall cloud service market and has been experiencing significant growth since 2014, primarily due to the rapid growth and expansion of Chinese internet enterprises. According to Frost & Sullivan, it is one of the fastest growing cloud service markets in the world in terms of market growth CAGR from 2017 to 2021. The market size of public cloud in China has increased from RMB35.6 billion in 2017 to RMB155.0 billion in 2021, representing a CAGR of 44.4%, and is expected to reach RMB421.5 billion in 2026, representing a CAGR of 22.1% from 2021 to 2026.

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The public cloud service market can be further divided into three sub-sectors, namely Infrastructure-as-a-Service (“IaaS”), Platform-as-a-Service (“PaaS”) and Software-as-a-Service (“SaaS”). China’s cloud service market is still fast growing with tremendous number of enterprises migrating from traditional IT models to cloud services. As a result, IaaS has experienced significant growth in the past few years and forms the largest part of the public cloud service market in China. Looking forward, as enterprises demand higher level of digital transformation services, essential demand for IT infrastructure and IaaS remain as a main growth driver of China’s public cloud service market. Leading IaaS players, leveraging their extensive infrastructure, advanced cloud technology, and transferrable customer base, are better positioned to extend their spectrum of services to PaaS market and the above application layers.

The following chart sets forth the market size and growth of China’s public cloud service market and its sub-sectors:



Source: Frost & Sullivan Report

Note: Due to rounding, numbers may not add up precisely to the totals.

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KEY GROWTH DRIVERS OF CHINA’S CLOUD SERVICE MARKET

The following factors are expected to drive the development and growth of China’s cloud service market, according to Frost & Sullivan.

- ***Massive, high-growth demand from internet verticals.*** The internet penetration has been increasing in China, with an increasing number of mobile users. A wide spectrum of business is transforming themselves to offer internet-based services to their customers. In particular, verticals such as video, gaming, and e-commerce have been rising, driving further demand for cloud resources. Demands for internet cloud services in these verticals are expected to continue to grow in the future.
- ***Increasing penetration in traditional enterprises and organizations.*** Cloud service penetration is expected to increase in traditional enterprises and organizations. Customers in traditional industries in China are starting to recognize the benefit of cloud services and are incentivized to migrate to the cloud given the advantages of cost-saving, security and productivity. According to Frost & Sullivan, in 2021, while 56.7% of traditional enterprises and organizations in the U.S. were using cloud services, only 26.8% of those in China were doing the same. As digital transformation continues in traditional industries such as healthcare, manufacturing and automobile, cloud service providers in China are well positioned to seize the significant opportunities brought by the migration to cloud of traditional enterprises and organizations. Notably, China’s automotive industry is booming demand for cloud services, with the increasing cloud service penetration in automobile manufacturing, autonomous driving, and R&D. According to Frost & Sullivan, the market size of China’s cloud service market by intelligent automotive industry was RMB1.8 billion in 2021 and will reach RMB36.3 billion in 2026, representing a CAGR of 81.8% from 2021 to 2026.
- ***The large-scale launching of new technologies like 5G, AI, VR/AR and IoT.*** The deployment of 5G technology provides internet and mobile users with significantly higher transmission speed and considerable reduction of latency. Such improvement empowers the wide adoption of AI applications by enabling the large amount of data computing and processing involved in the development of deep learning and application of AI functions to terminal devices. Together, the new technologies become the driving force for IoT as they allow fast data transmission, elastic computing resource, great interconnectivity and control of devices, therefore creating demand for cloud services.

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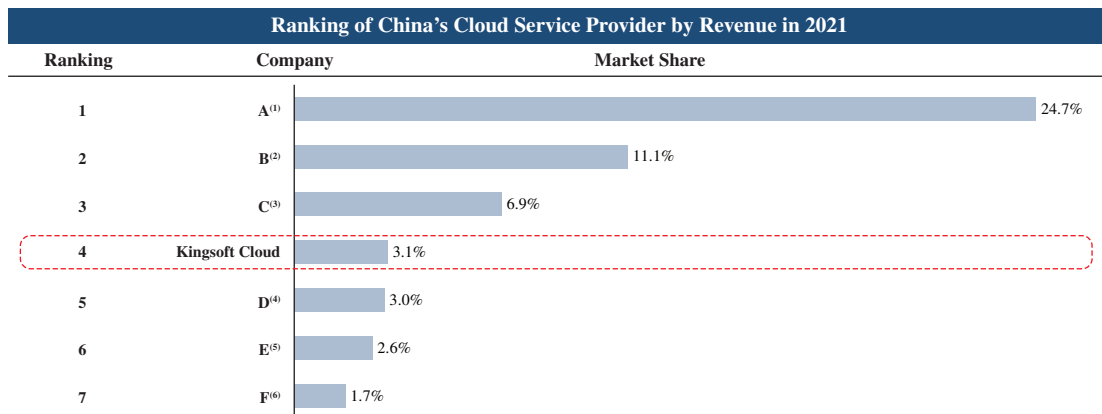
- ***Requirement for dedicated industry specific cloud services.*** Chinese enterprises have strong demand for cloud products with dedicated services. As cloud service vendors start to provide customized and full-stack cloud deployment, a higher demand of vertical-specific cloud services has evolved. Well-architected vertical-specific cloud solutions that can serve clients’ requirement from IaaS, PaaS to higher application cloud layers, with full-stack, stable, flexible, dedicated, and local customized local cloud deployment capacity will continuously capture the market.
- ***Favorable government policies for the development of cloud services.*** The Chinese government has prioritized the development of cloud services in recent years, according to Frost & Sullivan. Since the beginning of the 12th Five-Year Plan (2010-2015), a huge amount of investment has been made in cloud service industry, and is expected to further increase during the 14th Five-Year Plan (2021-2025). In 2019, the Chinese government promoted the concept of Internet Plus public service, encouraging public service organizations to adopt cloud services in their digital transformation, which once again recognized the strategic importance of cloud services to China’s economy.
- ***Higher requirement on data compliance, data loss prevention, and non-conflict of interest.*** Policies such as Cybersecurity Review Measures promulgated by the CAC and several other PRC governmental authorities in December 2021, and officially implemented in February 2022, have accelerated enterprises’ increasing adoption of cloud applications to fulfill the core demands of data compliance and security, expanding the deployment of cloud services to a wider range of industries in China. Meanwhile, requirement on neutrality and data loss prevention will further drive the market through increasing needs for dedicated and multi-cloud deployment.
- ***Demand for internet infrastructure construction.*** With the continuous optimization of network infrastructure construction to support enterprises’ internet related development, more cloud applications are in turn to be involved. In 2018, the Central Economic Work Conference firstly promoted the New Infrastructure Construction to facilitate the development of IT infrastructure including cloud computing. In December 2021, the Chinese government released the Digital Economy Development Plan in the 14th Five-Year Plan period (2021-2025) to enhance the construction of digital infrastructure to achieve the world’s leading level. These policies and investments will further stimulate the growth of China’s cloud service market.

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- Accelerated digitalization amid COVID-19.** Since 2020, the global outbreak of COVID-19 has fundamentally transformed the way people live and the way enterprises operate. The pandemic accelerates the digital transformation and therefore facilitates enterprises to prioritize their IT expenditure on cloud services. As a result, a faster than expected trend of offline to online deployment emerged among enterprises will further accelerate the development of the cloud service market.
- Overseas expansion.** As Chinese enterprises tap into overseas markets, cloud network and infrastructure will expand globally as well. Given the relatively intense competition environment in the U.S. and Chinese market, emerging markets become the new focus of Chinese enterprises’ overseas expansion, representing significant growth potentials for cloud service providers in China.

COMPETITIVE LANDSCAPE

With the presence of a few major players, the cloud service market in China is relatively concentrated. The total market size by revenue of cloud services in China reached RMB293.3 billion in 2021. The aggregate market share of the top seven players in China’s cloud service market was 53.0% in 2021. Among all the players, Kingsoft Cloud ranked largest independent cloud service provider in China and fourth largest cloud service provider in China with a market share of 3.1%. Independent cloud service providers refers to service providers that do not belong to any large-scale conglomerates that are involved in a wide range of businesses where they could potentially compete with their customers.



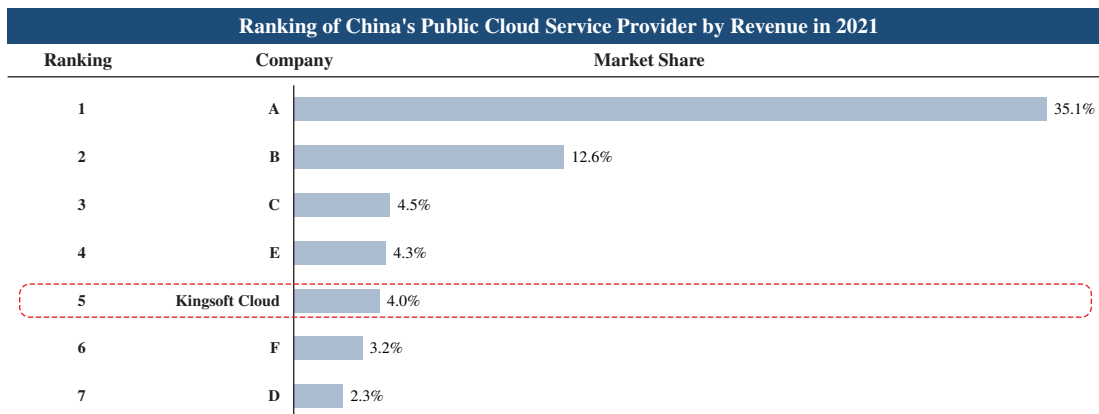
Source: Frost & Sullivan Report

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Notes:

- * Kingsoft Cloud is the only independent cloud service provider among the top seven players in China’s cloud service market in 2021, according to Frost & Sullivan. The other six players are generic internet and/or technology companies that offer a broader suite of products and services including cloud services.
- (1) Company A, headquartered in Hangzhou, is a leading technology company specializing in retail, consumer services and technology solutions. Its cloud business primarily consists of cloud computing solutions providing based on cloud server, cloud database, and cloud storage.
- (2) Company B, headquartered in Shenzhen, is a leading technology company that provides internet-related services and solutions that cover areas including entertainment, artificial intelligence and other technologies. Its cloud sector mainly includes cloud computing, big data and industry-specific solutions.
- (3) Company C, headquartered in Shenzhen, is a leading technology company which primarily designs, develops and sells telecommunication solutions and consumer electronics. Its cloud segment mostly provides products including elastic cloud server, cloud database, and scenario-based solutions.
- (4) Company D, headquartered in Beijing, is a leading telecommunication company. Its cloud business principally offers cloud computing services including cloud hosting, CDN, big data, and industry-based solutions.
- (5) Company E, headquartered in Beijing, is a leading internet platform specializing in internet-related services and AI solutions. Its cloud segment mostly focuses on cloud computing and provides services related to cloud server, cloud hosting, cloud storage, and CDN.
- (6) Company F, headquartered in the U.S., is a leading technology company specializing in retail, consumer services and on-demand technology services, including compute, storage, database, analytics, machine learning, and other services. Its cloud business chiefly offers cloud computing and cloud-based solutions.

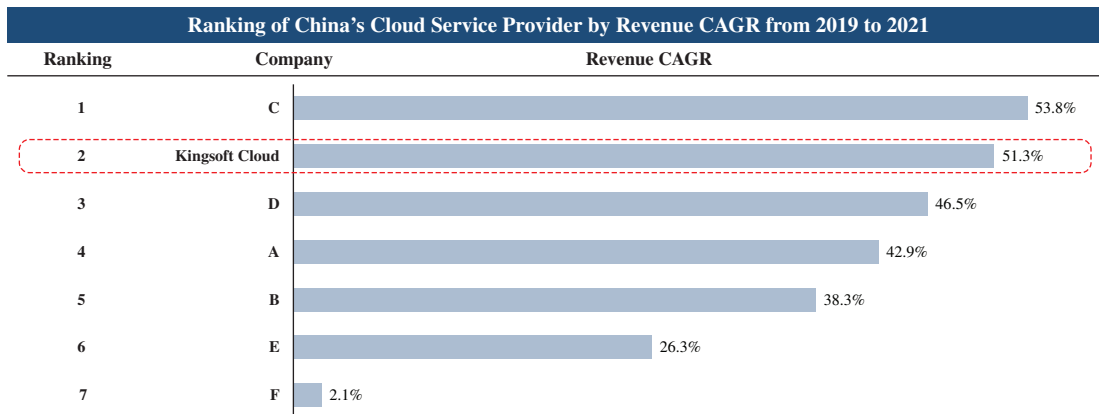
In terms of public cloud service, Kingsoft Cloud ranked the top five largest public cloud service provider with the second fastest public cloud revenue CAGR and increasing market share from 2019 to 2021, according to Frost & Sullivan. In 2021, the market size of China’s public cloud reached RMB155.0 billion. The aggregate market share of the top seven players in China’s public cloud service market in terms of revenue was 66.0% in 2021. Among all the players, Kingsoft Cloud ranked the fifth largest public cloud service provider with a market share of 4.0% in 2021 and the largest independent cloud service provider.



Source: Frost & Sullivan Report

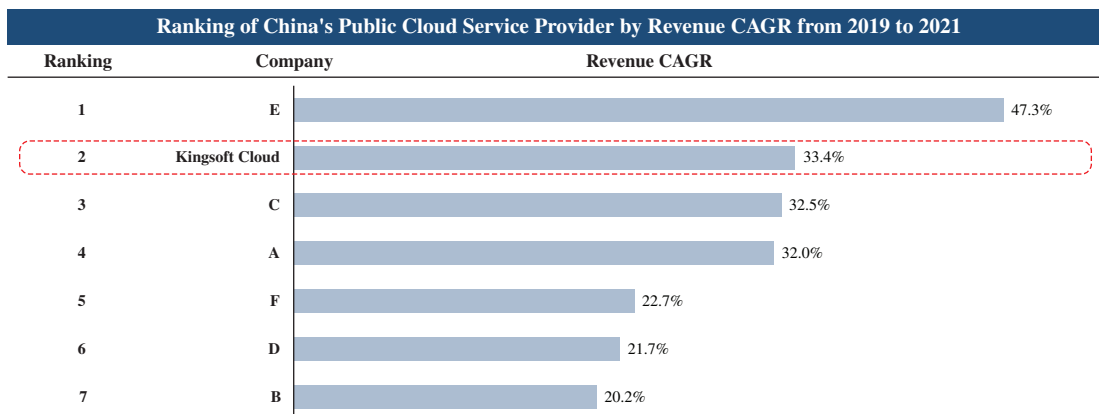
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In terms of total cloud service revenue CAGR from 2019 to 2021, Kingsoft Cloud ranked as the second, with a CAGR of 51.3% among major leading cloud service providers in China.



Source: Frost & Sullivan Report

In terms of public cloud service revenue CAGR from 2019 to 2021, Kingsoft Cloud also ranked as the second, with a CAGR of 33.4% among major leading public cloud service providers in China.



Source: Frost & Sullivan Report

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KEY ENTRY BARRIERS

Similar to the U.S., the cloud service market in China has been undergoing consolidation. Incumbents have established significant competitive advantages against potential entrants. According to Frost & Sullivan, key entry barriers include:

- ***Ability to serve enterprise customers and enhance customer stickiness.*** Scaled players have built the capability to serve enterprise customers which are generally sticky. The capability is continuously underpinned by knowledge of client industry, premium service delivery, advanced technology, and extensive infrastructure qualification. Enterprises are likely to stick with their existing cloud service provider and increase procurement as business grows to avoid potentially significant transfer and adaption costs associated with changing cloud service providers.
- ***Capacity to provide in-house cloud-native technology and solutions.*** Cloud-native technology is one of the core entry barriers of the industry. The ability to provide cloud native services with in-house products and solutions has become increasingly important to acquire customers. Companies that are well armed with cloud-native technology to provide tailor-made in-house cloud solutions to its clients will continuously win the market.
- ***First-mover advantage.*** Incumbents of the cloud service market have accumulated valuable technology and industry know-how, constructed well-developed cloud infrastructures and gained customer relationships, brand value, product capabilities and business scale, which takes years to build. New and potential entrants have difficulties in building the scale in a short period of time.
- ***Technology know-how.*** The cloud service market is heavily technology-based. Equipped with most of the talented personnel, technology know-how, patents and operational excellence, incumbents have built technology moats against potential entrants.
- ***Industry know-how.*** Demand for vertical-specific cloud services has evolved as one of the key growth drivers of China’s cloud service market. Experienced cloud service providers with in-depth view of specific verticals are better positioned to capture this opportunity and to optimize customer experiences by providing dedicated industry specific cloud services, compared with new entrants.
- ***High capital investment.*** Economies of scale are one of the main characteristics of the cloud service industry. The cloud service market requires large upfront capital investment to construct cloud infrastructures, to build research and development capability, and to expand sales channels. This requisite significantly weakens the competitiveness of smaller players in the cloud service market.

REGULATIONS

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

REGULATIONS RELATED TO FOREIGN INVESTMENT

The establishment, operation and management of companies in China are mainly governed by the PRC Company Law (《中華人民共和國公司法》), as most recently amended in 2018, which applies to both PRC domestic companies and foreign-invested companies. The investment activities in China of foreign investors are also governed by the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), which was approved by the National People’s Congress of China on March 15, 2019, along with the Implementing Rules of the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》) promulgated by the State Council on December 26, 2019 and the Interpretations of the Supreme People’s Court on Several Issues Concerning the Application of the Foreign Investment Law of the PRC (《最高人民法院關於適用〈中華人民共和國外商投資法〉若干問題的解釋》) promulgated by the Supreme People’s Court on December 26, 2019, all of which took effect on January 1, 2020. The Foreign Investment Law and its implementing rules replaced three major previous laws on foreign investments in China, namely, the Sino-foreign Equity Joint Venture Law, the Sino-foreign Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their respective implementing rules.

Pursuant to the Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The implementing rules of the Foreign Investment Law introduce a see-through principle and further provide that foreign-invested enterprises that invest in the PRC shall also be governed by the Foreign Investment Law and the Implementing Rules.

The Foreign Investment Law and its implementing rules provide that a system of pre-entry national treatment and negative list shall be applied for the administration of foreign investment, where “pre-entry national treatment” means that the treatment given to foreign investors and their investments at market access stage is no less favorable than that given to domestic investors and their investments except for the foreign investments in the “restricted” or “prohibited” fields or industries, and “negative list” means the special administrative measures for foreign investment’s access to the foregoing “restricted” or “prohibited” fields or industries, which will be proposed by the competent investment department of the State Council in conjunction with the competent commerce department of the State Council and other relevant departments, and be reported to the State Council for promulgation, or be

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promulgated by the competent investment department or competent commerce department of the State Council after being reported to the State Council for approval. Foreign investment beyond the negative list will be granted national treatment. Foreign investors shall not invest in the prohibited fields as specified in the negative list, and foreign investors who invest in the restricted fields shall comply with the special requirements on the shareholding, senior management personnel, etc. In the meantime, relevant competent government departments will formulate a catalogue of industries for which foreign investments are encouraged according to the needs for national economic and social development, to list the specific industries, fields and regions in which foreign investors are encouraged and guided to invest. The current industry entry clearance requirements governing investment activities in the PRC conducted by foreign investors are set out in two catalogues, namely the Special Management Measures for the Entry of Foreign Investment (Negative List) (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the 2021 Negative List, as promulgated on December 27, 2021 by the National Development and Reform Commission, and the Ministry of Commerce, and took effect on January 1, 2022, and the Encouraged Industry Catalogue for Foreign Investment (2020 version) (《鼓勵外商投資產業目錄(2020年版)》), as promulgated by the National Development and Reform Commission and the Ministry of Commerce on December 27, 2020 and took effect on January 27, 2021. Industries not listed in these two catalogues are generally deemed “permitted” for foreign investment unless specifically restricted by other PRC laws.

According to the implementing rules of the Foreign Investment Law, the registration of foreign-invested enterprises shall be handled by the State Administration for Market Regulation, or the SAMR, or its authorized local counterparts. Where a foreign investor invests in an industry or field subject to licensing in accordance with laws, the relevant competent government department responsible for granting such license shall review the license application of the foreign investor in accordance with the same conditions and procedures applicable to PRC domestic investors unless it is stipulated otherwise by the laws and administrative regulations, and the competent government department shall not impose discriminatory requirements on the foreign investor in terms of licensing conditions, application materials, reviewing steps and deadlines, etc. However, the relevant competent government departments shall not grant the license or permit enterprise registration if the foreign investor intends to invest in the industries or fields as specified in the negative list without satisfying the relevant requirements. In the event that a foreign investor invests in a prohibited field or industry as specified in the negative list, the relevant competent government department shall order the foreign investor to stop the investment activities, dispose of the shares or assets or take other necessary measures within a specified time limit, and restore to the status prior to the occurrence of the aforesaid investment, and the illegal gains, if any, shall be confiscated. If the investment activities of a foreign investor violate the special administration measures for access restrictions on foreign investments as stipulated in the negative list, the relevant competent government department shall order the investor to make corrections within the specified time limit and take necessary measures to meet the relevant requirements. If the foreign investor fails to make corrections within the specified time limit, the aforesaid provisions regarding the circumstance that a foreign investor invests in the prohibited field or industry shall apply.

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Pursuant to the Foreign Investment Law and the implementing rules, and the Information Reporting Measures for Foreign Investment (《外商投資信息報告辦法》) jointly promulgated by the Ministry of Commerce and the SAMR, which took effect on January 1, 2020, a foreign investment information reporting system shall be established and foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments of the government through the enterprise registration system and the enterprise credit information publicity system, and the administration for market regulation shall forward the above investment information to the competent commerce departments in a timely manner. In addition, the Ministry of Commerce shall set up a foreign investment information reporting system to receive and handle the investment information and inter-departmentally share information forwarded by the administration for market regulation in a timely manner. The foreign investors or foreign-invested enterprises shall report the investment information by submitting initial reports, change reports, deregistration reports and annual reports, etc.

Furthermore, the Foreign Investment Law provides that foreign-invested enterprises established according to the previous laws regulating foreign investment prior to the implementation of the Foreign Investment Law may maintain their structure and corporate governance within five years after the implementation of the Foreign Investment Law. The implementing rules further clarify that such foreign-invested enterprises established prior to the implementation of the Foreign Investment Law may either adjust their organizational forms or organizational structures pursuant to the Company Law or the Partnership Law, or maintain their current structure and corporate governance within five years upon the implementation of the Foreign Investment Law. Since January 1, 2025, if a foreign-invested enterprise fails to adjust its organizational form or organizational structure in accordance with the laws and go through the applicable registrations for changes, the relevant administration for market regulation shall not handle other registrations for such foreign-invested enterprise and shall publicize the relevant circumstances. However, after the organizational forms or organizational structures of a foreign-invested enterprise have been adjusted, the original parties to the Sino-foreign equity or cooperative joint ventures may continue to process such matters as the equity interest transfer, the distribution of income or surplus assets as agreed by the parties in the relevant contracts.

In addition, the Foreign Investment Law and the implementing rules also specify other protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited, etc.

In terms of any foreign investment that affects or may affect national security, the security review shall be conducted in accordance with the Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法》) promulgated by the National Development and Reform Commission and the Ministry of Commerce on December 19, 2020 and effective on January 18, 2021. Pursuant to the Measures, the Office of the Foreign Investment Security

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Review Working Mechanism, or the Office of Working Mechanism, was established to be responsible for the routine work in relation to the security review of foreign investment. In addition, in respect of foreign investments in military, national defense-related areas or in locations in proximity to military facilities, or foreign investments that would result in acquiring the actual control of enterprises in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, information technology, internet products and services, financial services and technology sectors, the foreign investor or the relevant party in China in relation to the foregoing foreign investments is required to proactively report to the Office of the Working Mechanism in advance and shall not proceed the foreign investments until the Office of Working Mechanism decides whether to initiate the security review. Violation of the reporting requirements may subject to the order of reporting within a specified period, disposition of equities or assets or adoption of any other necessary measures to restore the status before the foreign investments were made and eliminate the effect on national security.

REGULATIONS RELATED TO VALUE-ADDED TELECOMMUNICATIONS SERVICES

Regulations on Value-Added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), or the Telecommunications Regulations, promulgated on September 25, 2000 by the State Council of the PRC and most recently amended in February 2016, are the primary regulations governing telecommunications services. Under the Telecommunications Regulations, a telecommunications service provider is required to procure operating licenses from MIIT or its provincial counterparts, prior to the commencement of its operations, or else such operator might be subject to sanctions including corrective orders from the competent administration authority, fines and confiscation of illegal gains. In case of serious violations, the operator’s websites may be ordered to be closed.

The Telecommunications Regulations categorize all telecommunication services in China as either basic telecommunications services or value-added telecommunications services, and value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The Administrative Measures for Telecommunications Business Operating License (《電信業務經營許可管理辦法》) promulgated by the MIIT in July 2017 set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining the licenses and the administration and supervision of these licenses.

A catalogue was issued as an appendix to the Telecommunications Regulations, or the Telecommunications Services Catalogue (《電信業務分類目錄》), which was most recently amended by the MIIT in June 2019. Pursuant to the Telecommunications Services Catalogue, the first category of value-added telecommunications services are divided into four subcategories including the “Internet Data Center Services” (including the internet resource collaboration services) (the “IDC Service”), the “Content Delivery Network Services” (the

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“CDN Service”), the “Domestic Internet Protocol Virtual Private Network Services” (“IP-VPN Service”) and the “Internet Access Services” (the “ISP Service”). The second category of value-added telecommunications services includes without limitation the online data process and transaction process service and information services.

In addition, the MIIT promulgated the Circular on Further Regulating Market Access of IDC Service and ISP Service (《工業和信息化部關於進一步規範因特網數據中心業務和因特網接入服務業務市場准入工作的通告》) in 2012, or the Circular 552, which further stipulates the detailed requirements on capital, personnel, facility and equipment for conducting IDC and ISP Services business. On January 17, 2017, the MIIT further promulgated the Notice on Cleaning up and Regulating the Internet Access Service Market (《工業和信息化部關於清理規範互聯網網絡接入服務市場的通知》), which emphasizes the requirements as specified under Circular 552 and prohibits business operation without licenses, business operation beyond permitted territorial scope and business scope set forth on the licenses and “multi-level sublease” in the market with respect to IDC Service, ISP Service and CDN Service. The IDC and ISP enterprises shall not sublease the IP addresses, bandwidth or other network access resources they have obtained from basic telecommunication operators in the PRC to other enterprises for operating businesses of IDC Service, ISP Service or other business. According to this notice, enterprises engaged in the businesses of IDC, ISP or CDN Services shall conduct comprehensive self-inspection, rectify violations of the relevant regulations in a timely manner to ensure their business operations are in compliance with the applicable laws and regulations and the network facilities and network access resources are used in a compliant manner. The regulatory authorities shall urge enterprises in violation of the relevant regulations to make rectifications in a timely manner and take stern actions in accordance with the laws against the enterprises that refuse to make such rectifications, and such enterprises may fail to pass the annual inspection, may be included in the enterprise list of bad credit record, or the licenses or permits of such enterprises may not be renewed upon expiration and their cooperation with the basic telecommunications operators may be adversely affected under serious circumstances.

Regulations on Foreign Investment Restriction on Value-Added Telecommunications Services

Pursuant to the Protocol on the Accession of the People’s Republic of China 《中華人民共和國加入議定書》) effective on November 10, 2001, China’s commitment to open telecommunication business does not include IDC Service, CDN Service, IP-VPN Service and ISP Service. Pursuant to the Mainland and Hong Kong Closer Economic Partnership Agreement (《內地與香港關於建立更緊密經貿關係的安排》), Mainland and Macao Closer Economic Partnership Agreement (《內地與澳門關於建立更緊密經貿關係的安排》) and their subsequent amendments from time to time, Mainland China has promised to open the aforementioned services to service providers in Hong Kong and Macao Special Administrative Region subject to certain limitations.

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According to the 2021 Negative List and the 2022 FITE Regulations, as for the value-added telecommunications business types which fall within China's commitment to the WTO, the ultimate capital contribution percentage by foreign investor(s) in a foreign-invested value-added telecommunications enterprise shall not exceed 50%, except as otherwise stipulated by the state. In particular, the 2022 FITE Regulations canceled the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version.

In July 2006, the predecessor to the MIIT issued the Circular of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), according to which a foreign investor in the telecommunications service industry of China must establish a foreign invested enterprise and apply for a telecommunications businesses operation license. This circular further requires that: (i) PRC domestic telecommunications business enterprises must not lease, transfer or sell a telecommunications businesses operation license to a foreign investor through any form of transaction or provide resources, offices and working places, facilities or other assistance to support the illegal telecommunications services operations of a foreign investor; (ii) value-added telecommunications enterprises or their shareholders must directly own the domain names and trademarks used by such enterprises in their daily operations; (iii) each value-added telecommunications enterprise must have the necessary facilities for its approved business operations and maintain such facilities in the regions covered by its license; and (iv) all providers of value-added telecommunications services are required to maintain network and internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the circular and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holder, including revoking its license for value-added telecommunications business.

On January 12, 2017, the State Council issued the Notice on Several Measures for Expansion of Opening-up Policy and Active Use of Foreign Capital (《國務院關於擴大對外開放積極利用外資若干措施的通知》), which purports to relax restrictions on foreign investment in sectors including services, manufacturing and mining. Specifically, this notice proposes to gradually open up telecommunication, Internet, culture, education and transportation industries to foreign investors. However, there are still substantial uncertainties with respect to the implementing rules and regulations of this notice.

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REGULATIONS RELATED TO CYBERSECURITY AND DATA SECURITY

The Decision in Relation to Protection of Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》) enacted by the Standing Committee of the National People's Congress of China on December 28, 2000, as amended on August 27, 2009, provides that, among other things, the following activities conducted through the Internet, if constitutes a criminal act under PRC laws, are subject to criminal punishment: (i) hacking into the computer data system of state affairs, national defense buildup or the sophisticated realms of science and technology; (ii) intentionally inventing and spreading destructive programs such as computer viruses to attack the computer system and the communications network, thus damaging the computer system and the communications networks; (iii) in violation of State regulations, discontinuing the computer network or the communications service without authorization; (iv) leaking state secrets; (v) spreading false commercial information; or (vi) infringing intellectual property rights through the internet.

The Administrative Measures for the Hierarchical Protection of Information Security (《信息安全等級保護管理辦法》) promulgated by the Ministry of Public Security, the State Secrecy Bureau, the State Cipher Code Administration and the Information Office of the State Council on June 22, 2007, divide the security protection of information systems into five grades based on the degree of harm caused by the destruction of the information system to the legitimate rights and interests of citizens, legal persons and other organizations, social public order and public interests and the national security and require the operators of information systems ranking Grade II or above to file an application with the local competent public security authorities within 30 days since the date when its security protection grade is determined or its information system is put into operation. The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), or the Internet Security Protection Measures, promulgated on December 13, 2005 by the Ministry of Public Security require internet service providers and entity users of the network to implement technical measures for internet security protection, like technical measures for preventing any matter or act that may endanger network security, e.g., computer viruses, invasion or attacks to or destruction of the network, and require all internet access service providers to take measures to keep a record of and preserve user registration information. Under these measures, value-added telecommunications services license holders must regularly update information security and content control systems for their websites and must also report any public dissemination of prohibited content to local public security authorities. If a value-added telecommunications services license holder violates these measures, the Ministry of Public Security and the local security authorities may revoke its operating license and shut down its websites.

On July 1, 2015, the Standing Committee of the National People's Congress issued the National Security Law of the PRC (《中華人民共和國國家安全法》), which came into effect on the same day. The National Security Law provides that the state shall build a network and information security guarantee system and improve network and information security protection capability to realize the controllable security of the network information key technologies and critical infrastructure and the information systems and data in important

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fields. In addition, a national security review and supervision system is required to be established to review, among other things, foreign investment, key technologies and network information technology products and services and other important activities that impact or are likely to impact the national security of the PRC.

On November 7, 2016, the National People’s Congress Standing Committee promulgated the Cybersecurity Law (《中華人民共和國網絡安全法》) which came into effect on June 1, 2017 and applies to the construction, operation, maintenance and use of networks as well as the supervision and administration of cybersecurity in China. The Cybersecurity Law defines “networks” as systems that are composed of computers or other information terminals and relevant facilities used for the purpose of information collecting, storing, transmitting, exchanging and processing in accordance with certain rules and procedures. “Network operators,” who are broadly defined as owners and administrators of networks and network service providers, are subject to various security protection-related obligations, including: (i) complying with security protection obligations in accordance with tiered cybersecurity system’s protection requirements, which include formulating internal security management rules and manual, appointing cybersecurity responsible personnel, adopting technical measures to prevent computer viruses and cybersecurity endangering activities, adopting technical measures to monitor and record network operation status and cybersecurity events, taking data security measures such as data classification, backups and encryption; (ii) formulating cybersecurity emergency response plans, timely handling of security risks, initiating emergency response plans, taking appropriate remedial measures and reporting to regulatory authorities in case of any incident endangering cybersecurity; and (iii) providing technical assistance and support for public security authorities and national security authorities for protection of national security and criminal investigations in accordance with the law. Network service providers who do not comply with the Cybersecurity Law may be subject to corrective orders, warnings, fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

On September 15, 2018, the Ministry of Public Security issued the Provisions on Internet Security Supervision and Inspection by Public Security Organs (《公安機關互聯網安全監督檢查規定》), which took effect on November 1, 2018 and provide that public security authorities shall conduct supervision and inspection on the network operators that provide the following services: (i) internet access, internet data centers, content distribution and domain name services; (ii) internet information services; (iii) public internet access services; and (iv) other internet services. The inspection may relate to whether the network operators have fulfilled the cyber security obligations under the Cybersecurity Law and other applicable laws and regulations, such as to formulate and implement cybersecurity management systems and operational procedures, appoint cybersecurity responsible personnel, and to take technical measures to record and retain user registration information and online log information etc.

On June 10, 2021, the Standing Committee of the National People’s Congress of China promulgated the Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a

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data classification and layered protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data shall designate the personnel and the management body responsible for data security, carry out risk assessments for its data processing activities and file the risk assessment reports with the competent authorities. Violation of the Data Security Law may be subject to an order to cease illegal activities, warnings, fines, suspension of business and revocation of business licenses or operating permits, and the personnel directly in charge or other directly responsible personnel may be imposed with fines.

The Administrative Provisions on Security Vulnerability of Network Products (《網絡產品安全性漏洞管理規定》) were jointly promulgated by the MIIT, the CAC and the Ministry of Public Security on July 12, 2021 and took effect on September 1, 2021. network product providers, network operators as well as organizations or individuals engaging in activities such as the discovery, collection, release of network product security vulnerability are subject to these provisions and shall establish channels to receive information of security vulnerability of their respective network products and keep the information receiving logs for no less than 6 months. Network product providers are required to report relevant information of security vulnerability of network products with the MIIT within two days and to provide technical support for network product users. Network operators shall take measures to examine and fix security vulnerability after discovering or acknowledging that their networks, information systems or equipment have security loopholes. According to these provisions, the breaching parties may be subject to administrative penalty as regulated in accordance with the Cybersecurity Law.

On July 30, 2021, the State Council promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), effective on September 1, 2021. According to the regulations, a “critical information infrastructure” refers to an important network facility and information system in important industries such as, among others, public communications and information services, as well as other important network facilities and information systems that may seriously endanger national security, the national economy, the people’s livelihood, or the public interests in the event of damage, loss of function, or data leakage. The regulations supplement and specify the provisions on the security of critical information infrastructure as stated in the Cybersecurity Law, and provide, among others, that the competent governmental authorities and supervision and management authorities of the aforementioned important industries will be responsible for (i) organizing the identification of critical information infrastructures in their respective industries in accordance with certain identification rules, and (ii) promptly notifying the identified operators and the public security department of the State Council of the identification results. These regulations require that the relevant operator shall submit a report to the competent PRC governmental authority in accordance with relevant provisions upon occurrence of any major cybersecurity incident or discovery of any major cybersecurity threat to the critical information infrastructures, and the operators of critical information

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infrastructures shall purchase the safe and trusted network products and services in the first place. If the purchase of network products and services may affect national security, such operators shall pass the cybersecurity security review accordingly. Any violation of these regulations may subject critical information infrastructure operators to an order to cease illegal activities, warnings and fines, and the personnel directly in charge may be imposed with fines.

On December 28, 2021, the CAC, together with certain other PRC governmental authorities, promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》) that replaced the previous version and took effect from February 15, 2022. Pursuant to these measures, the purchase of network products and services by a critical information infrastructure operator or the data processing activities of a network platform operator that affect or may affect national security will be subject to a cybersecurity review. In addition, network platform operators with personal information of over one million users shall be subject to cybersecurity review before listing abroad (國外上市). The competent governmental authorities may also initiate a cybersecurity review against the operators if the authorities believe that the network product or service or data processing activities of such operators affect or may affect national security. Article 10 of the Cybersecurity Review Measures also sets out certain general factors which would be the focus in assessing the national security risk during a cybersecurity review, including (i) risks of critical information infrastructure being illegally controlled or subject to interference or destruction; (ii) the harm caused by the disruption of the supply of the product or service to the business continuity of critical information infrastructure; (iii) the security, openness, transparency and diversity of sources of the product or service, the reliability of supply channels, and risks of supply disruption due to political, diplomatic, trade and other factors; (iv) compliance with PRC laws, administrative regulations and departmental rules by the provider of the product or service; (v) the risk of core data, important data or a large amount of personal information being stolen, leaked, damaged, illegally used, or illegally transmitted overseas; (vi) the risk that critical information infrastructure, core data, important data or a large amount of personal information being affected, controlled, and maliciously used by foreign governments for a listing, as well as network information security risks; and (vii) other factors that may endanger the security of critical information infrastructure, cybersecurity and data security. If the Cybersecurity Review Office deems it necessary to conduct a cybersecurity review, it should complete a preliminary review within 30 business days from the issuance of a written notice to the operator, or 45 business days for complicated cases. Upon the completion of a preliminary review, the Cybersecurity Review Office should reach a review conclusion suggestion and send the review conclusion suggestion to the members for the cybersecurity review system and the relevant authorities for their comments. These authorities shall issue a written reply within 15 business days from the receipt of the review conclusion suggestion. If the Cybersecurity Review Office and these authorities reach a consensus, then the Cybersecurity Review Office shall inform the operator in writing, otherwise, the case will go through a special review procedure. The special review procedure should be completed within 90 business days, or longer for complicated cases. The Cybersecurity Review Measures provide that the relevant violators shall be subject to legal consequences in accordance with the Cybersecurity Law and the Data Security Law.

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On November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), which provide the circumstances under which data processors shall apply for cybersecurity review, including, among others, when (i) the data processors who process personal information of at least one million users apply for a “foreign” listing (國外上市); and (ii) the data processors’ listing in Hong Kong affects or may possibly affect national security. Data processors processing personal information of more than one million people shall also comply with the provisions for processing of important data stipulated in the Draft Administration Regulations on Cyber Data Security for important data processors. Data processors dealing with important data or listing overseas (境外上市) should carry out an annual data security assessment by themselves or by entrusting data security service agencies, and each year before January 31, data security assessment report for the previous year shall be submitted to the districted city level cyberspace administration department. When data collected and generated within the PRC are provided by the data processors overseas, if such data includes important data, or if the relevant data processor is a critical information infrastructure operator or processes personal information of more than one million people, the data processor shall go through the security assessment of cross-border data transfer organized by the national cyberspace administration. As of the date of this Document, this draft has not been formally adopted, and substantial uncertainties exist with respect to whether and when such draft regulations will be enacted, and if enacted, its interpretation and implementation.

In the meantime, the PRC regulatory authorities have also enhanced the supervision and regulation on cross-border data transfer. On July 7, 2022, the CAC promulgated the Measures for the Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》), which will take effect from September 1, 2022. These measures require the data processor providing data overseas and falling under any of the following circumstances apply for the security assessment of cross-border data transfer by the national cybersecurity authority through its local counterpart: (i) where the data processor intends to provide important data overseas; (ii) where the critical information infrastructure operator and any data processor who has processed personal information of more than 1,000,000 people intend to provide personal information overseas; (iii) where any data processor who has provided personal information of 100,000 people or sensitive personal information of 10,000 people to overseas recipients accumulatively since January 1 of the last year intends to provide personal information overseas; and (iv) other circumstances where the security assessment of data cross-border transfer is required as prescribed by the CAC. Furthermore, the data processor shall conduct a self-assessment on the risk of data cross-border transfer prior to applying for the foregoing security assessment, under which the data processor shall focus on certain factors including, among others, the legitimacy, fairness and necessity of the purpose, scope and method of data cross-border transfer and the data processing of overseas recipients, the risks that the cross-border data transfer may bring to national security, public interests and the legitimate rights and interests of individuals or organizations as well as whether the cross-border data transfer related contracts or the other legally binding documents to be entered with overseas recipients have fully included the data security protection responsibilities and obligations. Given that the above measures came into effect recently, their interpretation, application and enforcement and how they will affect our business operation are subject to substantial uncertainties.

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REGULATIONS RELATING TO PRIVACY PROTECTION

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. The Cybersecurity Law imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage the personal information that they have collected, or provide the personal information to others without obtaining consent from the persons whose information is collected. Moreover, network operators are obligated to delete unlawfully collected information and to amend incorrect information.

The Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on December 29, 2011 and effective on March 15, 2012, stipulate that internet information service providers may not collect any user personal information or provide any such information to third parties without the consent of a user, unless otherwise stipulated by laws and administrative regulations. “User Personal information” is defined as information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information as necessary for the provision of its services. An internet information service provider is also required to properly store user personal information, and in case of any leak or likely leak of the user personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》), issued by the Standing Committee of the National People’s Congress in 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》), issued by the MIIT in 2013, any collection and use of a user’s personal information must abide by the principles of legality, rationality and necessity, explicitly state the purpose, manners and scopes of the information collection and uses, obtain the consent of the user and shall not violate the provisions of laws, regulations and the agreement with the users. An internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or providing such information to other parties. An internet information service provider is required to take technical and any other measures necessary to prevent the collected personal information from any unauthorized disclosure, damage or loss. Any violation of these laws and regulations may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, closedown of websites or even criminal liabilities.

Pursuant to the Notice of the Supreme People’s Court, the Supreme People’s Procuratorate and the Ministry of Public Security on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens (《最高人民法院、最高人民檢察院、公安部關於依法懲處侵害公民個人信息犯罪活動的通知》) issued and effective on April 23,

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2013 and the Interpretation of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) issued on May 8, 2017 and effective on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen’s personal information: (i) providing a citizen’s personal information to specified persons or releasing a citizen’s personal information online or through other methods in violation of relevant national provisions; (ii) providing legitimately collected information relating to a citizen to others without such citizen’s consent (unless the information is processed, not traceable to a specific person and not recoverable); (iii) collecting a citizen’s personal information in violation of applicable rules and regulations when performing a duty or providing services; or (iv) collecting a citizen’s personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which was issued by the CAC, the MIIT, the Ministry of Public Security, and the SAMR on January 23, 2019, app operators shall collect and use personal information in compliance with the Cybersecurity Law and shall be responsible for the security of personal information obtained from users and take effective measures to strengthen personal information protection. Furthermore, app operators shall not force their users to make authorization by means of default, bundling, suspending installation or use of the app or other similar means and shall not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User’s Personal Rights and Interests (《關於開展APP侵害用戶權益專項整治工作的通知》) issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information (《App違法違規收集使用個人信息行為認定方法》). This regulation further illustrates certain common illegal practices of app operators in terms of personal information protection and specifies acts of app operators that will be considered as “collection and use of personal information without users’ consent”.

On May 28, 2020, the National People’s Congress adopted the Civil Code (《民法典》), which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, store, use, process or transmit personal information of others, or illegally provide or disclose personal information of others. Personal information of natural persons refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify the natural persons’ names, date of birth, ID numbers, biometric information, addresses, telephone numbers, e-mail addresses, health information, whereabouts, etc. The Civil Code revised the internet tort liability and further elaborated on “safe harbour” rule with respect to an internet service provider from both the aspects of notice and counter notice,

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including (i) upon receiving notice from the right holder that any network users infringe on his/her civil rights, promptly adopting necessary protective measures such as deletion, screening or disconnection of hyperlinks and referring right holders’ notice to disputed internet user; and (ii) upon receiving counter-notice from the disputed internet user, referring such counter-notice to the claiming right holder and informing him/her to take other corresponding measures such as filing complaint with competent authorities or suit with courts. The Civil Code also provides that where the internet service provider knew or should have known the infringing acts of the network user but take no necessary measures, it shall be jointly and severally liable with such internet user.

On August 20, 2021, the Standing Committee of the National People’s Congress promulgated the Personal Information Protection Law (《中華人民共和國個人信息保護法》), which took effect on November 1, 2021. Pursuant to the Personal Information Protection Law, “personal information” refers to any kind of information related to an identified or identifiable individual as electronically or otherwise recorded but excluding the anonymized information. The processing of personal information includes the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information. The Personal Information Protection Law applies to the processing of personal information of individuals within the territory of the PRC, as well as personal information processing activities outside the territory of PRC, for the purpose of providing products or services to natural persons located within China, for analyzing or evaluating the behaviors of natural persons located within China, or for other circumstances as prescribed by laws and administrative regulations. A personal information processor may process the personal information of this individual only under the following circumstances: (i) where consent is obtained from the individual; (ii) where it is necessary for the execution or performance of a contract to which the individual is a party, or where it is necessary for carrying out human resource management pursuant to employment rules legally adopted or a collective contract legally concluded; (iii) where it is necessary for performing a statutory responsibility or statutory obligation; (iv) where it is necessary in response to a public health emergency, or for protecting the life, health or property safety of a natural person in the case of an emergency; (v) where the personal information is processed within a reasonable scope to carry out any news reporting, supervision by public opinions or any other activity for public interest purposes; (vi) where the personal information, which has already been disclosed by an individual or otherwise legally disclosed, is processed within a reasonable scope; or (vii) any other circumstance as provided by laws or administrative regulations. In principle, the consent of an individual must be obtained for the processing of his or her personal information, except under the circumstances of the aforementioned items (ii) to (vii). Where personal information is to be processed based on the consent of an individual, such consent shall be a voluntary and explicit indication of intent given by such individual on a fully informed basis. If laws or administrative regulations provide that the processing of personal information shall be subject to the separate consent or written consent of the individual concerned, such provisions shall prevail. In addition, the processing of the personal information of a minor under 14 years old must obtain the consent by a parent or a guardian of such minor and the personal information processors must adopt special rules for processing personal information of minors under 14 years old. Furthermore, the Personal Information Protection Law stipulates the rules for cross-border provision of

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personal information. Any cross-border provision of personal information is subject to the condition that it is necessary to provide the personal information to a recipient outside the territory of the PRC due to any business need or any other need, as well as the satisfaction of at least one of the following conditions: (i) where a security assessment organized by the national cyberspace administration has been passed; (ii) where a certification of personal information protection has been passed from a professional institution in accordance with the provisions issued by the national cyberspace administration; (iii) where a standard contract formulated by the national cyberspace administration has been entered into with the overseas recipient; or (iv) any other condition prescribed by laws, administrative regulations or any other requirements by the national cyberspace administration. Critical information infrastructure operators and personal information processors who have processed personal information in an amount reaching a threshold prescribed by the national cyberspace administration, must store in the territory of the PRC the personal information collected or generated within the territory of the PRC. If it is necessary to provide such information to an overseas recipient, a security assessment organized by the national cyberspace administration must be passed. Violation of the Personal Information Protection Law may be subject to an order to rectify, warnings, confiscation of illegal gains, fines, suspension of business and revocation of business licenses or operating permits, and the app processing the personal information illegally may be ordered to suspend or terminate the provision of services, and the personnel directly in charge or other directly responsible personnel may be imposed with fines, and be prohibited to serve as the directors, supervisors, senior management personnel or the personnel in charge of the protection of personal information in the relevant entities within a certain period.

REGULATIONS RELATED TO GOVERNMENT PROCUREMENT AND BIDDING

Pursuant to the Government Procurement Law of the People's Republic of China (《中華人民共和國政府採購法》) promulgated on June 29, 2002 and recently amended on August 31, 2014, public invitation for bids shall be taken as the main method of government procurement. Government procurement refers to the procurement of goods, projects and services within the centralized procurement catalogue formulated in accordance with the law by state organs at all levels, public institutions and social organizations with fiscal funds or above the prescribed procurement threshold. Furthermore, the parties concerned in government procurement shall not collude with each other to impair the rights and interests of the state or the general public or the other parties concerned and shall not exclude the competitions of other providers by any means.

Pursuant to the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) promulgated on August 30, 1999 and recently amended on December 27, 2017, bidding shall be carried out for construction projects including the survey, design, construction, supervision of the project, and the procurement of the important equipment, materials relevant to the construction of the project: (i) large projects of infrastructure facility or public utility that have a bearing on the social public interest and the safety of the general public; (ii) projects entirely or partially using state-owned funds or loans by the state; (iii) projects using loans of international organizations and foreign governments and aid funds. For a project

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concerned with national security, state secrets, emergency handling, disaster relief, or special occasions such as the use of poverty alleviation funds to implement work relief and the need to use migrant workers or that is not suitable for bidding, the method of bidding shall not be applied.

REGULATIONS RELATED TO ANTI-UNFAIR COMPETITION

Anti-unfair Competition Law

Pursuant to the Anti-unfair Competition Law of the People’s Republic of China (《中華人民共和國反不正當競爭法》) which was promulgated by the Standing Committee of the National People’s Congress of China on September 2, 1993 and most recently amended on April 23, 2019, unfair competition refers to that in its production and operating activities, the operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the Anti-unfair Competition Law. Pursuant to the Anti-unfair Competition Law, operators shall abide by the principle of voluntariness, equality, impartiality, integrity, and adhere to laws and business ethics during market transactions. Operators shall not conduct misleading behaviors which may confuse consumers to take their commodities as the commodities of others or lead consumers to believe that there is a connection between their commodities and other persons. Operators shall not conduct any false or misleading commercial publicity in respect of the performance, functions, quality, sales, user reviews, and honors received of its commodities, in order to defraud or mislead consumers. Operators shall not help other operators to conduct false or misleading commercial publicity by organizing false transactions. Operators shall not infringe on trade secrets. Operators shall not fabricate or disseminate false or misleading information or damage the business reputation of the competitors or their goods. Operators engaging in production or operating activities online shall also abide by the provisions of the Anti-unfair Competition Law. No operator may, by technical means to affect users’ options, among others, commit the acts of interfering with or sabotaging the normal operation of online products or services legally provided by another operator. Operators in violation of the Anti-unfair Competition Law shall bear corresponding civil, administrative or criminal responsibilities depending on the specific circumstances.

On August 17, 2021, the SAMR issued a discussion draft of Provisions on the Prohibition of Unfair Competition on the Internet (《禁止網絡不正當競爭行為規定(公開徵求意見稿)》), under which business operators shall not use data or algorithms to hijack traffic or influence users’ choices, or use technical means to illegally capture or use other business operators’ data. Furthermore, business operators are not allowed to (i) fabricate or spread misleading information to damage the reputation of competitors, or (ii) make false or misleading commercial propaganda about the sales status, transaction information, business data, user evaluation, etc. in respect of the operators or their commodities, in order to deceive or mislead consumers or the relevant public.

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Anti-monopoly Law

Pursuant to the currently effective Anti-monopoly Law of the People’s Republic of China (《中華人民共和國反壟斷法》) promulgated by the Standing Committee of the National People’s Congress of China on August 30, 2007, the Anti-Monopoly Law applies to the monopolistic practices in domestic economic activities in China as well as the monopolistic practices outside China which have exclusion or restriction effects on domestic market competitions. The monopolistic practices under the Anti-Monopoly Law include any monopoly agreement reached by any operators, abuse of market-dominating position by any operators and any concentration of operators which has eliminated or limited or may eliminate or limit the market competition. The anti-monopoly law enforcement agencies designated by the State Council are responsible for enforcement of the Anti-Monopoly Law. Specifically, competing business operators may not enter into monopoly agreements that eliminate or restrict competition, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities, dividing the sales markets or the raw material supply markets, unless the agreement will satisfy the exemptions under the Anti-monopoly Law, such as improving technologies, increasing the efficiency and competitiveness of small and medium-sized undertakings, or safeguarding legitimate interests in cross-border trade and economic cooperation with foreign counterparts; or else such operator might be subject to the order of ceasing the illegal activities, confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year, or RMB500,000 if the intended monopoly agreement has not been performed). The term “monopoly agreements” refers to agreement, decisions or other concerted activities that may eliminate or restrict competition. Furthermore, any business operator with a dominant market position may not abuse its dominant market position to conduct acts, such as selling commodities at unfairly high prices or purchasing commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Violations of the foregoing provisions might subject such operator to being ordered to cease the relevant activities and confiscation of the illegal gains and fines (from 1% to 10% of sales revenue from the previous year). Additionally, where a concentration of undertakings reaches the declaration threshold stipulated by the State Council, a declaration must be approved by the anti-monopoly authority before parties implement the concentration. Concentration refers to (i) a merger of undertakings; (ii) acquiring control over other undertakings by acquiring equities or assets; or (iii) acquisition of control over, or the possibility of exercising decisive influence on, an undertaking by contract or by any other means. If any business operator fails to comply with the mandatory declaration requirement, the anti-monopoly authority is empowered to order the operator to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses within certain periods and imposes fines of up to RMB500,000.

On June 24, 2022, the Standing Committee of the National People’s Congress of China decided to amend the currently effective Anti-monopoly Law and the amendment will take effect from August 1, 2022. Compared with the currently effective Anti-monopoly Law, the amendment further provides that operators shall not abuse data, algorithms, technology, capital advantages and platform rules to engage in monopolistic behaviors as prohibited by the Anti-monopoly Law and further emphasizes that operators with dominant market position shall

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not abuse their dominant market position by these means. In addition, the amendment increases the fines for illegal conclusion and implementation of monopoly agreements and introduces different fines for illegal concentration of business operators under different circumstances. Specifically, the amendment lifts the upper limit of fines for operators who have concluded but not implemented the monopoly agreements from RMB500,000 to RMB3,000,000 and further provides where an operator who has conclude and implemented the monopoly agreements but has not generated any sales revenue in the previous year might be subject to a fine of not more than RMB5,000,000. As for the illegal concentration, the fines for the operators who engage in the illegal concentration which has or may have the effect of eliminating or restricting competition is not more than 10% of their sales revenue in the previous year and for those which have no eliminating or restricting effect on competition is not more than RMB5,000,000. The amendment also introduces the punitive provisions that the legal representative, principal and directly responsible personnel of the operator who are personally responsible for concluding the monopoly agreement might be subject to a fine of not more than RMB1,000,000.

On September 11, 2020, the Anti-monopoly Commission of the State Council promulgated Anti-monopoly Compliance Guideline for Operators (《經營者反壟斷合規指南》), which requires operators to establish anti-monopoly compliance management systems based on their business conditions, scales, industry characteristics to manage anti-monopoly compliance risks.

On February 7, 2021, the Anti-Monopoly Commission of the State Council published Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《國務院反壟斷委員會關於平台經濟領域的反壟斷指南》) that clarify circumstances where an activity of an internet platform will be identified as concluding and implementing monopoly agreements, conducting the abusive acts as well as the business operators concentration.

On March 24, 2022, the SAMR issued the Interim Provisions on the Prohibitions of Monopoly Agreements (《禁止壟斷協議暫行規定》), the Interim Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions (《禁止濫用市場支配地位行為暫行規定》) and the Interim Provisions on Review of Concentration of Business Operators (《經營者集中審查暫行規定》), all of which took effect on May 1, 2022. The provisions further elaborate on the factors to be taken into consideration when assessing monopoly agreements, abusive acts and concentration of business operators. Besides, the Interim Provisions on the Prohibitions of Acts of abuse of Dominant Market Positions clarify types of factors for consideration of the dominance of operators in the new economic industries like the internet industries, such as, among others, the competition characteristics, business model, number of users, network effects, lock-in effects, ability to master and process relevant data.

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REGULATIONS RELATED TO INTELLECTUAL PROPERTY

Patent

Patents in the PRC are principally protected under the Patent Law of the PRC (《中華人民共和國專利法》). The Chinese patent system adopts a first-to-file principle. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. The duration of a patent right is 10 years, 15 years or 20 years from the date of application, depending on the type of patent right.

Copyright

Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks (《信息網絡傳播權保護條例》), as most recently amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and Internet service providers.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》), promulgated by the National Copyright Administration on February 20, 2002, regulate registrations of software copyrights, exclusive licensing contracts for software copyrights and assignment agreements. The National Copyright Administration administers software copyright registration and the Copyright Protection Center of China is designated as the software registration authority. The Copyright Protection Center of China grants registration certificates to the computer software copyrights applicants which meet the relevant requirements.

Trademark

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) and related rules and regulations. Trademarks are registered with the State Intellectual Property Office. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain Name

Domain names are protected under the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on August 24, 2017 and effective as of November 1, 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

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REGULATIONS RELATED TO EMPLOYMENT, SOCIAL INSURANCE AND HOUSING FUND

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》) and the PRC Labor Contract Law (《中華人民共和國勞動合同法》), employers must execute written labor contracts with full-time employees. All employers must comply with local minimum wage standards. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

In addition, according to the PRC Social Insurance Law (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), employers in China must provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, and medical insurance and housing funds.

REGULATIONS RELATED TO FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

Regulations on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (《中華人民共和國外匯管理條例》), most recently amended in 2008. Under PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

The Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》), or Circular 59, which was promulgated by SAFE on December 19, 2012 and amended on May 4, 2015, substantially amends and simplifies the current foreign exchange procedure. Pursuant to Circular 59, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In 2013, SAFE specified that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of

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registration and banks must process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Notice 13. Instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

In March 2015, SAFE promulgated the Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《關於改革外商投資企業外匯資金結匯管理方式的通知》), or Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. Circular 19 replaced both the Circular of the SAFE on Issues Relating to the Improvement of Business Operations with Respect to the Administration of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises (《關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》), or Circular 142, and the Circular of the SAFE on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas (《關於在部分地區開展外商投資企業外匯資金結匯管理方式改革試點有關問題的通知》), or Circular 36. Circular 19 allows all foreign-invested enterprises established in the PRC to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation, provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments and removes certain other restrictions that had been provided in Circular 142. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope and providing entrusted loans or repaying loans between non-financial enterprises. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本項目結匯管理政策的通知》), or Circular 16, effective in June, 2016, which reiterates some of the rules set forth in Circular 19. Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding RMB capital converted from foreign exchange may be used to extend loans to related parties or repay inter-company loans (including advances by third parties). However, there are substantial uncertainties with respect to Circular 16's interpretation and implementation in practice. Circular 19 or Circular 16 may delay or limit us from using the proceeds of offshore offerings to make additional capital contributions to our PRC subsidiaries and any violations of these circulars could result in severe monetary or other penalties.

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In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), or Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years’ losses before remitting any profits. Moreover, pursuant to Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

On October 23, 2019, SAFE issued Circular of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》), or the Circular 28, which took effect on the same day. Circular 28 allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in China, provided that such investments do not violate the effective special management measures for the entry of foreign investment (negative list) and the target investment projects are genuine and in compliance with laws. As of the date of this Document, its interpretation and implementation in practice are still subject to substantial uncertainties.

Regulations on Dividend Distributions

The principal laws, rule and regulations governing dividends distribution by companies in the PRC are the PRC Company Law, which applies to both PRC domestic companies and foreign-invested companies, and the Foreign Investment Law and its implementing rules, which apply to foreign-invested companies. Under these laws, regulations and rules, both domestic companies and foreign-invested companies in the PRC are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of their reserves reaches 50% of their registered capital. PRC companies are not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

In 2014, SAFE issued the SAFE Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, a “special purpose vehicle” refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while “round trip

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investment” refers to direct investment in China by PRC residents or entities through special purpose vehicles, namely, establishing foreign-invested enterprises to obtain ownership, control rights and management rights. SAFE Circular 37 provides that, before making a contribution into a special purpose vehicle, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch.

In 2015, SAFE Notice 13 amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to special purpose vehicles but had not registered as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the special purpose vehicles with qualified banks. An amendment to the registration is required if there is a material change with respect to the special purpose vehicle registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentations or failing to disclose the control of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Regulations Related to Stock Incentive Plans

In February 2012, SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》). Under this notice and other relevant rules and regulations, domestic individuals, which means the PRC residents and non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota

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for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

REGULATIONS RELATED TO TAX

Enterprise Income Tax

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008 and was subsequently amended on February 24, 2017 and December 29, 2018, and its implementing rules, enterprises are classified as resident enterprises and non-resident enterprises.

PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. An enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define a de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Enterprises qualified as “High and New Technology Enterprises” are entitled to a 15% enterprise income tax rate rather than the 25% uniform statutory tax rate. The preferential tax treatment continues as long as an enterprise can retain its “High and New Technology Enterprise” status.

The EIT Law and the implementation rules provide that an income tax rate of 10% should normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on

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February 20, 2009 by the State Taxation Administration, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement on Relevant Issues Concerning the “Beneficial Owners” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》) issued on February 3, 2018 by the State Taxation Administration and effective from April 1, 2018, which replaces the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties and the Announcement on the Recognition of Beneficial Owners in Tax Treaties by the State Taxation Administration, comprehensive analysis based on the stipulated factor therein and actual circumstances shall be adopted when recognizing the “beneficial owner” and agents and designated wire beneficiaries are specifically excluded from being recognized as “beneficial owners.”

Value-added Tax

Pursuant to the Interim Regulations on Value-added Tax (《增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and recently amended on November 19, 2017 and the Implementing Rules for the Interim Regulations on Value-added Tax (《增值稅暫行條例實施細則》) promulgated by the Ministry of Finance on December 25, 1993 and recently amended on October 28, 2011, the Decision of the State Council on Repealing the Interim Regulation of the People’s Republic of China on Business Tax and Amending the Interim Regulation of the People’s Republic of China on Value-added Tax (《國務院關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》) promulgated by the State Council and effective on November 19, 2017, the Circular on Adjustment of Value-added Tax Rates (《關於調整增值稅稅率的通知》) jointly promulgated by Ministry of Finance and the State Taxation Administration on April 4, 2018, and the Announcement on Relevant Policies for Deepening Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》) jointly promulgated by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on March 20, 2019, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax and the value-added tax rates are further revised to 6%, 9% or 13%.

Pursuant to the Notice of Ministry of Finance and State Taxation Administration on Value-added Tax Policies for Software Products (《財政部、國家稅務總局關於軟件產品增值稅政策的通知》) promulgated on October 13, 2011 and effective on January 1, 2011, a value-added tax general taxpayer selling software products developed and produced by itself shall be subject to levying and collection of value-added tax at the tax rate of 17%, and the policy of forthwith levy and forthwith refund shall be implemented for the portion of value-added tax actually paid which exceeds 3%.

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REGULATIONS RELATED TO OVERSEAS LISTING

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or the CSRC, adopted the Regulations on Mergers of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. Foreign investors shall comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

Furthermore, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities (《關於依法從嚴打擊證券違法活動的意見》), which were available to the public on July 6, 2021 and emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies, and provided that the special provisions of the State Council on overseas offering and listing by those companies limited by shares will be revised and therefore the duties of domestic industry competent authorities and regulatory authorities will be clarified.

On December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》), both of which were open for public comments till January 23, 2022. Under these draft new rules, a filing-based regulatory system will be applied to both “direct overseas offering and listing” and “indirect overseas offering and listing” of PRC domestic companies. The “indirect overseas offering and listing” of PRC domestic companies refers to such securities offering and listing in an overseas market made in the name of an offshore entity, but based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. If the issuer meets the following conditions, the offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) the total assets, net assets, revenues or profits of the domestic operating entity or entities of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; (ii) most of the senior managers in charge of business operation and management

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of the issuer are Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China. Domestic companies that seek to offer and list securities in overseas markets shall fulfill the filing procedure with the CSRC, and, among others, shall strictly comply with laws and regulations and relevant provisions concerning national security in spheres of foreign investment, cybersecurity, and data security, and earnestly fulfill their obligations to protect national security. The Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) provide that an overseas offering and listing is prohibited under any of the following circumstances: (i) if the intended securities offering and listing falls under specific clauses in national laws and regulations and relevant provisions prohibiting such financing activities; (ii) if the intended securities offering and listing in overseas market may constitute a threat to or endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if there are material ownership disputes over equity, major assets, and core technology, etc.; (iv) if, in recent three years, the domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy; or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; (v) if, in recent three years, directors, supervisors, or senior executives have been subject to administrative punishments for severe violations, or are currently under judicial investigations for suspicion of criminal offenses or under investigations for suspicion of major violations; or (vi) other circumstances as prescribed by the State Council. The Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) require that where an issuer makes an application for initial public offering and listing in an overseas market, the filing entity shall submit to the CSRC filing documents, which include but are not limited to those specified below, within 3 working days after such application is submitted: (i) filing reports and associated undertakings; (ii) regulatory opinions, filings or approval and related documents issued by competent industry authorities (where applicable); (iii) opinions issued by competent authorities on security assessment and review of the issuer (where applicable); (iv) legal opinions provided by a domestic law firm; and (v) a prospectus. Failure to complete the filing under the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies may subject a PRC domestic company to a warning and a fine of RMB1 million to RMB10 million. In the event of a serious violation of the Administrative Provisions, the PRC domestic company may be ordered to discontinue the related business or suspend its operations for rectification, and its permits or business licenses may be revoked. As of the date of this Document, it is still uncertain when the final versions of these new provisions and measures will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OVERVIEW

Our history can be traced back to 2012 when Kingsoft Corporation established our Company in the Cayman Islands and two wholly-owned subsidiaries of our Group, namely Kingsoft Cloud Corporation Limited and Beijing Kingsoft Cloud to commence operation of the cloud-based business. Under the leadership of Mr. Wang Yulin, our executive Director and Chief Executive Officer who joined our Group in December 2012, our core management team comprises seasoned professionals with strong expertise and extensive experience in cloud-based platform and technology. For the biographies and industry experience of Mr. Wang and other senior management members, please refer to the section headed “Directors and Senior Management” in this Document.

OUR BUSINESS DEVELOPMENT MILESTONES

The following table sets forth the key business development milestones of our Group:

Year	Event
2012	<p>Our Company was incorporated in the Cayman Islands as a subsidiary of Kingsoft Group.</p> <p>We commenced business operation upon establishment of Beijing Kingsoft Cloud in the PRC.</p>
2013	<p>We completed our series A financing, in an aggregate amount of approximately US\$20 million.</p>
2014	<p>We introduced and implemented our “<i>All in</i>” <i>Cloud</i> strategy.</p>
2015	<p>We extended our customer base to public service organizations on municipal level, including Beijing.</p> <p>We completed our series B financing, in an aggregate amount of approximately US\$55 million.</p>
2016	<p>We completed our series C financing and series C+ financing, in an aggregate amount of approximately US\$60 million and US\$48.9 million, respectively.</p>
2017	<p>We became a member of the Cloud Security Alliance (CSA), a global organization dedicated to defining and raising awareness of best practices to help ensure a secure cloud computing environment.</p>
2018	<p>We were among the first in the industry to offer cloud solutions to financial service providers.</p>

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Year	Event
	We completed our series D financing, in an aggregate amount of approximately US\$720 million.
2020	We completed our series D+ financing, in an aggregate amount of approximately US\$70 million. We were spun-off from Kingsoft Group and our ADSs are listed on the Nasdaq under the symbol “KC”. We completed our follow-on public offering on the Nasdaq.
2021	We published our first ESG report. We acquired the controlling interest in Camelot which enables us to benefit from rich industry experience of its management, large customer base and long-standing client relationships and deep vertical know-how with nationwide fulfillment centers.
2022	We attained the TRUSTe Enterprise Privacy & Data Governance Certification, a well-recognized certification for strong data privacy management practices in the industry. We made further progress in ESG by enhancing the Board’s overseeing on ESG issues through the Corporate Governance Committee and embracing gender diversity and workplace inclusiveness by appointing Ms. Qu Jingyuan as our first female Director on the Board.

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, the place and date of incorporation of the members of our Group that made a material contribution to our results of operation during the Track Record Period are shown below:

Name	Place and date of incorporation	Principal business activities
Zhuhai Kingsoft Cloud ⁽¹⁾	PRC, August 21, 2009	Investment holding
Kingsoft Cloud Network ⁽¹⁾	PRC, March 25, 2011	Cloud services
Nanjing Qianyi ⁽¹⁾	PRC, March 20, 2014	Cloud services

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Name	Place and date of incorporation	Principal business activities
Yunxiang Zhisheng	PRC, December 15, 2015	Research and development
Kingsoft Cloud Information ⁽¹⁾	PRC, April 13, 2018	Investment holding
Beijing Jinxun Ruibo ⁽¹⁾	PRC, December 17, 2015	Cloud services
Wuhan Kingsoft Cloud ⁽¹⁾	PRC, December 26, 2017	Cloud services
Kingsoft Cloud Corporation Limited	Hong Kong, February 1, 2012	Cloud services
Beijing Kingsoft Cloud	PRC, April 9, 2012	Research and development
Kingsoft Cloud Tianjin ⁽¹⁾	PRC, May 30, 2019	Cloud services
Camelot Technology	PRC, March 12, 2001	Enterprise digital solutions and related services

Note:

- (1) We exercise effective control over the operation of these entities through contractual arrangements. Please refer to the section headed “Contractual Arrangements” for further details.

SPIN-OFF FROM KINGSOFT GROUP AND LISTING ON THE NASDAQ

Immediately prior to our listing on the Nasdaq, our Company was a non-wholly owned subsidiary of Kingsoft Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 03888). The spin-off of our Company from the Kingsoft Group for a separate listing of ADSs on the Nasdaq, which constituted a major transaction of Kingsoft Corporation, was approved by its shareholders in March 2020 pursuant to paragraph 3(e)(1) of Practice Note 15 and Chapter 14 of the Listing Rules.

On May 8, 2020, we listed ADSs on the Nasdaq under the symbol “KC”. Our initial public offering on the Nasdaq was completed on May 12, 2020. Pursuant to the initial public offering (the “**Nasdaq Offering**”), our Company sold 30,000,000 ADSs, representing 450,000,000 Shares at an offering price of US\$17.00 per ADS, among which, 1,175,000 and 2,355,000 ADSs representing 17,625,000 and 35,325,000 Shares, were subscribed at the initial public offering price and on the same terms as the other ADSs offered at the initial public offering on the Nasdaq by (i) Kingsoft Corporation and (ii) Xiaomi, for the consideration of US\$19,975,000 and US\$40,035,000, respectively. Upon completion of the initial public

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

offering, all of our issued and outstanding Preferred Shares were automatically converted into Shares on a one-for-one basis. On May 12, 2020, the underwriters had exercised their over-allotment option to purchase an additional 4,500,000 ADSs, representing 67,500,000 Shares at a price of US\$17.00 per ADS.

We received from our initial public offering gross proceeds of approximately US\$586.5 million and net proceeds, including the underwriters’ over-allotment option after deducting the underwriting discounts and offering expenses, of approximately US\$547.5 million. We intend to utilize the net proceeds from our initial public offering on the Nasdaq for upgrading and expanding our infrastructure, investment in technology and product development, expanding our ecosystem and international presence and for general corporate and working capital purposes as disclosed in our registration statement on Form F-1 filed with the SEC in connection with our initial public offering on the Nasdaq.

On September 23, 2020, we completed a follow-on public offering at a price of US\$31.00 per ADS, where (i) we sold 8,000,000 ADSs representing 120,000,000 Shares and (ii) several selling shareholders sold 8,421,576 ADSs representing 126,323,640 Shares. Additionally, the underwriters exercised their over-allotment option to purchase an additional 1,250,000 ADSs representing 18,750,000 Shares on October 30, 2020. We received from this offering gross proceeds of approximately US\$286.8 million and net proceeds, including the underwriters’ option, after deducting the underwriting discounts and offering expenses, of approximately US\$276.3 million.

COMPLIANCE WITH THE RULES OF NASDAQ

Our Directors confirm that since the date of our listing on the Nasdaq and up to the Latest Practicable Date, we had no instances of non-compliance with the rules of the Nasdaq in any material respect and, to the best knowledge of our Directors having made all reasonable inquiries, there is no matter that should be brought to [REDACTED] attention in relation to our compliance record on the Nasdaq.

REASONS FOR THE [REDACTED]

Our Board is of the view that the [REDACTED] and the [REDACTED] will present us with an opportunity to further expand our [REDACTED] base and broaden our access to capital markets and provide us with the necessary funding for us to upgrade our technology infrastructure, strengthen our technology capabilities and enhance product or solution offerings by investing in cutting-edge technologies, and expand our ecosystem through strategic partnership and investments. In addition, as a U.S. listed company, we are pursuing the [REDACTED] to provide our Shareholders with greater liquidity and protection amid an evolving market and regulatory environment. Please see the sections headed “Business – Our Strategies” and “Future Plans and Use of [REDACTED]” for details. It is expected that the [REDACTED] from the [REDACTED], after deducting the [REDACTED] commissions and other estimated [REDACTED] expenses payable by us, will amount to approximately HK\$[REDACTED] (based on the indicative [REDACTED] of HK\$[REDACTED] per [REDACTED], and assuming the [REDACTED] is not exercised).

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MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated in the Cayman Islands on January 3, 2012 as the holding company of our Group. Upon incorporation, our Company had an authorized share capital of US\$300,000 divided into 300,000,000 Shares with a par value of US\$0.001 each. Following the increase of authorized share capital of our Company in December 2021, as of the Latest Practicable Date, our Company had an authorized share capital of US\$40,000,000 divided into 40,000,000,000 Shares with a par value of US\$0.001 each.

The major shareholding changes of our Company during the Track Record Period and up to the Latest Practicable Date were set out below:

Ordinary Shares

In May 2020, we sold a total of 34,500,000 ADSs, representing 517,500,000 Shares, pursuant to our initial public offering on the Nasdaq, and an additional 4,500,000 ADSs, representing 67,500,000 Shares were sold upon exercise of the over-allotment option by the underwriters in May 2020. In September 2020, we sold a total of 8,000,000 ADSs representing 120,000,000 Shares, pursuant to a follow-on offering on the Nasdaq, and an additional 1,250,000 ADSs representing 18,750,000 Shares were sold upon exercise of the over-allotment option by the underwriters in October 2020. Further details of our initial public offering and the follow-on offering are set out in the paragraph headed “Spin-off from Kingsoft Group and Listing on the Nasdaq” in this section.

In September 2021, we issued an aggregate of 247,475,446 Shares to certain then existing shareholders of Camelot, a company incorporated under the BVI laws, respectively, pursuant to an agreement and merger plan entered into by, among others, our Company and Camelot. For further details, please refer to the paragraph headed “Acquisition of Camelot” in this section.

Preferred Shares

Our Company issued certain preferred shares to various investors historically which include 458,116,000 series A preferred shares, 153,603,600 series B preferred shares, 185,665,192 series C preferred shares, and 842,738,782 series D preferred shares, all of which had a par value of US\$0.001 each.

On December 27, 2019, we further issued (i) 55,089,998 series D+ preferred shares with a par value of US\$0.001 each to China Internet Investment Fund (“CIIF”) for a consideration of US\$50,000,000, and (ii) 22,035,999 D+ preferred shares with a par value of US\$0.001 each to Design Time Limited (“Design Time”) for a consideration of US\$20,000,000, pursuant to the share purchase agreements entered into with CIIF on December 2, 2019 and Design Time on December 16, 2019, respectively.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Immediately upon the completion of our initial public offering on the Nasdaq, all the issued and outstanding preferred shares were converted into ordinary shares on a one-for-one basis. As of the Latest Practicable Date, our Company has an issued share capital of US\$3,805,284.80 divided into 3,805,284,801 Shares of US\$0.001 each.

OUR INVESTORS PRIOR TO THE NASDAQ LISTING

Since our incorporation, we have received various rounds of investment from investors including professional equity investment funds and notable technology companies, where we issued ordinary shares and preferred shares in the share capital of our Company to these investors. The aggregate net proceeds from such investments amounted to approximately US\$990.4 million. The investments led to the issuance of certain preferred shares in the share capital of our Company which were converted into ordinary shares immediately prior to the completion of our initial public offering on the Nasdaq. Further details are as set out in the paragraph headed “Major Shareholding Changes of our Company – Preferred Shares” in this section. All the special rights of these investors have been terminated and of no further force or effect immediately upon our listing on the Nasdaq.

ACQUISITION OF CAMELOT

Camelot primarily offers enterprise digital solutions and related services. For further details of the financial service cloud solutions offered by Camelot, please refer to the paragraph headed “Business – Our Products and Solutions – Industry Specific Solutions – Financial Service Cloud Solutions”. By acquiring and integrating with Camelot, we expect to benefit from its (i) core senior management’s rich experience; (ii) large customer base and long-standing client relationships to cross-sell our products and solutions; (iii) deep vertical know-how for developing industry solutions; and (iv) nationwide fulfillment centers across major cities in China for project deployment with lower costs with enhanced efficiency and increased customer stickiness.

On July 31, 2021, the Camelot Merger Agreement was entered into by and among (i) our Company, (ii) Camelot, (iii) Yiming Ma (“**Mr. Ma**”) and Heidi Chou (“**Ms. Chou**”), being founders of Camelot (the “**Founders**”), (v) Benefit Overseas Limited (“**Benefit Overseas**”), a company incorporated under BVI laws and wholly-owned by Mr. Ma, and (vi) Dreams Power Ltd. (“**Dreams Power**”), a company incorporated under the BVI laws and wholly-owned by Ms. Chou. To the best knowledge, information and belief of the Directors having made all reasonable inquiries, each of Mr. Ma, Ms. Chou, other than existing shareholders of Camelot and their respective ultimate beneficial owners is an Independent Third Party.

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Pursuant to the Camelot Merger Agreement, the Company acquired the 79.53% equity interests in Camelot Technology by using a combination of (a) cash consideration in the approximate USD equivalent amount of RMB760.9 million and (b) share consideration in the approximate USD equivalent amount of RMB4.0 billion, to be settled in two tranches (the “**Camelot Consideration**” and the “**Camelot Acquisition**”). The Camelot Consideration was determined based on arm’s length negotiation among the parties with reference to the market value of comparable companies with similar business nature and the future business prospects of Camelot. There are no special rights granted to the Founders, the non-founder shareholders of Camelot (the “**Camelot Non-Founder Shareholders**”) or any of their investment holding companies as a result of the completion of the the Camelot Merger Agreement. As of the Latest Practicable Date, the Company has plans to acquire the remaining equity interests thereof and no definitive agreements had been signed with respect to the acquisition of such minority interests. The Company will comply with at all times with the applicable provisions under the Listing Rules in respect of any such further acquisitions that may materialize after [REDACTED].

The first tranche of the Camelot Consideration, according to the Camelot Merger Agreement, included (a) a cash consideration in the approximate USD equivalent amount of RMB350 million; and (b) a share consideration in the approximate USD equivalent amount of RMB3.05 billion. The second tranche of the Camelot Consideration, included (a) a cash consideration in the approximate USD equivalent amount of RMB260.9 million payable to the Camelot Non-Founder Shareholders on June 30, 2023; and (b) a share consideration in the approximate USD equivalent amount of RMB782.6 million to be issued to the Camelot Non-Founder Shareholders on June 30, 2023. The number of the Shares to be issued for the purpose of settling the second tranche share consideration shall be determined and calculated based on the volume-weighted average price of the Company’s ADSs listed on the Nasdaq for thirty (30) trading days immediately preceding June 30, 2023 (the “**Shares Calculation Basis**”). Additionally, in order to secure certain obligations such as tax filing, payment and indemnifications under the Camelot Merger Agreement, the parties also agreed that, among other things, an aggregate cash consideration of approximately RMB150 million was escrowed until April 30, 2022 and share consideration of approximately RMB180 million would be held back from issuance until June 30, 2023 (the “**Holdback Shares**”) based on the same Shares Calculation Basis. The second tranche and the escrowed tranche of the cash consideration are expected to be settled by the Company using internal resources.

The Camelot Acquisition has been properly and legally completed on September 3, 2021 (the “**Closing Date**”), upon the fulfillment of the customary closing conditions, the settlement of the first tranche of the cash consideration of USD equivalent amount of RMB350 million, as well as the Company’s issuance of 247,475,446 shares (excluding the Holdback Shares and calculated based on the volume weighted average price of the ADSs listed on the Nasdaq for thirty (30) trading days immediately preceding the Closing Date) as the first tranche share consideration to the then Camelot shareholders, of which 101,453,974, 73,034,892 and 72,986,580 Shares were issued to Mr. Ma, Ms. Chou and the Camelot Non-Founder Shareholders, respectively.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Upon completion of the Camelot Merger on September 3, 2021, Camelot became a non-wholly owned subsidiary of the Company and its financial results were consolidated by the Company. Camelot was subsequently merged with and into Iridescence Limited, a wholly-owned subsidiary of the Company, pursuant to the Camelot Merger Agreement. Please refer to the paragraph headed “Our Structure Immediately Prior to the [REDACTED]” in this section for details.

Given that the Company will issue additional Shares with an aggregate USD equivalent amount of approximately RMB962.6 million on June 30, 2023 under the Camelot Merger Agreement, Shareholders will experience dilution on their shareholdings in the Company. For details of the dilution risk, please see “Risk Factors – Risks Relating to our Ordinary Shares and the ADSs – Purchasers of our Ordinary Shares will incur immediate and significant dilution and may experience further dilution if we issue additional shares or other equity securities in the future, including pursuant to the share incentive schemes.”

Each of Mr. Ma and Ms. Chou agreed, among other things, that with respect to 25% of our Shares issued to him or her (or his or her designated affiliate(s) to receive such Shares) on the Closing Date thereunder, it shall not transfer any such Shares (or ADSs representing such shares) until June 30, 2023.

Based on the historical financial information of Camelot, the Camelot Acquisition would have been classified as a major transaction under Chapter 14 of the Listing Rules if such acquisition was made by a listed issuer. Therefore, the Camelot Acquisition triggers the disclosure threshold pursuant to Rule 4.05A of the Listing Rules, and our Company is required to disclose the pre-acquisition financial information of Camelot from January 1, 2019 to September 3, 2021, which is set forth in Note 31 to the Accountant’s Report included in Appendix IA.

Save as disclosed above, we have not conducted any major acquisitions, disposals or mergers since our incorporation that we consider to be material to us during the Track Record Period and would be classified as a transaction that falls under Rule 4.05A of the Listing Rules.

RESTRUCTURING OF OUR CONTRACTUAL ARRANGEMENTS

The Group provides its cloud services mainly through (i) subsidiaries of Zhuhai Kingsoft Cloud and (ii) Kingsoft Cloud Information and its respective subsidiaries (the “**PRC Operating Entities**”). The Contractual Arrangements were put in place for the Company to obtain control over the Consolidated Affiliated Entities and to operate value-added telecommunication services. Please refer to the sections headed “Contractual Arrangements” and “Connected Transactions” for further details of the Contractual Arrangements.

In order to adhere to the “narrowly tailored” principle under the Listing Decision LD43-3 to the extent practicable, we underwent reorganization of the holding structure of our onshore subsidiaries and Consolidated Affiliated Entities in preparation for the [REDACTED]. To the extent permitted under the relevant PRC laws and regulations, certain PRC Operating Entities

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

that have not yet commenced operations and are not subject to foreign investment restrictions under applicable PRC laws and regulations have been or are in the process of being (i) transferred to the wholly foreign owned enterprises (the “WFOE(s)”) within the Group and become indirect wholly-owned subsidiaries of the Company, or (ii) dissolved, with the relevant business, if any, transferred to a WFOE and/or its other wholly-owned subsidiaries (as the case may be). None of these entities is material to our business, operations and financial performance. Please refer to the paragraph headed “Our Structure Immediately Prior to the [REDACTED]” in this section for the shareholding and corporate structure of our Group after the completion of the aforesaid restructuring.

As we gradually expands our business in cloud services, we will procure Zhuhai Kingsoft Cloud to apply for the relevant prohibited licenses and/or restrictive licenses.

STRATEGIC COOPERATION AND ANTI-DILUTION FRAMEWORK AGREEMENTS

On January 27, 2022 and January 29, 2022, our Company entered into strategic cooperation and anti-dilution framework agreements (the “**Strategic Cooperation and Anti-Dilution Agreements**”) with Kingsoft Corporation and Xiaomi, respectively, pursuant to which the parties agree, among other things, to form a strategic cooperation with each other in respect of products, services and solutions under various potential business fields (each, a “**Strategic Cooperation**”). The parties to the Strategic Cooperation and Anti-dilution Agreements agree that, as part of their agreement to continuously explore Strategic Cooperation opportunities with each other, we shall, subject to compliance with applicable rules and regulations, grant an anti-dilution option (the “**Anti-Dilution Option**”) to each of Kingsoft Corporation and Xiaomi, respectively, to the effect that during the period from the date of the respective Strategic Cooperation and Anti-Dilution Agreement to December 31, 2024, Kingsoft Corporation and Xiaomi are entitled to subscribe such number of Shares to maintain their respective existing shareholding in our Company upon completion of such placing and issuance of new Shares by the Company.

Pursuant to the Anti-Dilution Option, each of Kingsoft Corporation and Xiaomi, is entitled to, by itself or through its affiliates, subscribe for such number of new Shares to be [REDACTED] by our Company in the [REDACTED] on a pro rata basis (the “**Anti-Dilution Subscriptions**”) such that the percentage of Shares held by each of them immediately following the completion of the [REDACTED] (including the exercise of any [REDACTED] which may be granted by us to the [REDACTED] of the [REDACTED]) will be up to that immediately prior to the completion of the [REDACTED]. The Anti-Dilution Subscription shall be made on the same terms and conditions as those generally [REDACTED] to other [REDACTED] under the [REDACTED], and the [REDACTED] subscribed by Kingsoft Corporation and Xiaomi in the [REDACTED] shall rank *pari passu* with and have the same rights as other [REDACTED] issued pursuant to the [REDACTED].

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

EQUITY INCENTIVE PLANS

2013 Share Option Scheme

Our Company adopted the 2013 Share Option Scheme on February 27, 2013, as amended on June 27, 2013, May 20, 2015 and December 26, 2016. The purpose of the 2013 Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any invested entity. As of the Latest Practicable Date, 152,827,585 share options granted under the 2013 Share Option Scheme had been vested and exercised. For the principal terms and details of the outstanding share options (including the number of vested and unvested share options as of the Latest Practicable Date) under the 2013 Share Option Scheme, please refer to the paragraph headed “Appendix IV – Statutory and General Information – D. Equity Incentive Plans – 1. 2013 Share Option Scheme and – 4. Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans.”

2013 Share Award Scheme

Our Company adopted the 2013 Share Award Scheme on February 22, 2013, as amended on January 9, 2015, March 3, 2016, June 8, 2016, December 7, 2018 and November 6, 2019. The purpose of the 2013 Share Award Scheme is to provide incentives or rewards to selected employees for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any invested entity. As of the Latest Practicable Date, 110,954,461 share awards granted under the 2013 Share Award Scheme had been vested. For the principal terms and details of the outstanding share awards (which have not been vested as of the Latest Practicable Date) under the 2013 Share Award Scheme, please refer to the paragraph headed “Appendix IV – Statutory and General Information – D. Equity Incentive Plans – 2. 2013 Share Award Scheme and – 4. Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans.”

2021 Share Incentive Plan

Our Company adopted the 2021 Share Incentive Plan on November 15, 2021 and amended on [●], 2022. The purpose of the 2021 Share Incentive Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors, and consultants and to promote the success of the Company’s business. As of the Latest Practicable Date, no share option had been granted under the 2021 Share Incentive Plan and 5,373,487 restricted share units granted thereunder had been vested. For the principal terms and details of the outstanding restricted share units (which have not been vested as of the Latest Practicable Date) under the 2021 Share Incentive Plans, please refer to the paragraph headed “Appendix IV – Statutory and General Information – D. Equity Incentive Plans – 3. 2021 Share Incentive Plan and – 4. Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans.”

The Company will comply with Chapter 14A and other applicable rules of the Listing Rules for any share awards to be granted to connected persons under the Equity Incentive Plans after [REDACTED].

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

PRC REGULATORY REQUIREMENTS

SAFE registration in the PRC

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment, Financing and Round Trip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”), promulgated by SAFE on July 4, 2014, (i) a PRC resident must register with the local SAFE counterpart before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE counterpart for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Notice on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by SAFE on February 13, 2015 and effective on June 1, 2015, the power of foreign exchange registration was delegated from the local SAFE counterpart to qualified local banks where the domestic entity was incorporated.

As advised by our PRC Legal Adviser, Mr. Wang Yulin has completed the registration under the SAFE Circular 37 in December 2015.

[REDACTED]

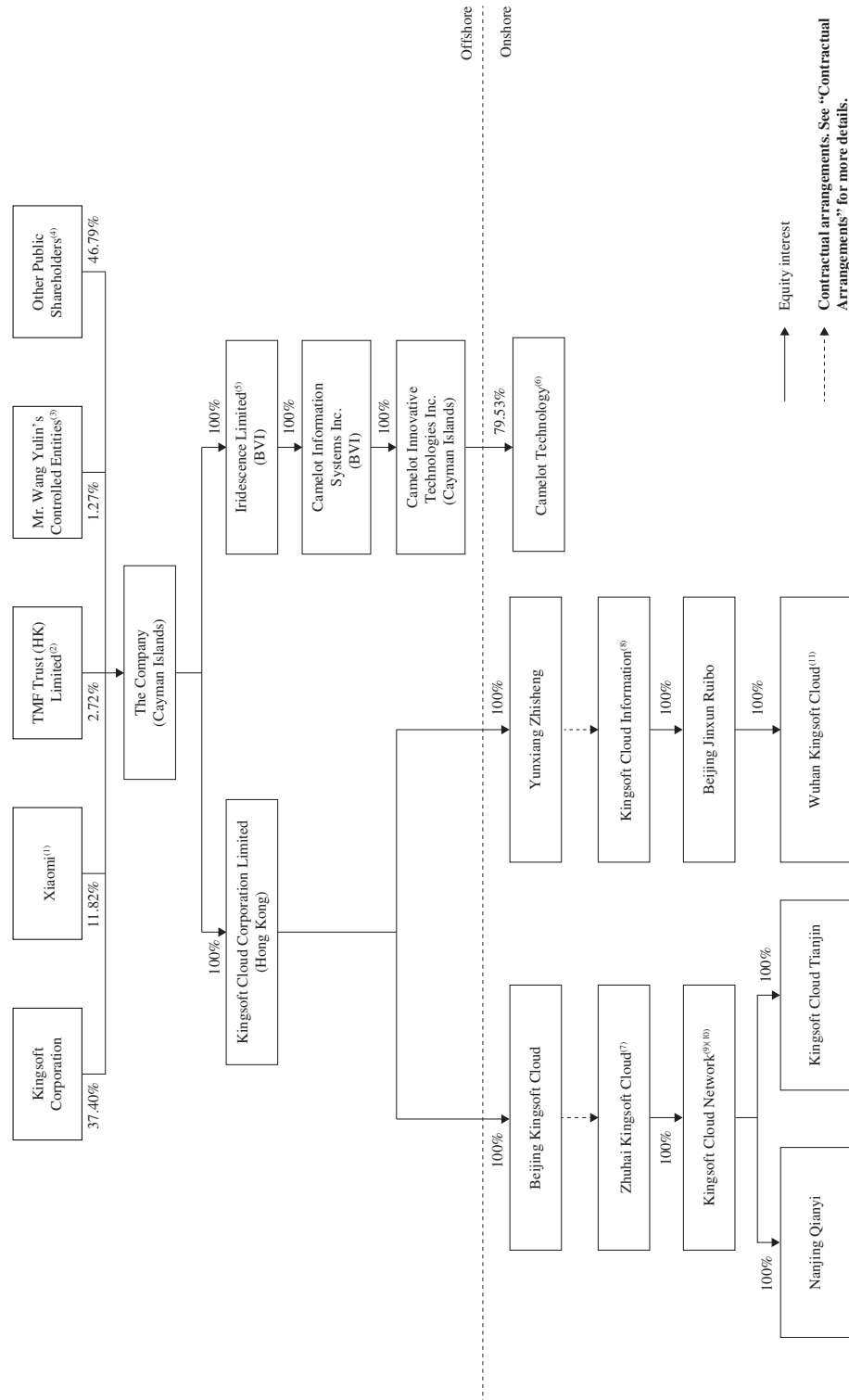
So far as our Directors are aware, upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares which may be further issued under the Equity Incentive Plans), the Shares held by Autogold Limited and River Jade Holdings Limited which are controlled by Mr. Wang Yulin, our core connected persons, the Shares held by Kingsoft Corporation and Xiaomi which are the substantial shareholders of our Company and the Shares or ADSs owned by the directors of our Company and subsidiaries, their respective spouses and entities controlled by them, will not be counted towards the [REDACTED].

So far as our Directors are aware, save as provided above and 103,501,929 Shares held by TMF Trust (HK) Limited as trustee for satisfying future exercise or vesting of share awards granted under the Equity Incentive Plans, the remaining Shareholders are not core connected persons and will collectively hold 2,250,822,863 Shares or approximately [REDACTED]% of the total number of issued shares of our Company, which will count towards the [REDACTED], upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares which may be further issued under the Equity Incentive Plans).

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY PRIOR TO THE [REDACTED]

The following diagram illustrates our simplified corporate and shareholding structure, showing our major subsidiaries and operating entities as at the Latest Practicable Date and immediately prior to the completion of the [REDACTED] (assuming there is no change in the shareholding of the public Shareholders from the Latest Practicable Date to immediately prior to the [REDACTED] and assuming no further Shares are issued under the Equity Incentive Plans):



HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

- (1) Xiaomi is controlled by Mr. Lei Jun, the chairman of our Board and our non-executive Director.
- (2) TMF Trust (HK) Limited, as trustee, holding 103,501,929 Shares underlying the share awards granted and to be granted under the Equity Incentive Plans, representing approximately 2.72% of the issued share capital of the Company as of the Latest Practicable Date. The voting rights with respect to these Shares were held by TMF Trust (HK) Limited, where it will exercise the respective voting rights in accordance with the instructions of the advisory committee of the Company as specified in the trust deed. Among the 103,501,929 Shares held by TMF Trust (HK) Limited, (i) 6,000,000 Shares are beneficially owned by Mr. Wang Yulin, underlying the share awards granted to and vested in him pursuant to the 2013 Share Award Scheme and (ii) 83,279,670 Shares have been transferred to Bank of New York Mellon in preparation for conversion into ADSs upon vesting of certain share awards granted under the Equity Incentive Plans.
- (3) Mr. Wang Yulin’s controlled entities include:
 - (a) River Jade Holdings Limited, a company incorporated under the laws of the BVI which is ultimately controlled by Mr. Wang Yulin, held 9,600,000 Shares, representing approximately 0.25% of the issued share capital of the Company as of the Latest Practicable Date; and
 - (b) Autogold Limited (“**Autogold**”) held 38,729,425 Shares, representing approximately 1.02% of the issued share capital of the Company as of the Latest Practicable Date. Autogold is a company incorporated under the laws of the BVI and wholly-owned by Prosper River Group Limited, which is ultimately controlled by The YTCM Trust. The YTCM Trust is a trust established under the laws of the Republic of Singapore and managed by Vistra Trust (Singapore) Pte. Limited as the trustee. Mr. Wang Yulin, our executive Director and Chief Executive Officer, is the settlor of The YTCM Trust, and Mr. Wang and his family members are the beneficiaries of The YTCM Trust.
- (4) Other Public Shareholders include:
 - (a) Celestial Power Limited, a company incorporated under the laws of BVI and one of the investors prior to our listing on the Nasdaq holding 43,153,502 Shares, representing approximately 1.13% of the issued share capital of the Company as of the Latest Practicable Date;
 - (b) CIIF, a limited partnership established under the laws of the PRC and one of the investors prior to our listing on the Nasdaq, holding 55,089,998 Shares, representing approximately 1.45% of the issued share capital of the Company as of the Latest Practicable Date;
 - (c) Mr. Ma and Ms. Chou, being founders of Camelot, holding 89,453,974 Shares and 73,034,892 Shares, representing approximately 2.35% and 1.92% of the issued share capital of the Company as of the Latest Practicable Date;
 - (d) the Non-founder shareholders of Camelot, holding 50,648,715 Shares, representing approximately 1.33% of the issued share capital of the Company as of the Latest Practicable Date; and
 - (e) the remaining public Shareholders who each holds less than 5% of the issued share capital of the Company as of the Latest Practicable Date.

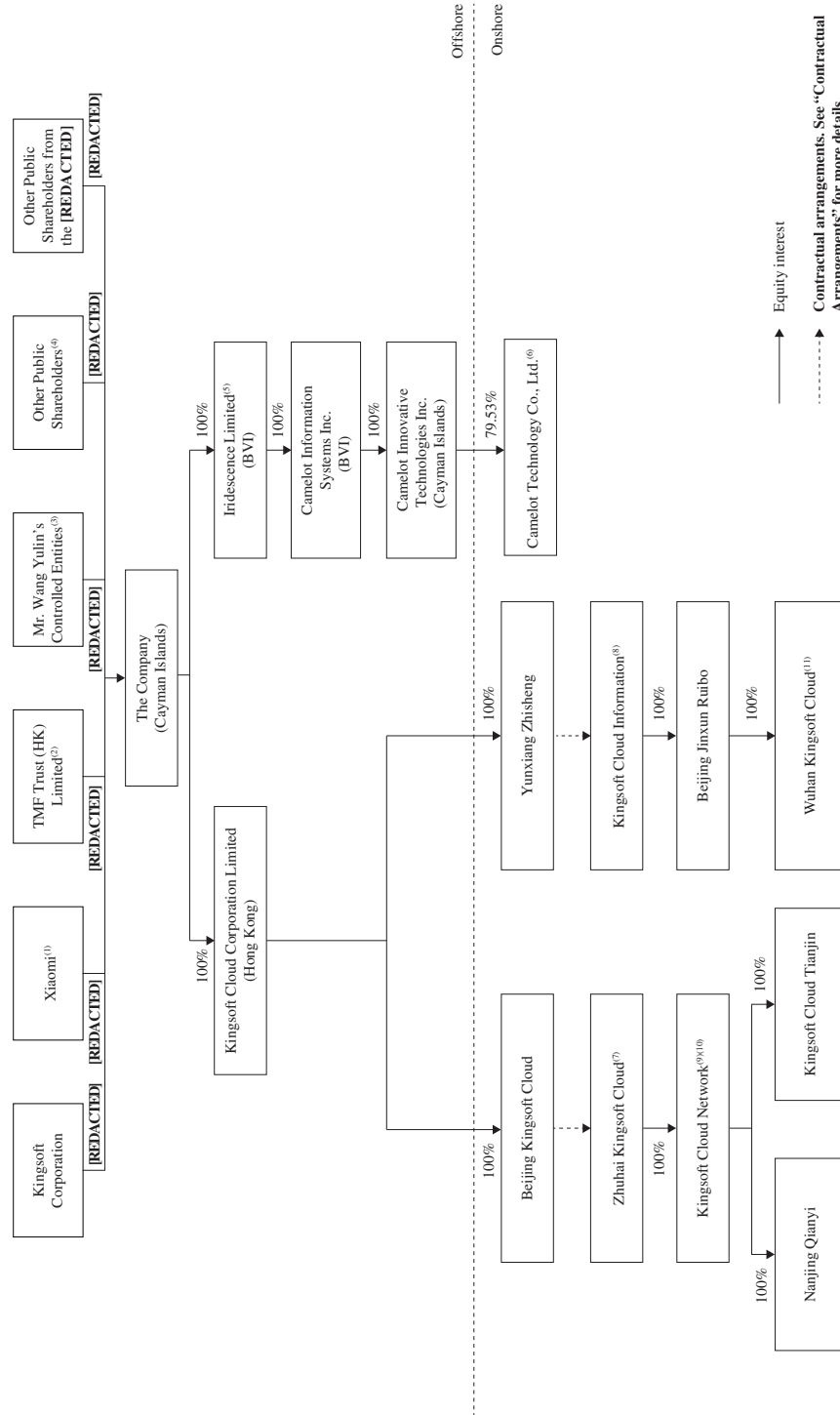
HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- (5) Pursuant to the Camelot Merger Agreement, after a series of mergers involving among others, Benefit Overseas and Dreams Power, Camelot has been merged with and into Iridescence Limited, a company incorporated under the BVI laws and wholly-owned by our Company.
- (6) The remaining approximately 20.47% of equity interest in Camelot Technology was held by three employees’ shareholding platforms and two other shareholders who are Independent Third Parties (apart from being the substantial shareholder of Camelot Technology).
- (7) Zhuhai Kingsoft Cloud is held as to 79.60% and 20.40% by Beijing Digital Entertainment and Ms. Qiu Weiqin as registered shareholders.
- (8) Kingsoft Cloud Information is held as to 80% and 20% by Ms. Qiu Weiqin and Mr. Wang Yulin, our executive Director and Chief Executive Officer, respectively, as registered shareholders.
- (9) Each of the following Project Entities (as defined in the section headed “Contractual Arrangements”), namely Rizhao Kingsoft Cloud Network Technology Co., Ltd.* (日照金山雲網絡技術有限公司), Kingsoft Cloud Network Technology (Jiangsu) Co., Ltd.* (金山雲網絡技術(江蘇)有限公司), Kingsoft Cloud (Qinyang) Data Information Technology Co., Ltd.* (金山雲(慶陽)數據信息科技(貴州)有限公司), Kingsoft Cloud Intelligent City Technology (Guizhou) Co., Ltd.* (金山雲智慧城市科技(貴州)有限公司) and Kingsoft Cloud Perception City Technology (Anhui) Co., Ltd.* (金山雲感知城市科技(安徽)有限公司), and its subsidiary, Changjiang Digital Technology (Anhui) Co., Ltd.* (長江數字科技(安徽)有限公司), is a subsidiary of Kingsoft Cloud Network.
- (10) Shanghai Jinxun Ruibo, being a Licensed Entity (as defined in the section headed “Contractual Arrangements”), is a subsidiary of Kingsoft Cloud Network.
- (11) Each of Chibi Kingsoft Cloud Network Technology Co., Ltd.* (赤壁金山雲網絡技術有限公司), being a Project Entity, and Kingsoft Cloud (Shenzhen) Edge Computing Technology Co., Ltd.* (金山雲(深圳)邊緣計算科技(深圳)有限公司) (formerly known as Shenzhen Yunfan Jiasu Technology Co., Ltd. (深圳市雲帆加速科技有限公司), being a Licensed Entity is a subsidiary of Wuhan Kingsoft Cloud.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED]

The following diagram illustrates our simplified corporate and shareholding structure, showing our major subsidiaries and operating entities immediately following the completion of the [REDACTED] (assuming there is no change in the shareholding of the public Shareholders from the Latest Practicable Date to immediately following the [REDACTED] and assuming the [REDACTED] is not exercised and no further Shares are issued under Equity Incentive Plans):



Notes (1)-(11): Please see notes (1)-(11) under the paragraph headed “– Our Structure Immediately Prior to the [REDACTED]” in this section.

BUSINESS

OUR MISSION

Our mission is to become customers’ trusted partner to embrace digitalization.

OVERVIEW

We are the largest independent cloud service provider in China in terms of revenue in 2021, according to Frost & Sullivan. We offer comprehensive, reliable and trusted cloud service to customers in strategically selected verticals. With extensive cloud infrastructure, cutting-edge cloud-native products based on our vigorous cloud technology R&D capabilities, well-architected industry-specific solutions and end-to-end fulfillment and deployment for customers, we achieved superior business and financial growth, with a revenue growth CAGR of 51.3% from 2019 to 2021, outpacing the broader industry growth CAGR of 36.4% for China’s cloud service market during the same period. We consistently ranked as the largest independent cloud service provider in China in terms of revenue in each of 2019, 2020 and 2021, according to Frost & Sullivan.

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

The global cloud service market has been going through strong and steady growth since 2014, and is expected to maintain such growth momentum. The size of cloud service market in the U.S. is expected to grow at a CAGR of 20.6% from 2021 to 2026, according to Frost & Sullivan. Since 2018, China has become the second largest cloud service market globally in terms of revenue, following the U.S., according to Frost & Sullivan. The Chinese market size increased from US\$12.7 billion in 2017 to US\$45.4 billion in 2021, representing a CAGR of 37.5%, and is expected to reach US\$145.8 billion in 2026, representing a CAGR of 26.3% from 2021 to 2026, according to Frost & Sullivan. In addition, China’s cloud service market is well positioned for further growth potential as indicated by, among others, (i) its overall lower cloud service penetration, (ii) the strong and steady growth of cloud service market globally, (iii) increasing penetration in traditional enterprises and public service organizations and (iv) increasing demand for end-to-end cloud solutions and services. The cloud service penetration rate in China was 9.7% in 2021, as compared to 22.1% in the U.S.. China is entering into a new phase of digitalization, with an increasing number of non-internet enterprises and organizations accelerating their digitalization, and adopting cloud-native technologies that were incubated in internet space. Many traditional, non-internet enterprises and organizations are not proficient with cloud stack and their existing IT architectures are not designed for the adoption of cloud solutions. As such, they are demanding for end-to-end cloud solution, starting from planning, to solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. We believe that we are well-positioned to capture the growth opportunities arising from these market trends.

BUSINESS

Upholding the principle of platform neutrality and our position as an independent cloud service provider since inception, we have become a trustworthy brand of cloud services within the community of enterprise customers. With our full commitment to cloud service, we are relentlessly mobilizing our resources to enable our customers to successfully embrace the benefits of cloud solutions, to pursue their digital transformation strategies, and to create business value.

We have established our market leadership by addressing customers’ comprehensive needs. We provide a full suite of cloud products combining unified IaaS infrastructure and PaaS middleware, and tailored business applications which support a wide range of use cases that enable our customers’ diverse business objectives. We also offer our solutions in a holistic approach by merging our cloud solutions with dedicated customer services. Our end-to-end customer services cover planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. The entire process is primarily executed by our in-house professionals, with strict adherence to high standards and full accountability.

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

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

Our revenue increased by 66.2% from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, and further increased by 37.8% to RMB9,060.8 million (US\$1,421.8 million) in 2021, and from RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US\$342.9 million) for the three months ended March 31, 2022.

BUSINESS

MARKET OPPORTUNITIES AND CHALLENGES

Market Opportunities

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

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

Internet Cloud Service Market

There is increasing penetration of internet and mobile devices in China. The massive data demand of the internet industry is one of the main drivers of China’s cloud service market. A wide spectrum of businesses is transforming themselves to offer internet-based services to their customers. In particular, new economies related industries such as video, gaming, and e-commerce have been growing significantly, driving the further demand for cloud resources. Internet cloud service market for these verticals continues to witness strong growth. According to Frost & Sullivan, the internet cloud service market in China is expected to grow at a CAGR of 19.4% from 2021 to 2026.

Non-internet Cloud Service Market

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

- Spanning across a wide range of traditional sectors such as financial services, healthcare, manufacturing, logistics, etc.
- Well established, with large-scale incumbent conventional on-premises IT environment
- Complex and diverse business scenarios involving issue around data silos
- Subject to increasingly stringent data security requirements

BUSINESS

With multi-faceted considerations, including regulatory requirements and legacy IT premises, customers from certain sectors tend to demand for dedicated solutions deployed in designated locations which they could physically control. With dedicated solutions, enterprises and organizations are able to bring benefits about public cloud to their own premises while mitigating restrictions and concerns they may face with moving infrastructure off proprietary premises. The size of China’s non-internet cloud service market increased from RMB61.0 billion in 2017 to RMB203.9 billion in 2021, representing a CAGR of 35.2%, and is expected to reach RMB687.2 billion in 2026, representing a CAGR of 27.5% from 2021 to 2026, according to Frost & Sullivan.

Pain Points Facing Enterprises and Organizations

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

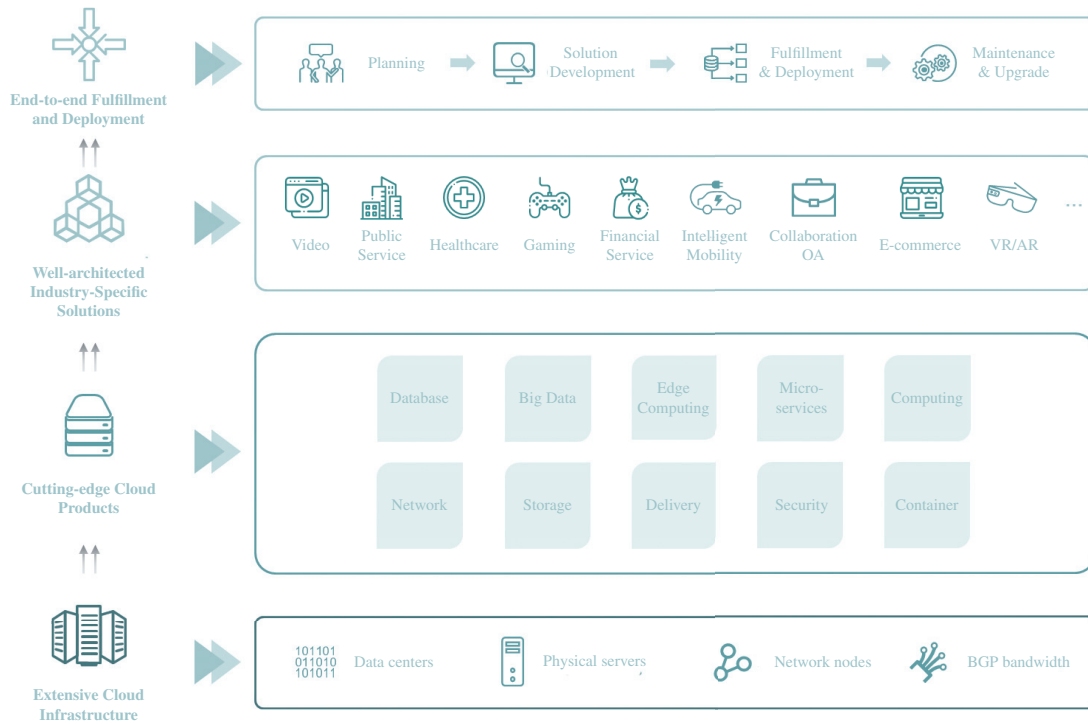
- **Large-scale business requires reliable cloud architecture.** Enterprises with large-scale business operations require massive cloud resources deployed in a highly-reliable architecture, with cloud technologies to support EB-level storage, high concurrency computing, and demands for database and big data capabilities.
- **Unaddressed demand for end-to-end cloud solution.** Many enterprises and organizations are not proficient with cloud stack and their existing IT architectures are not designed for the adoption of cloud solutions. As such, they are demanding for end-to-end cloud adoption solution, starting from planning, to solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. As they are generally seeking for dedicated solutions, which is to be deployed on their own premises, enterprises and organizations expect cloud vendors to provide localized deployment services to address all complexities on site.
- **Demand for purpose-built industry-specific solutions.** Many enterprises and organizations are pursuing digitalization, not only looking for flexible and scalable IT resources, but also next-generation cloud-native applications which help them capture the value of cloud technology. Enterprises and organizations desire for industry-specific solutions which are purpose-built for their business scenarios.
- **High requirement for continuous service and timely response.** Post the initial cloud project deployment, enterprises and organizations need to upgrade their systems periodically in response to evolving business environments. This leads to strong demand for continuous services and high requirements for cloud vendors to provide timely response and customized solutions.
- **Imminent demands for digitalization to provide online experience.** The proliferation of mobile devices and customers’ ever-growing expectation for online experience have driven non-internet enterprises and organizations to apply cloud technologies to accelerate digitalization, and to provide products and services via internet.

BUSINESS

OUR CLOUD PLATFORM

We are dedicated to providing high-quality cloud solutions to businesses and organizations across various sectors. We have built a comprehensive and reliable cloud platform consisting of extensive cloud infrastructure, cutting-edge cloud-native products, well-architected industry-specific solutions, and end-to-end services ranging from planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade.

The following chart illustrates our cloud platform:



BUSINESS

- ***Extensive cloud infrastructure.*** We have established industry-leading cloud infrastructure which is the foundation of our cloud platform. As of March 31, 2022, we had more than 110,000 servers, and achieved exabyte-level (which equals to 1,000,000,000 gigabytes) storage capacity.
- ***Cutting-edge cloud-native products.*** Our cloud is architected specifically for customers to run business in an elastic and distributed manner required in disruptive business models. We, as an early mover in serving internet customers, have cultivated proprietary cloud-native technology and have successfully commercialized our technology capabilities through a complete suite of superior products.
- ***Well-architected industry-specific solutions.*** Based on the variety of cloud products, we have designed various industry-specific solutions that can unleash the full potential of our infrastructure resources and add value to our customers. Leveraging our profound industry insights, we have strategically expanded our footprints into selected verticals as an early mover and have established a leading market position through relentless execution.
- ***End-to-end fulfillment and deployment.*** We serve our clients throughout the whole cloud adoption process. At project initiation, we provide planning services with in-depth industry know-how, setting the overarching route for cloud migration. We have customized procedures to help customer to smoothly migrate their mission-critical data and applications on to our cloud platform. With our in-house fulfillment and deployment professionals, we adhere to consistent high standards at every stage of cloud adoption and commit to quality deployment.

OUR COMPETITIVE STRENGTHS

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

Largest Independent Cloud Service Provider in China

Established leadership and business scale. We are the largest independent cloud service provider in China, according to Frost & Sullivan. Based on our comprehensive and reliable cloud platform consisting of extensive cloud infrastructure, cutting-edge cloud-native products, well-architected industry-specific solutions and end-to-end fulfillment and deployment services, we have achieved leading position in cloud service market in China. As of March 31, 2022, we had an extensive infrastructure network with more than 110,000 servers and achieved exabyte-level storage capacity. Anchored by our large-scale and extensive infrastructure, our cloud platform is able to deliver a consistent, instantly available, and superior product experience across regions and verticals.

BUSINESS

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

A brand of choice for neutrality and trust. With our full commitment to cloud service, we are relentlessly mobilizing our resources, to enable our customers to successfully embrace the benefits of cloud solutions, pursue their digital transformation strategies, and create business value. As businesses migrate to cloud environment, customers are increasingly concerned over data security and potential conflicts of interest with cloud service providers. Our position as an independent cloud service provider as well as our comprehensive product offerings, have altogether helped us establish trusted partnership with our customers who are seeking for dedicated solutions, amid increasing focus on data security and regulatory compliance. Moreover, multi-cloud strategy has become the industry norm, to ensure the consistency, reliability and security of cloud service, and data sovereignty at the backdrop of regulatory requirements. We are favorably positioned to gain trust from customers through our neutrality as an independent cloud service provider, and are increasingly seen as a brand of choice amidst the increasing penetration of multi-cloud deployment.

End-to-end Cloud Solution Provider

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

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

BUSINESS

To-B service DNA. We have inherited the “To-B service DNA” from Kingsoft Group’s over 30 years of experience in providing enterprise services, and are highly committed to serve and empower our business customers with cloud technologies. With our customer-centric service philosophy, we always prioritize the needs of our customers and strive to provide them with superior experience. We value every customer and provide best-in-class customer services across their entire life cycle. For each project, we provide dedicated services to customers with our in-depth industry insights. At project initiation, our specialized industry team analyzes deeply into customer business scenarios and designs tailored solutions. During the fulfillment and deployment process, we offer customers with seamless cloud migration services. After the deployment, we have regular client reviews to constantly improve our services. In particular, for our Premium Customers, we also have a dedicated technical support team on demand 24x7 to respond to customer inquiries within 90 seconds. We also promote joint efforts in systems development and upgrade with our Premium Customers, to help them continuously optimize their cloud architecture, which further enhance our customer engagement and stickiness.

Vertical Strategy with Proven Track Record

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

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

- **Video.** We started to offer video cloud solutions in 2016, right before the outburst of video streaming in China. Our video cloud product integrates cloud infrastructure such as storage and processing, and video applications such as encoding and high resolution, providing a holistic solution. We have further upgraded this to immersive video cloud solutions featuring ultra-high resolution and ultra-low latency, which was empowered by our industry-leading cloud rendering and real-time communication technology. We are among the first cloud companies offering cloud solutions to internet video companies in China. As of March 31, 2022, we have amassed a premium customer base including Bilibili and Zhihu.
- **Public service.** We provide cloud infrastructure which systematically connects mission-critical public service organizations, and provide architecture enabling data sharing on municipal level and empowering administrative efficiency while ensuring stringent security and privacy. For example, since 2015 we have been providing public cloud solutions to Beijing Public Service Cloud, one of the largest and earliest deployed public sector cloud platforms in China. Beijing Public Service Cloud provides reliable and secure cloud services to various public sector organizations in Beijing. We have been supporting an increasing number of organizations through their platform. As of the Latest Practicable Date, our solutions have supported over 50 public sector organizations in Beijing.

BUSINESS

- **Healthcare.** Our healthcare cloud solutions provide high-performance, reliable, secure resources and technologies, and a full portfolio of applications and services for the healthcare industry. Our cloud-based solution connects industry participants including various public service departments and healthcare institutions across national and regional levels, in order to facilitate digitalization and eliminate data silos. For example, we have successfully built a cloud-based healthcare information management system for a provincial digital health project in China related to the COVID-19 pandemic.
- **Gaming.** We started to offer game cloud solutions in 2014, when the mobile gaming market was set to take off. We have developed full-stack platform for gaming companies to incubate, test and operate their games in cloud environments. In 2020, we upgraded our solution for cloud gaming, allowing game developers to provide high-quality, unified and equipment-agnostic gaming experience to users, which is the first-of-its-kind industry solution, according to Frost & Sullivan. As of March 31, 2022, our customers included leading gaming companies in China such as Seasun Games, Giant Network, Well-Link, Hero Entertainment and Ourpalm.
- **Financial service.** We started to offer financial service cloud solutions in 2018 as we identified huge cloud demand from the financial service sector. We have pioneered the private deployment of public cloud solutions, which could effectively address the pain points faced by financial institutions amid the evolving regulatory requirements and digital transformation, and allow them to unlock the value of data assets. We have accumulated deep domain expertise and amassed a group of high quality customers in this sector. Our Data Lakehouse platform has been successfully deployed for a large state-owned bank in China. As of March 31, 2022, our customers include 18 out of the top 20 leading Chinese banks.

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

Relentless Customer-centric Product Development

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

BUSINESS

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

Proprietary technologies and strong R&D capabilities. We have developed a complete portfolio of products based on our proprietary technologies, which could be delivered to our customers as components of our industry solution and ensure they have effective control over those products and eliminate external technology dependencies. The execution of our research and development strategy is backed by our strong and expanding research and development talent pool and continuous investment in research and development. As of March 31, 2022, our research and development team consisted of 1,213 people, and solution development and services team consisted of 7,689 people, in aggregate accounting for 87.1% of our total employees.

Strong Customer Conversion Capabilities and Go-to-market Efficiencies

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

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

BUSINESS

Visionary Management Team and Strong Synergies with Our Strategic Shareholders

As one of the first-generation cloud companies in China, our visionary management team with entrepreneurial spirit has been leading us since our establishment, achieving rapid and continued growth of our business. Combining solid technology background with in-depth understanding of industry verticals, our management team is relentlessly pursuing innovative solutions to bring greater value to customers. Mr. Wang Yulin, our director and chief executive officer, has over 18 years of internet industry and management experiences.

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

OUR STRATEGIES

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

Strengthen Our Market Position in Strategically Selected Verticals

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

Enhance Our Presence in New Verticals and Grow Our Customer Base

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

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

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

Continue to Invest in Infrastructure and Technology

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

Capitalize on Scale Advantages and Improve Operational Efficiency

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

Enhance Our Collaborations with Business Partners

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

OUR PRODUCTS AND SOLUTIONS

Our Cloud Products

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

BUSINESS

Computing

Our cloud computing products provide on-demand high-performance computing resources, offering availability, agility, scalability and flexibility. In addition, we also offer other cloud products including cloud network, database, data warehouse, big data and security products.

Cloud Computing

Our cloud computing products primarily include:

- **Kingsoft Cloud Elastic Compute (“KEC”):** KEC provides flexible and scalable computing capacity, enabling developers to easily perform large scale computing and deployment in the required server environment. Cloud servers can be deployed at any time on-demand to improve operation and maintenance efficiency. Powered by our automatic scaling technology, users are able to automatically adjust the computing resources based on their business needs, thereby enhancing the efficiency of computing power consumption and reducing the total cost of usage. For users with strong demands for on-premise resource allocation, security and compliance, we also offer Kingsoft Cloud Dedicated Host (“KDH”) to provide an exclusive virtual resource pool.
- **Kingsoft Cloud Bare Metal Servers Elastic Physical Compute (“EPC”):** EPC provides exclusive physical servers with excellent performance and native cloud network function support. It helps users quickly build and expand application services with high performance requirements. Users can easily manage the EPC server’s network configuration, storage configuration and operating system interface.
- **Kingsoft Cloud GPU Elastic Physical Compute (“GEPC”):** GEPC provides accelerated computing based on GPUs. It can be used in scientific computing, deep learning, image rendering, and GPU-based audio and video codec scenarios to provide stable, fast and elastic computing services and convenient unified cloud server management services.
- **Kingsoft Cloud Edge Node Computing (“KENC”):** KENC is a distributed edge computing resource pool. It provides customers with edge virtual machines, edge dockers, network security groups, load balancing, virtual private cloud and other functions. It helps users reduce access delay, save costs, and enables integration of more industry-specific applications.
- **Kingsoft Cloud Container Engine (“KCE”):** KCE is developed and adapted based on the native Kubernetes to seamlessly integrate containers with other basic computing, storage and network resources, products and services we offer. It provides users with reliable and scalable container management services with high performance.

BUSINESS

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

Cloud Network

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

- **Server Load Balancing (“SLB”):** SLB is a network service that distributes traffic to multiple cloud servers within a computing cluster. Traffic distribution can quickly improve the external service capability of the application system. SLB hides the actual service port, enhances the security of the internal system and improves the availability of the application system by eliminating single point service failures.
- **Elastic IP (“EIP”):** EIP is an IP address associated with the user account, which can be bound to any cloud server, cloud physical host or load balancing of the user. With EIP, users can quickly re-map an address to another cloud server, cloud physical host or load balancing in their accounts to shield instance failures.
- **Virtual Private Cloud (“VPC”):** VPC helps users build a customized, logically isolated and proprietary network. Users can use a dedicated connection or VPN connection to build a hybrid cloud network with VPC and their existing data centers. All cloud resources can be connected to a VPC network, which also allows users to establish and manage security policies and network access control policies. We also provide peering service to connect two VPCs for data synchronization, enable users to reside multiple VPCs across different regions.
- **Cloud Enterprise Network:** Cloud Enterprise Network enable customers to establish connections between different VPC networks, and between VPC networks and local data centers. Cloud Enterprise Network features fast, high-quality and secured transmission, helping customers build an enterprise-level network.

BUSINESS

Cloud Database

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

- **Kingsoft Cloud Relational Database Service (“KRDS”):** KRDS is a stable, reliable and flexible online relational database that can be used at any time. It has multiple security protection features and an optimized performance monitoring system, and provides database backup, recovery and optimization features. We offer various versions of KRDS at users’ choice based on the type of their servers.
- **Kingsoft Cloud NoSQL Database:** In addition to relational databases, we also offer NoSQL databases, which are non-tabular databases built for specific non-relational data models and have flexible schemas for building modern applications. Based on the types of data, we offer high-performance, stable and reliable NoSQL database for Redis for key-value storage, NoSQL database for MongoDB for document storage, and NoSQL database for InfluxDB for time series data.
- **DragonBase:** We provide distributed database DragonBase for enterprises and organizations. Featuring distributed deployment, high availability, smooth up-scaling, and enterprise-level security, DragonBase focuses on solutions to address customer’s needs on massive data storage and high-concurrency operation and it also provides supportive systems and facilitate automated performance monitoring, operation, maintenance and security audit. Our DragonBase were identified as one of the industry leaders in 2021 by Frost & Sullivan.

Data Warehouse

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

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Big Data

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

- Kingsoft Cloud MapReduce (“KMR”): KMR is a cloud big data platform allowing users to process vast amounts of data quickly and cost-effectively at scale. KMR gives users the engine and elasticity to run large-scale analysis at a fraction of the cost of traditional on-premise clusters.
- Kingsoft Cloud DataCloud (“DataCloud”): Based on a cutting-edge data processing framework, DataCloud provides one-stop cloud-based data services, including data consolidation, integration, processing, management and analysis. DataCloud can be deployed on-premise to enhance control and security. With the help of DataCloud, through advanced data lake architectures, users can manage and process ultra-large-scale structured and unstructured data, build data-lake architecture, and create middleware data platform for enterprise data. It empowers users with full lifecycle data management capability.
- Kingsoft Cloud Elasticsearch Service (“KES”): KES is a cloud-based, fully managed service based on the open source search engine, Elasticsearch. It integrates Kibana, a data visualization dashboard software, and common plug-ins to provide near-real-time storage, search, and analysis features that allow user to manage ultra-large datasets in a visualized, real-time and efficient manner.

Cloud Security

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

- Kingsoft Cloud Advanced Defense (“KAD”): KAD is a managed Distributed Denial of Service (DDoS) protection service that safeguards our users’ applications running on our cloud from attack.
- Kingsoft Cloud Host Security (“KHS”): KHS ensures all-round host security for cloud server and EPC, and is able to quickly identify security problems, monitor security status and comply with security requirements.

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

Cloud Storage

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

- Kingsoft Cloud Standard Storage Service (“KS3”): KS3 is a massive, low-cost, secure and highly reliable distributed cloud storage product to address users’ pain points such as storage expansion, data security and distributed access. KS3 offers exabyte-level storage with high queries per second per single bucket. Users can conveniently store and retrieve various data files such as pictures, audio, video and text.
- Elastic Block Storage (“EBS”): EBS is a block-level data storage service provided for cloud server instances that can be connected to any running KEC instance in the same data center. EBS features high availability, reliability, flexibility and ease of use. It also supports advanced features such as snapshots and mirroring.
- Kingsoft Cloud File Storage (“KFS”): KFS is a file storage service for KEC, EPC and container services. With standard file access protocols, users do not need to modify existing applications. KFS offers users a distributed file system with unlimited capacity, performance scaling, single namespace, multi-party sharing, high reliability and availability.
- Kingsoft Cloud Archive Storage (“KArchive”): KArchive provides offline storage services that are cost-effective, reliable, and easy to manage. It applies to long-term archive and redundancy backup of a large amount of data.
- KingStorage: KingStorage series are enterprise-level hybrid cloud storage products that include distributed blocks, files and objects cloud storage resources. They provide cloud native benefits and address customers’ demands for massive data storage, while ensuring high reliability and seamless compatibility with customers’ original IT infrastructure.

Cloud Delivery

Our cloud delivery products have evolved from a simple acceleration tool for one-way static content to a complex application and streaming delivery carrier, enabling our customers to deliver an interactive and immersive user experience. Our comprehensive end-to-end cloud delivery solutions allow users to build their applications on our cloud platform and utilize

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additional value-added services offered by us, such as large-scale storage, streaming encode and decode, and high definition video solutions, to further enhance their business operations. Our large-scale, high-concurrency, low-latency, secure and reliable cloud delivery services help our users enhance their users’ experience.

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

- **Kingsoft Cloud Live-video Service (“KLS”):** KLS is a network system based on Kingsoft Cloud’s comprehensive IaaS infrastructure. Through industry-leading video-encoding technology and powerful distribution capacities, KLS provides low-latency, high-concurrency, and stable live streaming services. KLS supports live streaming upload and download acceleration, as well as real-time transcoding, recording, watermarking, screenshots, second-level streams status management, delayed playback and many other value-added functions and applications. Meanwhile, KLS can be seamlessly integrated with the PaaS platform of Kingsoft Cloud Video Cloud, and it features fast access, multi-terminal adaptation, multi-protocol support, and easy-to-use.
- **Kingsoft Cloud Media Transcoder** is a distributed system for multi-media processing service. Based on the deep learning of massive multimedia data, Kingsoft Cloud Media Transcoder establishes a scientific video quality evaluation system, combined with powerful encoding/decoding technology, to provide fast, intelligent and stable media processing service.
- **Kingsoft Cloud Edge Computing Network (“KECN”):** KECN is a distributed edge computing network that supports edge computing scenarios such as edge bandwidth, AI inference, image rendering, gaming and IoT. We have established an end node network covering most regions and operators in China and ensuring high-speed and low-latency for customers.
- **Kingsoft Cloud Delivery Network (“KCDN”):** KCDN is a distributed network consisting of server clusters of edge nodes covering different regions, which distributes user content to edge nodes, effectively resolves the congestion of an internet network, and improves the response speed of users to visit the websites and the availability of the websites.

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- Kingsoft Cloud Image Enhancement (“KIE”): KIE is an intelligent image enhancement product, which is able to recover and enhance image details by deep learning algorithms. It can also enhance resolution and output high-quality images.
- Kingsoft Cloud Smart High Definition (“KSHD”): KSHD integrates various computer vision and video coding technologies to substantially improve the quality of experience. It uses deep-learning-based denoise and enhance algorithms to reduce compression artifacts as well as enhance details. Meanwhile, KSHD is capable of analyzing video by way of classification and quality assessment, so as to improve the coding efficiency of video codec.

Galaxy Stack

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

The key value we bring includes:

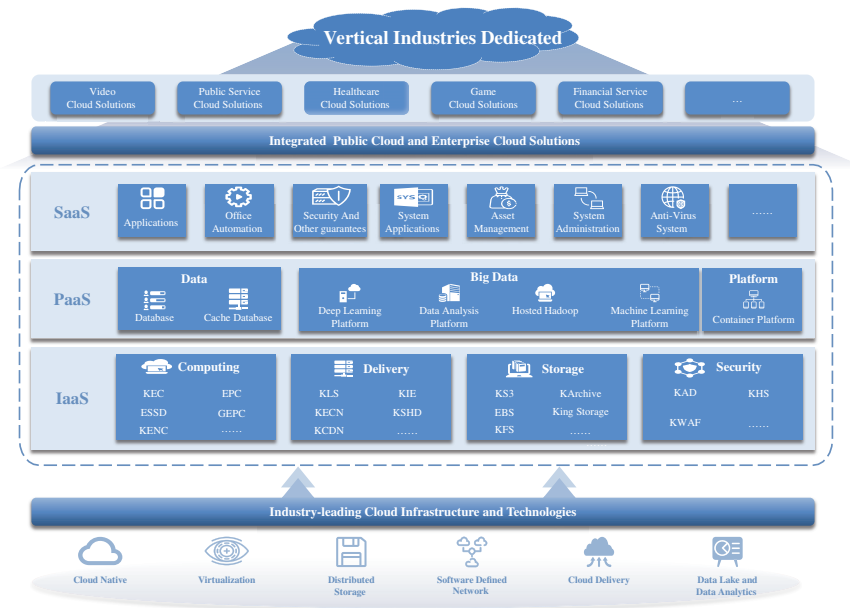
- Scalability at large scale: Galaxy Stack enables large-scale physical node deployment, massive tenant management and customer service capabilities, which strongly support customers’ massive business operations. Customers can easily adjust the physical node deployment based on their real-time demands.
- Security: Privatized deployment meets the requirements of enterprises and organizations for high-grade information security protection, data security and business continuity.
- Autonomous control: Galaxy Stack supports customers’ autonomous control operation and maintenance.

Industry-Specific Solutions

We have designed various industry-specific solutions that can unleash the full potential of our infrastructure resources and add value to our customers. Leveraging our profound industry insights, we have strategically expanded our footprints into selected verticals as an early mover and have established a leading market position through relentless execution. As we continuously serve vertical leaders, our products and solutions continue to iterate and pivot based on customers’ feedback. By partnering with vertical leaders, we have accumulated proprietary industry know-how and formed in-depth view of each selected vertical, which enables us to stay forefront of industry-specific cloud solutions. We have designed industry-specific solutions covering a wide spectrum of industry verticals, including video, public service, healthcare, gaming and financial service, among others.

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The following diagram illustrates details of our solutions:



Video Cloud Solutions

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

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

The key value we bring includes:

- High speed: Our video cloud solutions provide a quick and uninterrupted video streaming and archiving experience.
- Stability: Our video cloud solutions offer high stability and ensure performance. The distributed network eliminates incidents and disruptions, which can effectively lower packet loss rate.

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- Security: Our video cloud solutions are able to maximize data security by configuring authentication settings for content.
- High definition: Our video cloud solutions provide optimized encoding and decoding solutions that allow 4K-8K ultra high definition video transmission through the internet.

Public Service Cloud Solution

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

The key value we bring includes:

- Digitalization: Public service organizations are able to connect data across multiple departments, improve work efficiency and enhance security, which ultimately realize digital transformation.
- Reliability: The cloud platform adopts high-availability technology and security protection system, which can guarantee the stable and uninterrupted operation of the platform.
- Comprehensiveness: We can provide a series of services from the construction of underlying cloud data center, big data management, big data analytics, etc., which meets the public service organizations’ requirements for critical aspects of cloud platform product functions.

Case study

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

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Healthcare Cloud Solutions

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

The key value we bring includes:

- **Digitalization:** Leveraging our comprehensive Picture Archiving & Communication System (“PACS”), we provide solutions of medical image storage, sharing, management, quality control, and related applications. We help healthcare institutions develop a complete medical image ecosystem by leveraging unified data resources, data processing and computing to support unified system construction, deployment, and service solutions. We help healthcare institutions and hospitals improve radiology workflow, better manage the storage of images, and realize healthcare interoperability.
- **Intelligent and collaborative operation:** We help customers build regional healthcare platforms with unified cloud infrastructure, cloud-native technology for the middle office, big data platforms and medical resource systems. We provide DataOps capability to help the healthcare industry solve data silos, improve collaboration and the automation of data flow, and enhance collaborative synergies among regional healthcare systems.
- **Low cost construction and on-demand use:** All the application systems are based on the cloud computing architecture and can be used as needed without heavy assets investment.
- **Improving private medical service capability:** The solution represents a cloud upgrade for grassroots information system to provide private medical services and enhance functions such as intelligent assistance and remote medical service, which significantly improves private medical service capability.
- **Implementation of hierarchical diagnosis and treatment system:** The solution breaks the information barrier between superior and subordinate medical institutions in the same region, which realizes information interaction and data sharing.

BUSINESS

Case study

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

Game Cloud Solutions

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

Our game cloud solutions primarily consist of three categories, namely architecture solutions, management solutions and operation solutions. Architecture solutions focus on addressing the users’ needs for computing and storage capabilities. Based on the features of different game genres, we offer customized architecture solutions, such as cloud migration solutions. Management solutions help game companies to efficiently manage the games, covering game updates, maintenance and security. Operation solutions help users to operate and promote games and deliver better experiences to gamers. As of March 31, 2022, we have provided game cloud solutions to leading game companies in China such as Seasun Games, Giant Network, Well-Link, Hero Entertainment and Ourpalm.

BUSINESS

The key value we bring includes:

- **High concurrency:** Our game cloud solutions can effectively reduce the system requirements and pressure for game servers through large-scale and simultaneous cloud computation, which in turn allows for a large number of concurrent players.
- **Low latency:** Developed upon our extensive network infrastructure across the world at large scale, we are able to satisfy game companies’ demands for low latency and enable them to deliver high-speed game experiences.
- **Security:** Our game cloud solutions offer various security protections against isolated incidents and security failures to ensure player experience is not affected and to maintain high-availability at all times.
- **Failure recovery:** By integrating high-quality EBS, Elastic IP and SLB products, our game cloud solutions enable game companies to easily recover from failures in application or underlying layers within seconds.
- **Disaster recovery:** Our game cloud solutions provide multipath BGP and cross-region elastic deployment, eliminating operation risks from failures in any single data center.

Case study

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

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Financial Service Cloud Solutions

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

- **Digital transformation:** Our customized financial service architecture solutions, by providing high-performance cloud computing service at lower costs, enable financial institutions to achieve digital transformation and migrate to cloud.
- **Cloud native benefits:** Our financial service cloud native solutions enable financial institutions to enjoy various benefits brought by cloud technologies, including high security, reliability, availability and flexibility.
- **Business innovation:** Our intelligent financial service solutions equip financial institutions with big data analytics capabilities, enabling them to easily and efficiently realize business innovations.

Case study

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

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Other Solutions

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

Case study

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

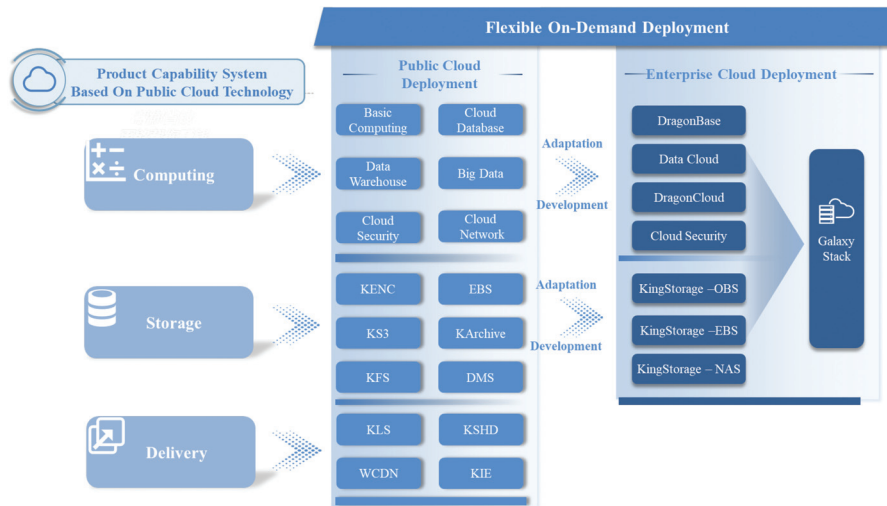
Case study

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

Revenue Model

Our cloud products and solutions can be deployed as (i) public cloud services, and (ii) enterprise cloud services. Our cloud solutions, both public cloud services and enterprise cloud services, are developed based on the same suite of underlying public cloud technology capabilities covering computing, storage and delivery. At the choice of customers, we offer different deployment methods to cater to their business needs. Our modularized public cloud products are purpose-built to be integrated with industry-specific cloud solutions. We also offer enterprise cloud deployment of our cloud products and solutions, primarily operated on-premise and dedicated to customers. The following diagram illustrates the deployment of our public cloud and enterprise cloud services.

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The following table illustrates details of our cloud services:

Category	Underlying Technology	Revenue Model	Deployment	Key Benefits to Customers
Public cloud services	Both public cloud services and enterprise cloud services, are developed based on the same suite of underlying public cloud technology capabilities.	Subscriptions – based on utilization and duration.	Operated on off-premise infrastructure and can be delivered over the internet. Underlying infrastructure can be shared by any customer.	<ul style="list-style-type: none"> • Low cost of ownership and maintenance cost • On-demand scalability • High reliability
Enterprise cloud services		Project-based on performance completion.	Operated on on-premise infrastructure. Underlying infrastructure is dedicated to specific customers.	<ul style="list-style-type: none"> • High control over security and privacy • Compliance with regulatory standards • Customizable to cater specific business needs

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

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

For public cloud services, we generally charge customers based on utilization and duration and offer these customers credit terms. We also offer prepaid subscription packages over a fixed subscription period. For enterprise cloud services, we generally charge customers on a project basis based on performance completion, payment terms of which can range from one to six months, and can vary substantially from customer to customer. We also provide multi-phase project arrangements to meet the demands of our enterprise cloud customers to improve their business digitalization progressively. Under our enterprise cloud services, we also provide digital services to enterprise customers through Camelot, which we acquired in September 2021. In accordance with applicable accounting policies, the Group only has one operating segment as the chief operating decision maker of the Group, who has been identified as the Chief Executive Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole. For details, see Note 2 to the Accountants’ Report included in Appendix IA and Note 2 to the unaudited interim condensed consolidated financial information included in Appendix IB.

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

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

Note:

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

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

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>											
Public cloud services												
Computing	1,017,515	25.8	1,586,890	24.2	2,103,956	23.6	450,597	26.6	654,606	30.2		
Storage	298,314	7.6	285,061	4.3	268,999	3.0	66,977	3.0	65,328	3.0		
Delivery	2,137,355	54.2	3,318,413	50.5	3,845,696	43.1	876,027	51.7	699,453	32.2		
Enterprise cloud services	489,713	12.4	1,378,811	21.0	2,710,165	30.4	301,317	17.8	751,424	34.6		
Total Gross Billings	3,942,897	100.0	6,569,175	100.0	8,928,816	100.0	1,694,918	100.0	2,170,811	100.0		

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

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BUSINESS SUSTAINABILITY AND PATH TO PROFITABILITY

Overview

We achieved sustained business development but were loss-making during the Track Record Period. In 2019, 2020 and 2021, and the three months ended March 31, 2022, we incurred net loss of RMB1,111.2 million, RMB962.2 million, RMB1,591.8 million (US\$249.8 million), and RMB554.8 million (US\$87.5 million) respectively.

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

- **continue to drive business development and optimize our service mix** with an increasing focus on enterprise cloud services, where we see favorable market trends and sustainable growth potential. Our revenue grew at a CAGR of 51.3% from 2019 to 2021, ranking second among major leading cloud service providers in China. Our revenue generated from enterprise cloud services amounted to an increasing portion of our total revenues during the Track Record Period, being 12.3% in 2019, 20.9% in 2020, 32.0% in 2021, and 36.5% in the three months ended March 31, 2022;
- **effectively manage costs** by optimizing modularized products, re-utilizing proven solution components, and better aligning infrastructure resources with our strategic business focuses, which allow us to deliver solutions and services in a more efficient manner. We have significantly improved gross profit, achieving gross profit breakeven in 2019, and achieved gross profit margin of 3.9% in 2021; and
- **improve operational efficiency**, as we continue to scale our business as an established player in the cloud service market, the major components of our operating expenses, namely staff expenses, generally do not increase proportionately with our revenue growth. We have been dedicated to enhancing our ability to manage and control our operating expenses. Our operating expenses as a percentage of total revenue was 29.1%, 23.8% and 23.9% in 2019, 2020 and 2021, respectively, and we expect that such percentage will continue to decrease in the long term.

Industry Background and Our Profitability Potential

The global cloud service market was pioneered by the U.S. approximately a decade ago. As U.S. experience indicates, (i) cloud service is a proven business model with long and strong growth path, as well as high margin potential; and (ii) cloud business requires significant

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upfront capital investment, and typically takes many years before turning profitable and further achieving high margins. The Chinese cloud service market, although grew explosively and became the second largest cloud service market following the U.S. in 2018, still has significant potential in terms of overall penetration, maturity, and profitability, as it continues to evolve and develop.

As the largest independent cloud service provider in China, we are uniquely positioned to benefit from such market potential. We have a proven track record of our steady progress on path to profitability and sustainability:

- **Leadership position:** We have developed into a leading player in China’s cloud service market, and have consistently ranked as the largest independent cloud service provider in China from 2019 to 2021;
- **Growth at scale:** Our growth has consistently outpaced the market. From 2019 to 2021, our growth rates for each of total revenues, public cloud services revenue, as well as enterprise cloud services revenue were higher than the growth rates in the corresponding markets in China during the same period; our revenue grew at a CAGR of 51.3% from 2019 to 2021, ranking second among major leading cloud service providers in China;
- **Profitability:** We have significantly improved profitability, achieving gross profit breakeven in 2019, which further increased to 3.9% in 2021. Our operating loss margin narrowed from 28.9% in 2019 to 20.0% in 2021, and net loss margin narrowed from 28.1% in 2019 to 17.6% in 2021; and
- **Liquidity:** We have consistently and successfully secured various forms of financing from capital markets, including financial institutions and third-party investors, prudently managed cash flows and maintained strong cash position, proactively optimized business mix for corporate resilience, and prudently and decisively invested in infrastructure and technology for the long run. As of May 31, 2022, we had a total of RMB5,431.3 million cash resources (that include cash and cash equivalents and short-term investments).

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

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Business Sustainability and Path to Profitability

Continue to Drive Business Development

We intend to continue to drive development through high-quality growth, which will enable us to maintain our leading position in the market, develop sustainably, and ultimately achieve profitability.

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

We have amassed a large, growing and loyal premium customer base. In 2019, 2020 and 2021, we had a total of 243, 322 and 597 Premium Customers, and our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively. We plan to continue to execute our premium customer strategy to cover and anchor vertical leaders, expand our premium customer base through further penetration in selected verticals and entering into new verticals, such as intelligent mobility, explore additional cross-selling and up-selling monetization opportunities to help us scale up our revenues, and further optimize and develop our products and solutions to meet their demands.

Continue to Optimize Service Mix

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

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

Our effort to optimize service mix is evidenced by the rapid growth of our enterprise cloud services. Revenue generated from enterprise cloud services amounted to an increasing portion of our total revenues during the Track Record Period, being 12.3% in 2019, 20.9% in 2020, 32.0% in 2021 and 36.5% in the three months ended March 31, 2022. Going forward, we plan to continue to leaning our focuses and resources on such strategic optimization of service mix.

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Effectively Managing and Optimizing Costs

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

Our public cloud service requires upfront procurement of infrastructure resources based on forecasted customer demand. In this regard, we expect to enhance cost efficiency to better match our procurement with market demands through effective infrastructure resource planning, robust market analysis, and flexible procurement arrangement.

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

We have a proven record in effective cost control. We have significantly improved gross profit, achieving gross profit breakeven in 2019, and achieved gross profit margin of 3.9% in 2021. Our IDC costs, the largest component of our cost of revenues, as a percentage of our revenues decreased from 72.2% in 2019 to 61.7% in 2020, and further to 56.3% in 2021 and 51.1% in the three months ended March 31, 2022. We expect such trends will generally continue as we scale up.

Improving Operational Efficiency

Operating expenses management and control is important for us to achieve profitability. Thus we intend to further enhance our ability to manage and control our operating expenses.

Our operating expenses consist of research and development expenses, selling and marketing expenses and general and administrative expenses. We intend to efficiently align such expenses with our business strategic priorities. In addition, the major component of our operating expenses, namely staff expenses, generally does not increase proportionately with our revenue growth.

Our operating expenses as a percentage of total revenue was 29.1%, 23.8%, 23.9% and 28.2% in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. As a result of our continuous business expansion, we expect our operating expenses to increase in absolute amount but decrease as a percentage of total revenue in the long term.

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Working Capital Sufficiency

We have been applying a variety of methods to manage our working capital. We usually grant a credit term ranging from 30 to 180 days to our customers. We maintain strict control over our outstanding receivables and our overdue balances are regularly reviewed by our senior management. Meanwhile, we manage and negotiate flexible credit terms with our suppliers to improve our cash position. For most of our suppliers, the credit terms offered to us range from 30 days to 180 days. For details, see “Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets – Accounts Receivable, net of allowance” and “Financial Information – Discussion of Selected Items from the Consolidated Balance Sheets – Accounts Payable.” We expect that our working capital management will be further improved considering that (i) as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms, and (ii) as we build trust with our customers and gain more bargaining power as our business develops, we are able to negotiate for shorter credit terms with our customers.

We also proactively review and adjust our cash management policy and working capital needs according to general economic conditions and our near term business plans. Taking into account (i) the financial resources available to us, including a total of RMB5,431.3 million cash resources as of May 31, 2022 (that include cash and cash equivalents and short-term investments), (ii) the portion of the estimated [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) currently available financing facilities of RMB333.1 million as of May 31, 2022, and our ability to obtain additional financing facilities from both banks and strategic shareholders, and (iv) our plans to continue to enhance our financial performance as discussed above, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

OUR INFRASTRUCTURE AND TECHNOLOGIES

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

Infrastructure

Our distributed infrastructure is the foundation of our technology. As of March 31, 2022, we operated two data centers and more than 110,000 servers primarily throughout China, and achieved exabyte-level storage capacity. We have been investing significantly in our infrastructure to upgrade our computing power and storage capabilities, in order to deliver higher-quality cloud service and enhance the economies of scale. We purchase servers, network equipment and network resources, and lease data centers from industry-leading suppliers to ensure the reliability and availability of our network infrastructure. Our suppliers primarily include IDC operators, telecommunication operators and server providers in China.

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Cloud Technologies

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

Cloud Native

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

Virtualization

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

Distributed Storage

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

Software Defined Network

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

Cloud Delivery

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

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Data Lake and Data Analytics

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

RESEARCH AND DEVELOPMENT

Our vision and focus on innovation have fueled our growth and enabled us to deliver our products and services. We allocate a substantial portion of our operating expenses to research and development, including upgrading our infrastructure, improving our cloud technology and developing new products and solutions. We incurred RMB595.2 million, RMB775.1 million, RMB1,043.8 million (US\$163.8 million) and RMB246.6 million (US\$38.9 million) of research and development expenses in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

Our leadership in technology is built by our highly innovative and dedicated research and development staff. We focus on building and maintaining a large pool of talented researchers to drive our research and development efforts. We provide rigorous training to new recruits to familiarize them with our platform and thereby closely integrate them into our research and development staff. We had a team of approximately 1,213 engineers, researchers, programmers and computer and data scientists as of March 31, 2022. We encourage different points of view to lead us to find inspiration and improve our products and solutions.

The development of our cloud products and solutions is underpinned by our strong R&D capabilities. Our continuous investments in research and development activities result in a wealth of intellectual properties. As of March 31, 2022, we have registered 474 patents, 620 trademarks, 372 copyrights, and 129 domain names in China and overseas.

In addition, we aim to increase our research and development efforts to strengthen our technology capabilities and continue to invest in cutting-edge technologies such as edge computing, container and data lake. We also aim to further expand our talent pool of top-notch engineering specialists as well as industry vertical experts.

DATA PRIVACY AND SECURITY

Data security and privacy are our highest priority. To this end, we constantly enhance our data system resilience, protect user privacy, and show transparency on how we manage it. We aim to deliver high-quality cloud services with careful data and information protection, and we are in relentless pursuit of security-driven innovations to provide effective solutions. We value transparency in our data management practices and have issued the Privacy Policy, the Kingsoft Cloud Security White Paper, and the Cookies Policy on our official website to clarify the way we collect, store, use, share and delete personal information in relation to Kingsoft Cloud products, services, websites, and other application scenarios. We have designed strict

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data protection policies to ensure that the collection, consolidation, use, storage, transmission and dissemination of such data are in compliance with applicable laws and with prevalent industry practice in all material respects. We also established a Security and Privacy Committee, comprised of members from various departments, including data security, privacy compliance, internal control and audit, and supervision, to ensure compliance with applicable laws and regulations in all material respects and to ensure that we meet the expectations of our customers.

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

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

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

During the Track Record Period and up to the Latest Practicable Date, we have not received any claim from any third party against us on the ground of infringement of such party’s right to data protection as provided by applicable PRC laws and regulations or any

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applicable laws and regulations in other jurisdictions and we have not been subject to any government investigation, inquiry, action or penalty in such respects, or experienced any material data loss or breach incidents.

SALES AND MARKETING

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

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

On the other hand, our in-house sales department works closely with the sales partners and leverages their understanding of end user demands, thereby developing tailored marketing strategies.

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

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

CUSTOMERS AND CUSTOMER SUPPORT

Customers

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

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We strategically focus on cooperating with industry leaders to complete lighthouse projects to demonstrate our technological capabilities and the advantages of our cloud products and solutions. As a result, we have generated a substantial portion of our revenues from large customers. Our total revenues generated from Premium Customers contributed 97.4%, 98.1% and 97.8% of our total revenues in 2019, 2020 and 2021, respectively.

We have generated a highly loyal customer base. Our platform offers a wide spectrum of cloud products and we focus on capturing cross-selling opportunities. In 2019, 2020 and 2021, our net dollar retention rate of Public Cloud Service Premium Customers was 155%, 146% and 114%, respectively.

We have been diversifying our customer base through further penetration in selected verticals and entering into new verticals. Our top five customers in aggregate accounted for 65.7%, 61.5%, 50.5% and 48.2% of our total revenues in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our largest customer in each year during the Track Record Period accounted for proximately 30.9%, 28.1%, 21.9% and 17.9% of our total revenue for 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

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

Five Largest Customers for the Year Ended December 31, 2019	Background	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Revenue
Customer A	An Internet company	Public cloud services	2016	1,222,723	30.9%
Xiaomi	An Internet company	Public cloud services	2012	570,551	14.4%
Customer B	An Internet company	Public cloud services	2015	461,927	11.7%
Customer C	An Internet company	Public cloud services	2017	234,755	5.9%
Kingsoft Group	A software technology company	Public cloud services	2014	109,177	2.8%

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Five Largest Customers for the Year Ended December 31, 2020	Background	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Revenue
Customer A	An Internet company	Public cloud services	2016	1,851,315	28.1%
Customer B	An Internet company	Public cloud services	2015	987,773	15.0%
Xiaomi	An Internet company	Public cloud services	2012	655,247	10.0%
Customer C	An Internet company	Public cloud services	2017	302,206	4.6%
Customer D	An electronic products manufacturer	Public cloud services	2019	249,704	3.8%

Five Largest Customers for the Year Ended December 31, 2021	Background	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Revenue
Customer A	An Internet company	Public cloud services; enterprise cloud services	2016	1,983,204	21.9%
Customer B	An Internet company	Public cloud services; enterprise cloud services	2015	1,186,105	13.1%
Xiaomi	An Internet company	Public cloud services; enterprise cloud services	2012	772,454	8.5%
Customer C	An Internet company	Public cloud services	2017	352,860	3.9%
Customer D	An electronic products manufacturer	Public cloud services	2019	281,365	3.1%

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Five Largest Customers for the Three Months Ended March 31, 2022	Background	Objects of Transaction	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Revenue
Customer A	An Internet company	Public cloud services; enterprise cloud services	2016	389,815	17.9%
Xiaomi	An Internet company	Public cloud services; enterprise cloud services	2012	236,016	10.9%
Customer B	An Internet company	Public cloud services; enterprise cloud services	2015	194,889	9.0%
Customer E	An Internet company	Enterprise cloud services	2017	150,486	6.9%
Customer D	An electronic products manufacturer	Public cloud services	2019	75,745	3.5%

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

We generally enter into annual contracts with our public cloud service customers. For our enterprise cloud service customers, we enter into service contracts on a project basis. Pursuant to our template agreements with customers, we typically offer credit terms ranging from one to six months. For public cloud customers, we also offer prepaid subscription packages over a fixed subscription period. For enterprise cloud customers, we also provide multi-phase project arrangements to meet their demands. Customers shall use our products and services appropriately and in compliance with all applicable laws and regulations. We do not involve in the development or operation in our customers' product and services. Our customers shall be responsible for the compliance, including the legal collection and use of personal information of its product and services. We retain all our intellectual property rights with respect to our products.

End-to-end Fulfillment and Deployment

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

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

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

For example, for each enterprise cloud project, we provide dedicated services to customers with our in-depth industry insights. At project initiation, our specialized industry team performs in-depth analysis on customers’ business needs and designs tailored solutions accordingly. Our product expertise and industry know-how are embedded in our solutions, empowering customers to easily integrate cloud resources and technologies with their business system. During the fulfillment and deployment process, we offer customers seamless cloud migration services. We have established 13 strategically located deployment centers with deployment team who are experienced with deployment and equipped with our product expertise and industry know-how. After delivery, we have regular client reviews to constantly improve our services. In particular, for our Premium Customers, we also have a technical support team on demand 24x7 who respond to customer inquiries within 90 seconds.

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

- **Consistency and quality service throughout the process.** Our internal team is deeply engaged in the entire cloud migration process. We design customer-tailored solution in upfront planning, and continue to maintain direct control over the fulfillment, deployment and configuration, ensuing consistency and quality.
- **Trusted service provider.** As we directly work on the cloud migration projects, we build up client trust through timely response and superior engagement, avoiding potential risks arising from coordination among different third-party vendors.
- **High efficiency and certainty.** By equipping our localized deployment team with leading product capabilities, we are able to achieve great efficiency and certainty in fulfill customers’ requests, even in the challenging pandemic environment.

Moreover, by integrating Camelot’s nationwide project execution capacities and resources across China, including Beijing, Anhui, Jiangsu, Hubei, among others, we are able to further enhance our communications with customers to better understand their business needs. As a result, we are able to further accelerate and enhance the implementation of enterprise cloud service projects with lower costs, improved efficiency, and higher value.

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SUPPLIERS AND PROCUREMENT

Our suppliers primarily consist of IDC operators, telecommunication operators and server providers. Our top five suppliers in aggregate accounted for 31.8%, 28.1%, 22.0% and 22.4% of our total purchases in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our largest supplier in each year during the Track Record Period accounted for proximately 10.0%, 9.3%, 8.5% and 8.1% of our total purchases for 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

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

Five Largest Suppliers for the Year Ended December 31, 2019	Background	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Purchases*
Supplier A	An telecommunication operator	IDC services	2014	463,347	10.0%
Supplier B	A technology company	Server and equipment	2018	278,974	6.0%
Supplier C	A technology company	Server and equipment	2016	272,097	5.9%
Supplier D	An telecommunication operator	IDC services	2014	234,349	5.1%
Supplier E	An telecommunication operator	IDC services	2014	224,158	4.8%

Five Largest Suppliers for the Year Ended December 31, 2020	Background	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Purchases*
Supplier A	An telecommunication operator	IDC services	2014	606,777	9.3%
Supplier E	An telecommunication operator	IDC services	2014	597,242	9.2%
Supplier D	An telecommunication operator	IDC services	2014	288,017	4.4%
Supplier B	A technology company	Server and equipment	2018	196,035	3.0%
Supplier F	A technology company	Server and equipment	2014	140,888	2.2%

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Five Largest Suppliers for the Year Ended December 31, 2021	Background	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Purchases*
Supplier E	An telecommunication operator	IDC services	2014	769,721	8.5%
Supplier A	An telecommunication operator	IDC services	2014	646,645	7.1%
Supplier D	An telecommunication operator	IDC services	2014	240,167	2.6%
Supplier G	A technology company	Server and equipment	2017	204,086	2.2%
Supplier H	A technology company	Server and equipment	2018	146,162	1.6%

Five Largest Suppliers for the Three Months Ended March 31, 2022	Background	Products Purchased	Year of Commencement of Relationship with the Group	Transaction Amounts (RMB'000)	Percentage Contribution to the Group's Total Purchases*
Supplier E	An telecommunication operator	IDC services	2014	174,447	8.1%
Supplier A	An telecommunication operator	IDC services	2014	138,184	6.4%
Supplier H	A technology company	Server and equipment	2018	68,901	3.2%
Supplier I	A technology company	Purchase of technology components, fulfillment services	2021	53,045	2.5%
Supplier D	An telecommunication operator	IDC services	2014	47,762	2.2%

Note:

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

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

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

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COMPETITION

We face competition in every major aspect of our business. In particular, we mainly compete with other cloud service providers in China. Competition primarily lies in our industry, including product functionality and scope, performance, scalability and reliability of services, technology capabilities, marketing and sales capabilities, user experience, pricing, brand recognition and reputation. In addition, new and enhanced technology may further increase competition in our industry.

We believe that we are well-positioned to compete effectively on the basis of the foregoing factors. Nevertheless, some of our existing competitors have greater name recognition, broader footprint, longer operating histories, larger customer bases as well as greater financial, technical and other resources. See “Risk Factors – Risks Relating to Our Business and Industry – The market in which we participate is competitive, and if we do not compete effectively, our business, results of operations and financial condition could be harmed.” For more information on the competitive landscape of our industry, see “Industry Overview.”

INTELLECTUAL PROPERTY

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

As of March 31, 2022, we have registered 474 patents, 620 trademarks, 372 copyrights, and 129 domain names in China and overseas. We have obtained the license from Kingsoft to use its “金山雲” and “Kingsoft Cloud” trademarks. We have also obtained the license from Kingsoft Group to use some of its registered patents during their terms of registration. We intend to vigorously protect our technology and proprietary rights, but there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. See “Risk Factors – Risks Relating to Our Business and Industry – We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property could adversely affect our business, results of operations and financial condition.”

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and

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diversion of our resources. In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

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

EMPLOYEES

We had 10,221 employees as of March 31, 2022, most of whom were located in China, and the rest were located overseas. The following table sets forth a breakdown of our employees by function as of March 31, 2022.

Function	Number of Employees	Percentage (%)
Research and development	1,213	11.9
Sales and marketing	510	5.0
General and administrative	809	7.9
Solution development and services	<u>7,689</u>	<u>75.2</u>
Total	<u><u>10,221</u></u>	<u><u>100.0</u></u>

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

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

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

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

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

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

INSURANCE

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

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

The nominating and corporate governance committee of the Board is primarily responsible for overseeing of our ESG initiatives. The compensation committee of the Board is responsible for oversight of human capital matters, and the audit committee of the Board is responsible for oversight of our financial risk and compliance issues. Furthermore, we have established a risk control committee at management level in 2021 to oversee ESG-related risks.

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During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance in relation to health, work safety or environment regulations and had not had any incident, or received any claim for personal or property damage made by our employees which had materially and adversely affected our financial condition or business operations.

In May 2022, we issued our ESG report for 2021. The ESG report mainly includes topics of privacy and data security, customer service, technology innovation, talent attraction, development and training, business ethics and anti-corruption, and intellectual rights protection and others.

Technological Innovation

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

Responsible Operations

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

- We put every effort into protecting user privacy and data security. See “– Data Privacy and Security.”
- Dedicated to providing cutting-edge cloud products and solutions, intellectual property rights protection is of paramount importance to us. We firmly protect our own innovation achievements and also fully respects that of other parties.
- We dedicate ourselves to building a fair and transparent working environment and adopt a zero-tolerance attitude towards corruption, bribery and any other unethical behaviors.

Talent Development

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

BUSINESS

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

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

Environment

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

Sustainable Data Center

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

Green Workplace

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

Occupational Health and Safety

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

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FACILITIES

We occupy certain properties for non-property activities as defined under Rule 5.01(2) of the Listing Rules. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings, for the reason that, as of March 31, 2022, none of the properties leased by us had a carrying amount of 15% or more of our consolidated total assets.

As of the Latest Practicable Date, we leased offices in Beijing and certain other cities where we operate with an aggregate gross floor area of approximately 52,965 square meters. These facilities currently accommodate our management headquarters and data centers, as well as most of our sales and marketing, research and development, and general and administrative activities. We believe that there is sufficient supply of properties in China and other jurisdictions where we operate and we do not rely on the existing leases for our business operations.

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

LEGAL PROCEEDINGS AND NON-COMPLIANCE

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

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

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

During the Track Record Period and up to the Latest Practicable Date, we had not made full contributions to the social insurance plan and housing provident fund based on the actual salary level of some of our employees as prescribed by relevant laws and regulations. Pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as

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required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. We have made provisions of nil, nil, RMB15.0 million and RMB14.3 million in our consolidated statements of comprehensive profit or loss for the shortfall in our social insurance and housing provident fund contributions for the years ended December 31, 2019, 2020 and 2021 and three months ended March 31, 2022, respectively. See “Risk Factors – Risks Relating to our Business and Industry – Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other related regulations of the PRC may have an adverse impact on our financial conditions and results of operation.”

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by employees regarding our social security insurance and housing provident fund policy. We undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities.

Going forward, we will take the following measures to comply with the regulatory requirements. We are in the process of communicating with employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees. We have enhanced our internal control measures requiring social insurance and housing provident fund contributions to be made in compliance with relevant PRC laws and regulations. In addition, we will regularly review and monitor the reporting and contributions of social insurance and housing provident fund and we will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

LICENSES AND PERMITS

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

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

License/Permit	Entity Holding the License/Permit	Grant Date	Expiration Date
VAT License	Kingsoft Cloud Network	July 22, 2020	March 18, 2024
VAT License	Kingsoft Cloud Network	February 24, 2021	April 11, 2023
VAT License	Beijing Jinxun Ruibo	September 30, 2021	August 23, 2022 ^{Note 1}
VAT License	Beijing Jinxun Ruibo	February 18, 2022	February 18, 2027
VAT License	Kingsoft Cloud Information	January 17, 2019	January 17, 2024
VAT License	Kingsoft Cloud Information	September 30, 2021	September 30, 2026
VAT License	Kingsoft Cloud Network	November 28, 2017	November 28, 2022
VAT License	Nanjing Qianyi	April 9, 2018	January 9, 2023
VAT License	Nanjing Qianyi	April 3, 2018	December 7, 2022
VAT License	Wuhan Kingsoft Cloud	December 14, 2018	December 14, 2023
VAT License	Wuhan Kingsoft Cloud	September 30, 2021	December 14, 2025
VAT License	Shanghai Jinxun Ruibo	January 24, 2022	January 24, 2027
VAT License	Shenzhen Yunfan	April 29, 2022	October 26, 2025

Note 1: The Company is in the process of renewing the license.

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AWARDS AND RECOGNITION

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

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

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL

Information Technology Risk Management

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

Human Resource Risk Management

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

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

Financial Reporting Risk Management

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

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Legal and Compliance Risk Management

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

Internal Control Risk Management

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

Audit Committee Experience and Qualification and Board Oversight

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

CONTRACTUAL ARRANGEMENTS

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the “**Negative List**”) and the Encouraged Industry Catalogue for Foreign Investment (《鼓勵外商投資產業目錄》) (the “**Encouraged Catalogue**”), which were promulgated and are amended from time to time jointly by the Ministry of Commerce and the NDRC. The Negative List and the Encouraged Catalogue divide industries into three categories in terms of foreign investment, namely, “encouraged”, “restricted” and “prohibited.” Industries not listed under the Negative List and the Encouraged Catalogue are generally deemed as falling into a fourth category “permitted.” The currently effective Negative List is the 2021 Negative List (i.e. Special Administrative Measures for Foreign Investment Access (Negative List 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which became effective on January 1, 2022. See “Regulations – Regulations Related to Foreign Investment” for details.

With a view to complying with the requirements under the Listing Decision LD43-3 to the extent practicable, we underwent reorganization of the holding structure of our onshore subsidiaries and Consolidated Affiliated Entities in preparation for the [REDACTED]. Please refer to “History, Development and Corporate Structure – Restructuring of Our Contractual Arrangements” for further details.

As advised by our PRC Legal Adviser, a summary of our businesses/operations that are subject to foreign investment restriction in accordance with the 2021 Negative List and other applicable PRC laws (the “**Restricted Business**”) is set out below:

Category	Our business/operations
Value-added telecommunication services	Foreign investment is generally not permitted in the types of value-added telecommunications business that do not fall within China’s commitment to the WTO to open up, which include the internet data center services, internet access services, domestic internet protocol virtual private network services and content delivery network services, except that qualified telecommunication service providers incorporated in Hong Kong or Macau may hold up to 50% equity interest in such entities according to the Mainland and Hong Kong Closer Economic Partnership Agreement or the Mainland and Macao Closer Economic Partnership Agreement, respectively.

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Category

Our business/operations

As for the value-added telecommunications business falling within China’s commitment to the WTO to open up, according to the 2021 Negative List, the foreign equity interests ownership of entities that engage in value-added telecommunications business (except for e-commerce, domestic multi-party communication, storage and forwarding and call center) must not exceed 50%.

The principal business of Kingsoft Cloud Information and seven other Consolidated Affiliated Entities¹ involves provision of a wide range of cloud solutions comprising, among other things, value-added telecommunication services including, without limitation, cloud computing and internet of things (IoT) technologies to governmental bureaus, state-owned telecommunications services providers, their respective contractors and other public sector customers, requiring telecommunication business operation license (the “**VAT License(s)**”). These entities currently hold or are in the process of applying for VAT Licenses (the “**Licensed Entities**”). Zhuhai Kingsoft Cloud is the investment holding company of Beijing Kingsoft Cloud Technology that holds VAT Licenses and holds the equity interest of three (3) Licensed Entities and six (6) Project Entities (defined below). As the Group gradually expands its business in cloud services provision, the Company is expected to procure Zhuhai Kingsoft Cloud applying for relevant prohibited licenses and/or restrictive licenses.

The Group is currently engaged by certain public sector customers, who are government units or state-owned enterprise, or their respective contractors under government directives (the “**Public Project Customers**”), for local “smart city” projects to enhance productivity and efficiency of telecommunication infrastructure of local counties, cities and/or provinces, through the incorporation of, among others, cloud computing and internet of things (IoT) technologies with on-premise deployment on local infrastructure (the “**Smart City Projects**”). The Public Project Customers of the Smart City Projects from time to time source from the Group certain services (e.g., equipment supply, project management and maintenance services)

¹ These entities include: Kingsoft Cloud Network, Nanjing Qianyi, Kingsoft Cloud Tianjin, Shanghai Jinxun Ruibo, Beijing Jinxun Ruibo, Wuhan Kingsoft Cloud and Kingsoft Cloud (Shenzhen) Edge Computing Technology Co., Ltd. (金山雲(深圳)邊緣計算科技有限公司) (formerly known as Shenzhen Yunfan Jiasu Technology Co., Ltd. (深圳市雲帆加速科技有限公司)) (“**Shenzhen Yunfan**”).

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ancillary to the cloud services (the “**Project and Ancillary Services**” or “**Unrestricted Business**”, together with the Restricted Business, the “**Relevant Businesses**”) to be provided by the Consolidated Affiliated Entities as set out below (the “**Project Entities**”).

While the provision of Project and Ancillary Services do not require VAT Licenses, the Project Entities are included in the Contractual Arrangements as such services are inseparable from the supply of cloud services, which are subject to foreign investment restriction, given that the Project and Ancillary Services involve certain public data such that the Public Project Customers considered not suitable for involving entities with foreign ownership. As confirmed by the Public Project Customers, the Project and Ancillary Services must be provided by PRC domestic companies incorporated in local administrative district without foreign investment, either by (i) wholly owned subsidiary(ies) of the Licensed Entities holding the relevant VAT License, or (ii) a joint venture that is majority owned by such Licensed Entities directly or indirectly and minority owned by local partners designated by the Public Project Customers (the “**Engagement Conditions**”). To the best of the knowledge of the Directors, such conditions of engagement are widely common across public sector engagements. It is likely that the Group will no longer be able to (a) maintain the business relationship with the Public Project Customers and/or (b) enter into new business contracts with the Public Project Customers if the Project Entities were transferred out of the Contractual Arrangement, which will be highly detrimental to the Group’s business operations.

The revenue contribution of the Project Entities for the year ended December 31, 2021 accounted for less than 5% of those of the Group, while the assets contribution of the Project Entities as at December 31, 2021 also accounted for less than 5% of those of the Group.

In order to adhere to the “narrowly tailored” principle under HKEX-LD43-3 to the extent practicable, the Company has undertaken to the Stock Exchange that, it will implement adequate safeguards and internal review procedures to (i) undertake new projects with new or existing Public Project Customers on terms that will enable the Group to provide the Project and Ancillary Services through WFOEs of the Group unless there are Engagement Conditions imposed by the Public Project Customers, and (ii) ensure that the Project and Ancillary Services that may be provided to new or existing Public Project Customers by entities within the Contractual Arrangements will not be material to the Group in terms of assets and revenue contribution after the Proposed [REDACTED] and in any event not exceeding 5% of the Group in annual revenue and total asset on an ongoing basis after the [REDACTED].

Taking into account the inseparable nature of the Project and Ancillary Services and the material adverse impact from transferring the Project Entities out of the Contractual Arrangements, the immateriality of the Unrestricted Business conducted by the Project Entities, and the undertaking mentioned above, we are of the view that Contractual Arrangements for the Project Entities are narrowly tailored.

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Requirements under the FITE Regulations

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were most recently amended and took effect from May 1, 2022 (the “**2022 FITE Regulations**”). The 2022 FITE Regulations removed the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version (the “**Qualification Requirements**”). The 2022 FITE Regulations were newly amended and currently lack clear, specific and updated guidance thereunder for foreign-invested enterprises to apply for the value-added telecommunication business operation license. It remains uncertain whether the PRC government authorities will further issue detailed implementation rules for the 2022 FITE Regulations and impose additional requirements for foreign investors that invest in a company providing value-added telecommunication services in China in practice.

In March 2022, the respective PRC legal advisers of the Company and the Joint Sponsors conducted a verbal consultation with Beijing Communications Administration, during which the officer of Beijing Communications Administration confirmed that, as of the date of this interview, (i) none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements and that whether the Qualification Requirements can be met is subject to a substantive examination and discretion by the MIIT on a case-by-case basis, (ii) the applications for VAT Licenses by a sino-foreign equity joint venture or wholly-owned foreign investment entity invested by our Company or other overseas group entities will be unlikely to be approved under the circumstances as of the date of this interview due to our lack of the relevant experience to satisfy the Qualification Requirements under the applicable PRC laws, regulations and rules. Our PRC Legal Adviser has confirmed that the authority being interviewed and consulted is the competent regulatory authority to provide such confirmation.

Narrowly Tailored Contractual Arrangements

In light of the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and to enable the Group to combine the financial results of our Consolidated Affiliated Entities which are engaged in the operation of the Relevant Businesses.

We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer restricted from foreign investment to the extent permissible under PRC Laws.

CONTRACTUAL ARRANGEMENTS

OUR CONTRACTUAL ARRANGEMENTS

Overview

The Consolidated Affiliated Entities were established under the PRC laws. As described above, investment in certain areas of the industries in which we currently operate and may operate are subject to restrictions under current PRC laws and regulations. After consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold the Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with the relevant PRC laws and regulations described above, while availing ourselves of international capital markets and maintaining effective control over all of our operations, our Company gained control over (i) Kingsoft Cloud Information and its subsidiaries by entering into a series of contractual arrangements through Beijing Yunxiang Zhisheng with Kingsoft Cloud Information and its registered shareholders; and (ii) Zhuhai Kingsoft Cloud and its subsidiaries by entering into a series of contractual arrangements through Beijing Kingsoft Cloud with Zhuhai Kingsoft Cloud and its registered shareholders. The Contractual Arrangements currently in effect were amended and restated, whereby the Company acquired effective control over the financial and operational policies of the Consolidated Affiliated Entities and have become entitled to substantially all the economic benefits derived from their operations. As a result, we do not directly own any controlling stake in our Consolidated Affiliated Entities.

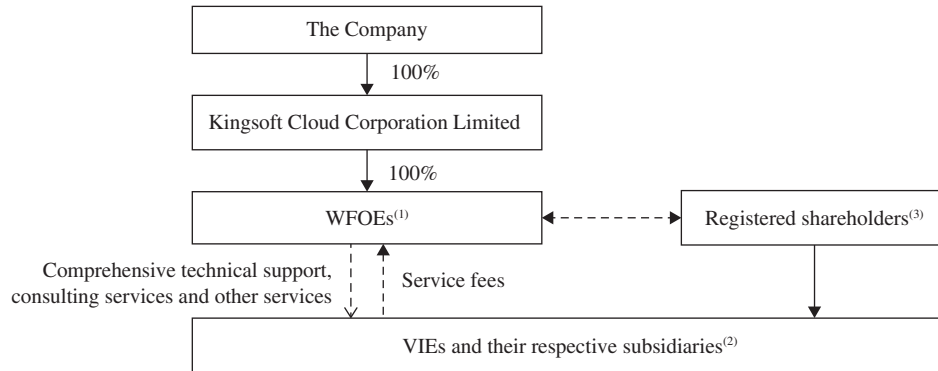
Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities on arm’s length basis; (ii) by entering into the exclusive consultation and technical service agreements with the WFOEs, being subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after [REDACTED]; and (iii) a number of other companies in the same or similar industries in which we operate use similar arrangements to accomplish the same purpose. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws and regulations to the maximum extent.

The revenue contribution of the Consolidated Affiliated Entities to our Group, taking into account all of their businesses with or without foreign investment restrictions under PRC laws, amounted to RMB3,882.4 million, RMB6,377.2 million, RMB7,972.1 million, RMB1,453.0 million, representing approximately 98.1%, 97.0%, 88.0% and 66.8% of the total revenue of our Group for the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

CONTRACTUAL ARRANGEMENTS

Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



Notes:

- (1) The WFOEs refer to Beijing Kingsoft Cloud and Yunxiang Zhisheng.
- (2) The VIEs refer to Zhuhai Kingsoft Cloud and Kingsoft Cloud Information. Each of Nanjing Qianyi, Kingsoft Cloud Tianjin and Shanghai Jinxun Ruibo is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud. Each of Chibi Kingsoft Cloud Network Technology Co., Ltd.* (赤壁金山雲網絡技術有限公司), one of the Project Entities, and Shenzhen Yunfan is a subsidiary of Wuhan Kingsoft Cloud, which is indirectly wholly owned by Kingsoft Cloud Information through Beijing Jinxun Ruibo. Each of the remaining Project Entities, including Rizhao Kingsoft Cloud Network Technology Co., Ltd.* (日照金山雲網絡技術有限公司), Kingsoft Cloud Network Technology (Jiangsu) Co., Ltd.* (金山雲網絡技術(江蘇)有限公司), Kingsoft Cloud (Qingyang) Data Information Technology Co., Ltd.* (金山雲(慶陽)數據信息科技有限公司), Kingsoft Cloud Intelligent City Technology (Guizhou) Co., Ltd.* (金山雲智慧城市科技(貴州)有限公司) and Kingsoft Cloud Perception City Technology (Anhui) Co., Ltd.* (金山雲感知城市科技(安徽)有限公司) and its subsidiary Changjiang Digital Technology (Anhui) Co., Ltd.* (長江數字科技(安徽)有限公司), is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud.
- (3) Zhuhai Kingsoft Cloud is held as to 79.60% and 20.40% by Beijing Digital Entertainment* (北京金山數字娛樂科技有限公司) and Ms. Qiu Weiqin, respectively, as registered shareholders. Kingsoft Cloud Information is held as to 80% and 20% by Ms. Qiu Weiqin and Mr. Wang Yulin, our executive Director and Chief Executive Officer, respectively, as registered shareholders.
- (4) “————▶” denotes direct legal and beneficial ownership in the equity interest.
- (5) “-----▶” denotes contractual relationship.
- (6) “◀-----▶” denotes the control by WFOEs over the registered shareholders and our Consolidated Affiliated Entities through (i) powers of attorney to exercise all shareholders’ rights in the Consolidated Affiliated Entities; (ii) exclusive call options to acquire all or part of the equity interests and/or assets in the Consolidated Affiliated Entities; and (iii) equity interest pledges over the equity interests in the Consolidated Affiliated Entities.

CONTRACTUAL ARRANGEMENTS

Circumstances under which we will unwind the Contractual Arrangements

We will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants relevant value-added telecommunication business operation license to Sino-foreign equity joint ventures or wholly-owned foreign investment entities in practice under relevant PRC laws and regulations.

Summary of the material terms of the Contractual Arrangements

Exclusive Consultation and Technical Service Agreement

Under the exclusive consultation and technical service agreement dated November 9, 2012, as amended and supplemented on November 29, 2019, Beijing Kingsoft Cloud has agreed to exclusively provide the following services (among others) to Zhuhai Kingsoft Cloud:

- the licensing of software, copyrights and know-how legally owned by Beijing Kingsoft Cloud;
- the provision of comprehensive consultancy services related to business operation, management and technology;
- the development, maintenance and updates of hardware and database;
- the development of application software and related operational support and updates;
- the provision of technical training for employees;
- the collection and research of technical information; and
- the provision of other related services as required by Zhuhai Kingsoft Cloud from time to time.

Zhuhai Kingsoft Cloud has agreed to annually pay service fees equal to 100% of its revenues for the year deducting costs in the same period as agreed by both parties, and pay service fees for certain services as required by Zhuhai Kingsoft Cloud from time to time. The service fees are adjustable at the sole discretion of Beijing Kingsoft Cloud. The exclusive consultation and technical service agreement shall remain effective for 20 years from November 9, 2012 unless expressly provided otherwise or Beijing Kingsoft Cloud unilaterally decides to terminate the exclusive consultation and technical service agreement. Beijing Kingsoft Cloud can unilaterally renew this agreement for a further period determined by itself.

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On July 18, 2018, Kingsoft Cloud Information and Yunxiang Zhisheng entered into an exclusive consultation and technical service agreement, which was later amended and supplemented on November 29, 2019 and July 15, 2022 and contains terms substantially similar to the exclusive consultation and technical service agreement described above.

Loan Agreements

On November 9, 2012 and June 20, 2014, Ms. Qiu Weiqin and Beijing Kingsoft Cloud entered into loan agreements, as amended and supplemented on November 29, 2019 and July 15, 2022, under which Beijing Kingsoft Cloud agreed to provide Ms. Qiu Weiqin interest-free loans. Under these loan agreements, the loans shall be repaid by transferring Ms. Qiu Weiqin’s equity interest in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud or its designee.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into a loan agreement with Yunxiang Zhisheng, under which Yunxiang Zhisheng agreed to provide Mr. Wang Yulin and Ms. Qiu Weiqin an interest-free loan. This agreement was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the loan agreements described above.

Equity Pledge Agreement

Each of Ms. Qiu Weiqin and Beijing Digital Entertainment, the shareholders of Zhuhai Kingsoft Cloud, has entered into an equity pledge agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on July 15, 2022. Under the equity pledge agreement, Ms. Qiu Weiqin and Kingsoft Digital pledged their respective equity interest in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud to secure obligations under the applicable loan agreements, exclusive purchase option agreement, shareholder voting right trust agreement, and exclusive consultation and technical service agreement. Ms. Qiu Weiqin and Kingsoft Digital further agreed not to transfer or pledge their equity interest in Zhuhai Kingsoft Cloud without the prior written consent of Beijing Kingsoft Cloud. The equity pledge agreement will remain binding until the pledgers, Ms. Qiu Weiqin and Kingsoft Digital, as the case may be, discharge all of their obligations under the above-mentioned agreements. As of the date of this Document, the equity pledges under the equity pledge agreement have been registered with the competent PRC regulatory authority.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into an equity pledge agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was amended and supplemented on July 15, 2022, and contains terms substantially similar to the equity pledge agreement described above. As of the date of this Document, the equity pledges under the equity pledge agreement dated July 18, 2018 have been registered with the competent PRC regulatory authority.

CONTRACTUAL ARRANGEMENTS

Exclusive Purchase Option Agreement

Ms. Qiu Weiqin and Kingsoft Digital, the shareholders of Zhuhai Kingsoft Cloud, entered into an exclusive purchase option agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on November 29, 2019 and July 15, 2022. Under the exclusive purchase option agreement, Ms. Qiu Weiqin granted Beijing Kingsoft Cloud or its designee an option to purchase her equity interest in Zhuhai Kingsoft Cloud at a price equal to the higher of the amount of the loan provided to Ms. Qiu Weiqin, and the minimum amount of consideration permitted by PRC law, and Kingsoft Digital granted Beijing Kingsoft Cloud or its designee an option to purchase its equity interest in Zhuhai Kingsoft Cloud at a price equal to the higher of RMB1 and the minimum amount of consideration permitted by PRC law. Ms. Qiu Weiqin and Kingsoft Digital also granted Beijing Kingsoft Cloud or its designee an option to purchase all or a portion of the assets of Zhuhai Kingsoft Cloud for the minimum amount of consideration permitted by PRC law. Ms. Qiu Weiqin and Kingsoft Digital also agreed not to transfer or mortgage any equity interest in or dispose of or cause the management to dispose of any material assets of Zhuhai Kingsoft Cloud without the prior written consent of Beijing Kingsoft Cloud. The exclusive purchase option agreement shall remain in effect until all of the equity interests in Zhuhai Kingsoft Cloud have been acquired by Beijing Kingsoft Cloud or its designee.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into an exclusive purchase option agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the exclusive purchase option agreement described above.

Shareholder Voting Right Trust Agreement

Ms. Qiu Weiqin and Kingsoft Digital, the shareholders of Zhuhai Kingsoft Cloud, entered into a shareholder voting right trust agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on November 29, 2019 and July 15, 2022. Under the shareholder voting right trust agreement, Ms. Qiu Weiqin and Kingsoft Digital agreed to irrevocably entrust a person designated by Beijing Kingsoft Cloud to represent them to exercise all the voting rights and other shareholders' rights to which they are entitled as shareholders of Zhuhai Kingsoft Cloud. The shareholder voting right trust agreement shall remain effective from the date of such agreement for as long as Ms. Qiu Weiqin and Kingsoft Digital remain the shareholders of Zhuhai Kingsoft Cloud, unless Beijing Kingsoft Cloud otherwise decides to terminate or amend this agreement.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into a shareholder voting right trust agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the shareholder voting right trust agreement described above.

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Spousal Consents

The spouses of individual shareholders of Zhuhai Kingsoft Cloud and Kingsoft Cloud Information have each signed a spousal consent letter. Under the spousal consent letter, the signing spouse unconditionally and irrevocably agreed that the equity interest in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information which is held by and registered under the name of his or her spouse will be disposed of pursuant to the above-mentioned loan agreements, equity pledge agreements, exclusive purchase option agreements and the shareholder voting rights trust agreements. Moreover, the spouse confirmed he or she has no rights, and will not assert in the future any right, over the equity interests in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information held by his or her spouse. In addition, in the event that the spouse obtains any equity interest in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information held by his or her spouse for any reason, he or she agrees to be bound by and sign any legal documents substantially similar to the contractual arrangements entered into by his or her spouse, as may be amended from time to time.

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute with respect to the construction and performance of these agreements, either party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with its arbitration rules. The arbitration shall be conducted in Beijing. The arbitration award shall be final and binding on the parties. Subject to the provisions of the PRC laws, the arbitrator may impose restrictions on and/or dispose of our Consolidated Affiliated Entities' equity interests or land and other assets (such as for award of remedies), grant injunction (such as for the conduct of business or compelling the transfer of assets), or grant other interim relief, or order winding up of our Consolidated Affiliated Entities through arbitration. Subject to the provisions of the PRC laws, pending the formation of the arbitration tribunal or in appropriate cases, the courts with jurisdiction (including the courts in Hong Kong, the place of incorporation of the Company, the place of incorporation of the Consolidated Affiliated Entities, and the place where the principal assets of the WFOE or our Consolidated Affiliated Entities is located) shall have the right to grant interim relief in support of the arbitration. After the arbitration award takes effect, any party shall have the right to apply to the said courts with jurisdiction for enforcement of the arbitration award.

However, our PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal would not to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

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As a result of the above, in the event that our Consolidated Affiliated Entities or the registered shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the paragraph headed “Risk Factors – Risks Relating to Our Corporate Structure and the Contractual Arrangements” for further details.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders. Under the Civil Code of the PRC (《中華人民共和國民法典》), for individual Registered Shareholders, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, the relevant agreements shall be binding on and shall inure to the interest of the respective successors of the Registered Shareholder. Where there are circumstances that may affect the Registered Shareholders’ exercise of their rights as a shareholder of our Consolidated Affiliated Entity (including but not limited to death, incapacity, marriage, divorce, bankruptcy), any successors of the Registered Shareholder shall cooperate with other parties to make all arrangements deemed necessary so that the performance of the agreements will not be hindered.

Pursuant to the Powers of Attorney, the registered shareholders undertook that, in the event of death, incapacity, marriage, divorce, bankruptcy or other circumstances that may affect the Registered Shareholders’ exercise of shareholding in our Consolidated Affiliated Entity, the registered shareholders will ensure that their heirs or transferees of shareholdings in our Consolidated Affiliated Entity will issue the same power of attorney as the Power Attorney before he/she can inherit/undertake all the Registered Shareholders’ rights and obligations under the Power of Attorney.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and the WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entity. Further, our Consolidated Affiliated Entity is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Despite the foregoing, the WFOE may provide to or assist our Consolidated Affiliated Entity in obtaining financial support when deemed necessary to ensure that our Consolidated Affiliated Entity meets the requirement of cash flow in daily operation and/or offset any losses incurred in the process of its operation. In addition, given that our Group conducts a portion of its business operations in the PRC through our Consolidated Affiliated Entity, which hold the requisite the PRC operational licenses and approvals, and that its financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of

CONTRACTUAL ARRANGEMENTS

operations would be adversely affected if our Consolidated Affiliated Entity suffer losses. However, as provided in the Exclusive Purchase Option Agreements, without the prior written consent of the WFOE, our Consolidated Affiliated Entity shall not, among others: (i) sell, transfer, mortgage, or dispose of legal or beneficial interest in any material assets, business or revenues of our Consolidated Affiliated Entity except for those conducted in the ordinary course of business; (ii) provide any person with any loans, incur any borrowings, provide guarantees or any other forms of security, or undertake any material obligations outside of normal business activities; (iii) merge, consolidate with, acquire, or invest in any person; (iv) declare or distribute any dividends to its shareholders; (v) enter into or terminate any material contract or conclude any other agreement in conflict with any existing material contracts, except for those entered into during the ordinary course of business. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from our Consolidated Affiliated Entity can be limited to a certain extent.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event that our Consolidated Affiliated Entity is required by PRC law or upon the written consent by the WFOE to be liquidated or dissolved, any interest distributed to the registered shareholders upon our Consolidated Affiliated Entity's dissolution or liquidation shall, upon the request of the WFOE, be (i) deposited into an account designated and supervised by the WFOE and used to secure the obligations and pay the secured indebtedness under the Contractual Arrangements prior and in preference to make any other payment; or (ii) unconditionally donated to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entity under the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Adviser has also advised that, as of the Latest Practicable Date:

- (i) each of the WFOEs and our VIEs is a duly incorporated and validly existing company and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder;
- (iii) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code which will lead the arrangements as invalid act under the PRC Civil Code;
- (iv) none of the agreement under the Contractual Arrangements violates any provisions of the respective articles of association of our VIEs or our WFOEs;
- (v) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that:
 - (a) the exercise of the option by our WFOEs of its rights under the exclusive purchase option agreements to acquire all or part of the equity interests in our VIEs is subject to the approvals of and/or registrations with the PRC regulatory authorities;
 - (b) the equity pledges contemplated under the equity pledge agreements are subject to the registration with the relevant local branch of SAMR;
 - (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by the PRC courts before compulsory enforcement; and
- (vi) Each of the agreements under the Contractual Arrangements is valid, legal and binding under the PRC laws, except that the Contractual Arrangements provide that the arbitral body may award interim remedies over the shares and/or assets of our VIEs, injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) and/or order the winding up of our VIEs, and that courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of our VIEs) also have jurisdiction for the grant and/or enforcement of arbitral award and interim remedies against the shares and/or assets of our VIEs, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our VIEs in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

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Our PRC Legal Adviser also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion.

Based on the above analysis and advice from our PRC Legal Adviser, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed “Risk Factors – Risks Relating to Our Corporate Structure and the Contractual Arrangements.”

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Our Directors consider that the Company can consolidate the financial results of our Consolidated Affiliated Entities into the Group’s financial information as if they were the Company’s subsidiaries. Our Reporting Accountant, [has issued] an unqualified opinion on the Group’s consolidated financial information as of and for the three years ended December 31, 2019, 2020 and 2021 as included in the Accountants’ Report set out in Appendix IA and the Group’s unaudited interim condensed consolidated financial information as of and for the three months ended March 31, 2022 as included in the report set out in Appendix IB.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory inquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (ii) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) the Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports after the [REDACTED];
- (iv) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements;
- (v) since the Contractual Arrangements will constitute continuing connected transactions of our Group following the completion of the [REDACTED], our Company has applied to the Stock Exchange, and the Stock Exchange [has granted] a waiver, details of which are set out in the section headed “Connected Transactions”. Our Company will comply with the conditions prescribed by the Stock Exchange under the waiver given; and

CONTRACTUAL ARRANGEMENTS

- (vi) our Group will adjust or unwind (as the case may be) the Contractual Arrangements as soon as practicable to hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants the relevant value-added telecommunication business operation license to Sino-foreign equity joint ventures or wholly-owned foreign investment entities in practice under relevant PRC laws and regulations.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign-Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including the Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOEs, through which we operate the Relevant Business in the PRC. As advised by our PRC Legal Adviser, the Foreign Investment Law, as it is interpreted and implemented as of the date of this Document, does not have a material adverse impact on our Contractual Arrangements, including their legality and validity, for which, see “Contractual Arrangements – Legality of the Contractual Arrangements.”

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors – Risks Relating to Our Corporate Structure and the Contractual Arrangements.”

RELATIONSHIP WITH KINGSOFT CORPORATION

RELATIONSHIP WITH KINGSOFT CORPORATION

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

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

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

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

INDEPENDENCE FROM KINGSOFT CORPORATION

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

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

Delineation of Business with Kingsoft Corporation

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

RELATIONSHIP WITH KINGSOFT CORPORATION

Management Independence

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

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

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

RELATIONSHIP WITH KINGSOFT CORPORATION

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

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

Operational Independence

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

RELATIONSHIP WITH KINGSOFT CORPORATION

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

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

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

Financial Independence

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

RELATIONSHIP WITH KINGSOFT CORPORATION

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

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

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

CORPORATE GOVERNANCE MEASURES

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

RELATIONSHIP WITH KINGSOFT CORPORATION

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

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

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

CONNECTED TRANSACTIONS

We have entered into certain agreements with parties that will be our connected persons. Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

We will continue to be subject to and regulated by the rules of the SEC and Nasdaq and other applicable U.S. laws and regulations so long as the ADSs are publicly traded on the Nasdaq. The requirements of the Listing Rules relating to connected transactions are different in many aspects from comparable rules in the U.S. In particular, the definition of a connected person under the Listing Rules is different from the definition of related parties under the SEC and Nasdaq rules. Therefore, a connected transaction as defined under the Listing Rules may or may not constitute a related party transaction under applicable SEC and Nasdaq rules, and vice versa.

Details of the continuing connected transactions of the Group following the [REDACTED] are set out below.

SUMMARY OF OUR CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

Name of Connected Person	Connected Relationship
Kingsoft Corporation	Kingsoft Corporation is our controlling shareholder within the meaning under the Listing Rules
Xiaomi	Xiaomi is a substantial shareholder of our Company as of the Latest Practicable Date Mr. Lei Jun, our non-executive Director and Chairman, is the controlling shareholder of Xiaomi. Xiaomi is therefore a connected person of our Company

SUMMARY OF CONTINUING CONNECTED TRANSACTIONS

No. Transactions	Applicable Listing Rules	Waiver(s) sought	Proposed annual cap for the year ending December 31,		
			2022	2023	2024
Fully-exempt continuing connected transactions					
1.	Intellectual Property Licenses	14A.35, 14A.53, N/A 14A.76(1) and 14A.105	N/A	N/A	N/A

CONNECTED TRANSACTIONS

No. Transactions	Applicable Listing Rules		Waiver(s) sought	Proposed annual cap for the year ending December 31,		
				2022	2023	2024
<i>(RMB in millions)</i>						
Partially-exempt continuing connected transactions						
2.	Framework Agreement with Kingsoft Corporation	14A.35, 14A.53, 14A.76(2) and 14A.105	Waiver from strict compliance with announcement requirement	<i>Provision of services to Kingsoft Group</i> 213.1	265.3	330.5
				<i>Services provided by Kingsoft Group</i> 17.3	18.2	18.5
Non-exempt continuing connected transactions						
3.	Framework Agreement with Xiaomi	14A.35, 14A.36, 14A.52, 14A.53 and 14A.105	Waiver from announcement, independent shareholders’ approval, circular, annual cap, and limiting the term to three years	<i>Provision of services to Xiaomi Group</i> 1063.8	1,277.5	1,549.0
				<i>Services/products provided by Xiaomi Group</i> 460.2	465.1	470.6
				<i>Finance Lease provided by Xiaomi Group</i> 1,400	1,400	1,400
4.	Contractual Arrangements	14A.35, 14A.36, 14A.52, 14A.53 and 14A.105	Waiver from announcement, independent shareholders’ approval, circular, annual cap, and limiting the term to three years	N/A	N/A	N/A

A. Fully-exempt Continuing Connected Transactions

Intellectual Property Licenses

Background and reason for the transactions

On November 9, 2012, Kingsoft Corporation, as the licensor, and we, as the licensee, entered into a license agreement in relation to the licensing of certain trademarks and patents, which was later supplemented on January 28, 2013 and September 13, 2017 (collectively, the “**2012 License Agreement**”). On December 18, 2019, Kingsoft Corporation, as the licensor, and we, as the licensee, entered into a trademark license agreement (the “**Trademark License Agreement**”) and a patent license agreement (the “**Patent License Agreement**,” and together with the Trademark License Agreement, the “**2019 License Agreements**”). The 2019 License Agreements superseded and replaced the 2012 License Agreement in its entirety.

CONNECTED TRANSACTIONS

Pursuant to the Trademark License Agreement, Kingsoft Corporation granted us the license of certain trademarks (the “**Licensed Trademarks**”), including “Kingsoft Cloud” and “金山雲,” in specified areas. The license remains valid until expiry of the trademarks or until certain conditions as agreed and stipulated in the Trademark License Agreement are no longer satisfied, whichever is earlier. Pursuant to the Trademark License Agreement, the total royalties of license implementation consist of (i) a one-off payment of RMB649,028.14 and (ii) certain customary management and maintenance fees of the Licensed Trademarks on an ongoing basis during the validity period of the Trademark License Agreement. As of the Latest Practicable Date, the payment of RMB649,028.14 to Kingsoft Group under the Trademark License Agreement has been settled in full. We will pay the customary management and maintenance fees of the Licensed Trademarks pursuant to the Trademark License Agreement from time to time.

Pursuant to the Patent License Agreement, Kingsoft Corporation granted us the license of certain patents in specified areas (the “**Licensed Patents**,” together with the Licensed Trademarks, the “**Licensed IPs**”). The license remains valid until expiry of the patents or until certain conditions as agreed and stipulated in the Patent License Agreement are no longer satisfied, whichever is earlier. Pursuant to the Patent License Agreement, the total royalties of license implementation are RMB4,000,000, which was fully settled among the parties therein.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for the continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the agreement to be of a duration longer than three years. We have been using the Licensed IPs under the 2019 License Agreements over the years, and we intend to continue to use, after the [REDACTED], the Licensed IPs in such connection. Our Directors believe that the license term for the Licensed IPs can ensure the stability of our operations and a longer duration of the agreement will avoid any unnecessary business interruption and help ensure the long-term stable business development and continuity of our market recognition. It is normal business practice for IP license agreement of similar type to be entered into for such duration and it is also beneficial to the interests of our Shareholders as a whole. Having considered the terms of the 2019 License Agreements, the Joint Sponsors have no reasons to believe that the Directors’ view that it is normal business practice to have such agreements with a term of over three years unreasonable.

CONNECTED TRANSACTIONS

Listing Rules implications

Given that the ongoing management and maintenance fees of the Licensed IPs under the 2019 License Agreements are not expected to be more than 0.1% of the percentage ratios, the transactions contemplated under the 2019 License Agreements will be within the de minimis threshold provided under Rule 14A.76(1) of the Listing Rules, and the 2019 License Agreements will be exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

B. Partially-exempt Continuing Connected Transactions

The transactions set out below were entered into in the ordinary and usual course of business and on normal commercial terms where, as the Directors currently expect, the highest applicable percentage ratio for the purpose of Chapter 14A of the Listing Rules will be not less than 0.1% but less than 5% on an annual basis. Accordingly, such transactions will be subject to the announcement, reporting, and annual review requirements under Chapter 14A of the Listing Rules but will be exempted from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Framework Agreement with Kingsoft Corporation

On [●], 2022, in order to regulate the ongoing transactions between the Group and Kingsoft Group, the Company entered into a framework agreement with Kingsoft Corporation (the “**Kingsoft Framework Agreement**”), pursuant to which, (i) we will provide cloud services to the Kingsoft Group, including but not limited to cloud storage, cloud computing services and comprehensive cloud solutions, and (ii) Kingsoft Group will provide the comprehensive leasing services to us, including but not limited to property management services and other related administrative support for our office space.

The initial term of the Kingsoft Framework Agreement will commence from the [REDACTED] and expire on December 31, 2024. The Kingsoft Framework Agreement will be subject to negotiation at renewal with mutual consent and in compliance with the requirements of the Listing Rules.

Subject to the terms of the Kingsoft Framework Agreement, the Group will enter into specific agreements with Kingsoft Group to set out specific terms and conditions when necessary according to the principles and scope provided for under the Kingsoft Framework Agreement.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

We first entered into a framework agreement with Kingsoft Corporation for contemplating the above-mentioned transactions on December 30, 2014, which was renewed on December 31, 2017. The provision of cloud services to Kingsoft Group, in particular the public cloud services with a high level of customer stickiness in nature and growth potential, will provide sources of recurring revenues to the Group as Kingsoft Group’s business expands; and the provision of comprehensive leasing services by Kingsoft Group will better leverage the mature infrastructure and services coverage already established by Kingsoft Group to provide a more stable and undisrupted office environment to our Group with visible costs that are in line with prevailing market prices for an extended period of time. The Company considers that it is beneficial to enter into the Kingsoft Framework Agreement to regulate the continuing connected transactions contemplated thereunder as such transactions will continue to facilitate the operation and growth of the Group’s business as a whole.

Pricing basis

The service fees for the provision of cloud services under the Kingsoft Framework Agreement shall be determined on an arm’s-length basis between the Group and Kingsoft Group with reference to, among others, the service fees for the provision of cloud services to our other customers and the prevailing market prices of such cloud services.

To ensure that the comprehensive leasing service fees payable by our Group to Kingsoft Corporation and/or its associates under the Kingsoft Framework Agreement are on normal commercial terms, fair and reasonable, and in the interests of our Shareholders as a whole, such service fees will be determined on an arm’s-length basis with reference to the prevailing market prices of similar property management and other administrative support services.

CONNECTED TRANSACTIONS

Historical amount, annual cap and basis for annual cap

The table below sets out the historical amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022:

<i>Provision of services to Kingsoft Group</i>	Historical transaction amount			
	for the year ended December 31,			for the three
	2019	2020	2021	months ended March 31, 2022
<i>Provision of cloud services to Kingsoft Group</i>	109,177	119,011	157,070	46,979
<i>Services provided by Kingsoft Group</i>				
<i>Provision of comprehensive leasing services from Kingsoft Group</i>	24,524	13,801	13,321	3,557

(RMB'000)

(unaudited)

The Company proposes to set up the annual caps for the three years ending December 31, 2024 as follows:

<i>Provision of services to Kingsoft Group</i>	Proposed annual cap for the		
	year ending December 31,		
	2022	2023	2024
<i>Provision of cloud services to Kingsoft Group</i>	213.1	265.3	330.5
<i>Services provided by Kingsoft Group</i>			
<i>Provision of comprehensive leasing services from Kingsoft Group</i>	17.3	18.2	18.5

(RMB in millions)

CONNECTED TRANSACTIONS

The annual caps for the fees payable by Kingsoft Group in respect of the provision of cloud services by our Group for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022, and the year-over-year growth rate of 32% for 2021; (ii) the expected year-over-year growth rate of the transaction amounts of cloud services provided to Kingsoft Group in a given year compared to that of the previous year, which is determined based on the expected growth of the overall office software and services, online games and other business market as well as the increasing demand for the office software and services business segment of Kingsoft Group, being 36% for 2022, 25% for 2023 and 25% for 2024, as a result of the expansion of the Kingsoft Group’s business; and (iii) the fair market rates for provision of similar services.

The annual caps for the fees payable to Kingsoft Group in respect of the provision of comprehensive leasing services by Kingsoft Group for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts for the three years ended December 31, 2021; (ii) the current and expected future office space demand of our Group in light of our expected business development and increase in the number of employees in 2022, which requires property management services and administrative support; and (iii) the fair market rates for provision of similar services.

Listing Rules Implications

The transactions contemplated under the Kingsoft Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that the highest applicable percentage ratio under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Application for Waiver

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted] a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Kingsoft Framework Agreement, provided that the total value of transactions under the Kingsoft Framework Agreement for each of the three years ending December 31, 2022, 2023 and 2024 will not exceed the relevant proposed annual caps set forth above.

CONNECTED TRANSACTIONS

C. Non-exempt Continuing Connected Transactions

1. *Framework Agreement with Xiaomi*

On [●], 2022, in order to regulate the ongoing transactions between the Group and Xiaomi Group, the Company entered into a framework agreement with Xiaomi (the “**Xiaomi Framework Agreement**”), pursuant to which, (i) we will provide cloud services to the Xiaomi Group, including but not limited to cloud storage and cloud computing services and comprehensive cloud solutions, (ii) we will rent certain properties, including office space and data center(s) from Xiaomi Group, (iii) we will purchase customized terminal devices and software from Xiaomi Group, and (iv) we will continue to obtain financing from Xiaomi Group by way of sale-and-leaseback arrangement.

The initial term of the Xiaomi Framework Agreement will commence from the [REDACTED] and expire on December 31, 2024. The Xiaomi Framework Agreement will be subject to negotiation at renewal with mutual consent and in compliance with the requirements of the Listing Rules.

Subject to the terms of the Xiaomi Framework Agreement, the Group will enter into specific agreements with Xiaomi Group to set out specific terms and conditions when necessary according to the principles and scope provided for under the Xiaomi Framework Agreement.

Reasons for and benefits of the transactions

We have been in business cooperation with Xiaomi Group since our establishment. The provision of cloud services to Xiaomi Group, in particular the public cloud services with a high level of customer stickiness in nature and growth potential, will provide sources of recurring revenues to the Group as Xiaomi Group’s business expands; the renting of office space and data center(s) from Xiaomi Group enables better deployment of properties and sharing of resources owned by Xiaomi Group and helps us to secure stable facilities critical to our business operation with visible costs that are in line with prevailing market prices; and the purchase of customized terminal devices and software from Xiaomi Group will ensure a steady supply of such products in order to meet our customers’ demand within the required timeframe.

In June, September and November 2021, we entered into a series of finance lease agreements (the “**Finance Lease Agreements**”) with two group entities of Xiaomi (the “**Xiaomi Financing Entities**”) under which we sell certain of our assets (such as servers) to the Xiaomi Financing Entities in order to obtain financing, lease back the sold assets for a term of three (3) years (the “**Lease Term**”) and pay rent to the relevant Xiaomi Financing Entities until expiry of the Lease Term (the “**Finance Leases**”). The purchase price of the leased assets payable by the Xiaomi Financing Entities amounted to approximately RMB750 million, where we shall make lease payment to the Xiaomi Financing Entities at a fixed annual interest rate of 4.36% under the Finance Lease

CONNECTED TRANSACTIONS

Agreements. During the term of the Finance Leases, the legal title of the leased assets shall be vested in the respective Xiaomi Financing Entities. Upon expiry of the Lease Term, we will repurchase the leased assets with a transfer of the corresponding legal title from the respective Xiaomi Financing Entities at a buyback price of RMB100. We expect to continue the Finance Leases arrangement after [REDACTED] which allows us to obtain the financial resources for working capital purposes from Xiaomi Group as well as the assets required for our daily business operations.

The Company considers that it is beneficial to enter into the Xiaomi Framework Agreement to regulate the continuing connected transactions contemplated thereunder as such transactions will continue to facilitate the operation and growth of the Group’s business as a whole.

Pricing basis

The service fees for the provision of cloud services under the Xiaomi Framework Agreement shall be determined on an arm’s-length basis between the Group and Xiaomi Group with reference to, among others, the service fees for the provision of cloud services to our other customers and the prevailing market prices of such cloud services.

To ensure that the rent payable by our Group to and purchase prices of the terminal devices and software from Xiaomi and/or its associates under the Xiaomi Framework Agreement are on normal commercial terms, fair and reasonable, and in the interests of our Shareholders as a whole, the terms of the aforesaid transactions have been negotiated on an arm’s-length basis, provided that (i) the rent will be determined with reference to, among others, the prevailing market rent of similar properties in the vicinity and under similar conditions, and (ii) the purchase prices of the terminal devices and software will be determined with reference to, among others, the comparison of quotations from Xiaomi Group and those submitted by third-party suppliers providing similar terminal devices and software.

The purchase price of the leased assets and the lease interest payment under the sale-and-leaseback arrangement pursuant to the Xiaomi Framework Agreement shall be determined after arm’s-length negotiations between the Group and Xiaomi Group with reference to, among others, the nature and the original cost of the leased assets and the benchmark interest rates for RMB-denominated loans published by the People’s Bank of China on a regular basis or the interest rates charged or quoted by other major finance institutions for providing services of similar nature.

CONNECTED TRANSACTIONS

Historical amount, annual cap and basis for annual cap

The table below sets out the historical amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022:

	Historical transaction amount			for the three
	for the year ended December 31,			months ended
	2019	2020	2021	March 31,
				2022
				<i>(unaudited)</i>
	<i>(RMB'000)</i>			
<i>Provision of services to</i>				
<i>Xiaomi Group</i>				
Provision of cloud services to Xiaomi Group	570,551	655,247	772,454	236,016
<i>Services/products provided by Xiaomi Group</i>				
Rental of office space and data center	9,578	47,900	56,452	13,305
Purchase of customized terminal devices and software from Xiaomi Group	2,707	2,177	1,349	29
<i>Finance Leases provided by Xiaomi Group⁽¹⁾</i>				
Total balance of Finance Leases and interests	Nil	Nil	709,088	652,695

The Company proposes to set up the annual caps for the three years ending December 31, 2024 as follows:

	Proposed annual cap for the		
	year ending December 31,		
	2022	2023	2024
	<i>(RMB in millions)</i>		
<i>Provision of services to</i>			
<i>Xiaomi Group</i>			
Provision of cloud services to Xiaomi Group	1,063.8	1,277.5	1,549.0
<i>Services/products provided by</i>			
<i>Xiaomi Group</i>			
Rental of office space and data center	58.8	63.8	69.2
Purchase of customized terminal devices and software from Xiaomi Group	401.3	401.3	401.3
<i>Finance Leases provided by</i>			
<i>Xiaomi Group⁽¹⁾</i>			
Total balance of Finance Leases and interests	1,400.0	1,400.0	1,400.0

Note:

- (1) For the avoidance of doubt, the Finance Leases are accounted for as loans from the accounting prospective.

CONNECTED TRANSACTIONS

The annual caps for the fees payable by Xiaomi Group in respect of the provision of cloud services by our Group for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022, and the year-over-year growth rate of 18% for 2021; (ii) the expected year-over-year growth rate of the transaction amounts of cloud services provided to Xiaomi Group in a given year compared to that of the previous year, which is determined based on the expected growth of the overall internet services market as well as the increasing demand for cloud computing and storage from Xiaomi Group to accommodate its ongoing business and operational needs, being 38% for 2022, 20% for 2023 and 21% for 2024; (iii) the expected increase in demand for cloud services as a result of the expansion of the Xiaomi Group’s existing and new businesses; and (iv) the fair market rates for provision of similar services.

The annual caps for the fees payable to Xiaomi Group in respect of the purchase of customized terminal devices and software for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022; (ii) the future demand and expected sales of the customized terminal devices and software to our customers for the three years ending December 31, 2024; and (iii) the fair market rates for provision of similar devices and software.

The annual caps for the fees payable to Xiaomi Group in respect of the rental of office space and data center for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts for the three years ended December 31, 2021 and the three months ended March 31, 2022; (ii) the current and expected future demand for office space and data center for the three years ending December 31, 2024; and (iii) the fair market rates for provision of similar properties in the vicinity.

The annual caps for the Finance Leases for the three years ending December 31, 2024 are determined with reference to, among others, (i) the historical transaction amounts between the Group and Xiaomi Group for the year ended December 31, 2021 and the three months ended March 31, 2022; (ii) the Group’s business needs for the finance leasing services provided by Xiaomi Group in the course of its daily operation and future development; (iii) the current financing market conditions, the interest rate and the potential adjustments to be made by the People’s Bank of China to the benchmark interest rates for RMB-denominated loans in the future; and (iv) the nature and the carrying amount of the leased assets.

Listing Rules Implications

The transactions contemplated under the Xiaomi Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that the highest applicable percentage ratio under the Listing Rules in respect of such transactions will exceed 5%. As such, these transactions will be subject to annual review, reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Application for Waiver

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted] a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement and independent shareholders’ approval requirements in respect of the transactions contemplated under the Xiaomi Framework Agreement, provided that the total value of transactions under the Xiaomi Framework Agreement for each of the three years ending December 31, 2022, 2023 and 2024 will not exceed the relevant proposed annual caps set forth above.

2. *Contractual Arrangements*

Overview

As disclosed in the section headed “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in the PRC, we conducted a portion of our business through our Consolidated Affiliated Entities in the PRC. See the section headed “Contractual Arrangements” in this Document for details of the agreements comprising the Contractual Arrangements.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of the Group (“**Intra-group Transactions**”) constitute continuing connected transactions of the Company under the Listing Rules upon the [REDACTED] as certain parties to the Contractual Arrangements will be connected persons of the Group.

Reasons for the Waiver Application and the View of our Directors on the Continuing Connected Transaction

Our Directors (including the independent non-executive Directors) are of the view that, and based on the documentation, information and data provided by the Company, the representations and confirmations provided by the Company and the Directors to the Joint Sponsors, and participation in the due diligence discussion with the management of the Company and the Company’s PRC Legal Adviser, the Joint Sponsors have reasonable ground to believe that, the Contractual Arrangements, the Intra-group Transactions and the transactions contemplated therein are fundamental to our Group’s legal structure and business, and such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS

Accordingly, our Directors consider that, given that the Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to the Company if the Contractual Arrangements, the Intra-group Transactions, and the transactions contemplated therein, are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules and the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules.

Application for and Conditions for Waiver

In relation to the Contractual Arrangements and the Intra-group Transactions, we have applied to the Stock Exchange for and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of such transactions pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements and the Intra-group Transactions under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements and the Intra-group Transactions to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are [REDACTED] on the Stock Exchange subject, however, to the following conditions:

- (a) *No change without independent non-executive Directors’ approval* – No change to the Contractual Arrangements (including with respect to any fees payable to relevant members of the Group thereunder) will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders’ approval* – Save as described in “(d) Renewal and Reproduction” below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement, circular or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in “Ongoing Reporting and Approvals” below) will, however, continue to be applicable.

CONNECTED TRANSACTIONS

- (c) *Economic benefits flexibility* – The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by the Consolidated Affiliated Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in the Consolidated Affiliated Entities for nominal consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the relevant member of the Group by the Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) the Group’s right to control the management and operation of, in substance, all of the voting rights of the Consolidated Affiliated Entities.
- (d) *Renewal and reproduction* – On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements, in connection with any changes to the registered shareholders or directors of the Consolidated Affiliated Entities, or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (e) *Ongoing reporting and approvals* – Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- The Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant

CONNECTED TRANSACTIONS

provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the registered holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period under paragraph (iii) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the Consolidated Affiliated Entities to the registered holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entity will be treated as our Company’s wholly owned subsidiary and, at the same time, the directors, chief executive officers or substantial shareholders of the Consolidated Affiliated Entity and its associates will be treated as connected persons of our Group (excluding for this purpose, the Consolidated Affiliated Entity), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entity), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditors full access to their relevant records for the purpose of our Company’s auditors’ review of the connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the Contractual Arrangements, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Apart from the requirements for three-year contractual term, setting annual cap, announcement, and/or independent Shareholders’ approval, of which waivers are sought above, we will comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements.

CONNECTED TRANSACTIONS

DIRECTORS' CONFIRMATION

Our Directors (including the independent non-executive Directors) are of the view that (i) the partially-exempt continuing connected transactions and the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of business, on normal terms or better that are fair and reasonable and in the interest of the Shareholders as a whole, (ii) the proposed annual caps for those transactions (where applicable) are fair and reasonable and in the interests of the Shareholders as a whole, and (iii) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

JOINT SPONSORS' CONFIRMATION

Based on the due diligence performed by the Joint Sponsors, including review of the documents and information provided by our Company in relation to the above continuing connected transactions and the basis of calculating the annual caps and discussions with our senior management and our PRC Legal Adviser, and necessary representations and confirmations from our Company and Directors, the Joint Sponsors are of the view that (i) the partially-exempt continuing connected transactions and the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of business, on normal commercial terms or better, that are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for those transactions (where applicable) are fair and reasonable and in the interests of the Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements and the Intra-group Transactions, which is of a duration longer than three years, based on the due diligence mentioned above, the Joint Sponsors have reasonable ground to believe that it is a justifiable and normal business practice to ensure that (i) policies of the Consolidated Affiliated Entities can be effectively controlled by the WFOEs, (ii) the WFOEs can obtain substantially all of the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

CONNECTED TRANSACTIONS

INTERNAL CONTROL PROCEDURES ADOPTED BY THE COMPANY IN RESPECT OF THE CONTINUING CONNECTED TRANSACTION AGREEMENTS

In order to ensure the terms under relevant agreements for the partially-exempt continuing connected transactions and non-exempt continuing connected transactions are fair and reasonable and are carried out on normal commercial terms, the Company has adopted the following internal control procedures:

- The Company has adopted and implemented a comprehensive management system on connected transactions. Under such system, the shareholders' general meetings, the Board meetings and the secretary of the Board are responsible for supervision, management and approval of the Company's connected transactions in accordance with relevant requirement of the Listing Rules and the Articles of Association. In addition, the finance department and the legal department of the Company are jointly responsible for the daily management of the connected transactions;
- The independent non-executive Directors will review the agreements for partially-exempt continuing connected transactions to ensure that the agreements have been entered into on normal commercial terms that are fair and reasonable and carried out in accordance with the terms of such agreements. The auditor of the Company will also review annually the pricing policies and annual caps of such agreements; and
- As mentioned above, in order to ensure that the pricing policies under relevant agreements for the partially-exempt continuing connected transactions are fair and reasonable, the general office of the Board, the finance department and the legal department of the Company shall review the prices proposed through the following review procedures:
 - o if market prices are available, the proposed price will be compared with market prices to ensure that the proposed price is equivalent to or no less favorable to the Company than prices offered by independent third parties providing similar services. The Company will make inquiries to various independent third-party service providers for their prices for further internal assessments;
 - o if no market prices are available, various factors will be considered in determining whether the price is fair and reasonable, such as regulatory requirements, actual needs of the Company, the nature of service, and the financial position and creditworthiness of the service provider; and
 - o the proposed price will be reviewed to ensure it is consistent with the pricing terms under the relevant agreements for the partially-exempt continuing connected transactions, and that the terms offered to the Company are no less favorable to the Company than those offered by independent third parties.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board comprises seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors.

The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title	Date of appointment as Director	Date of joining our Group	Roles and responsibilities
Mr. Lei Jun (雷軍)	[52]	Chairman and Non-Executive Director	January 2012	January 2012	Responsible for overall strategy, business development, operations and management of the Group
Mr. Zou Tao (鄒濤)	[47]	Vice Chairman and Non-Executive Director	December 2016	January 2012	Responsible for overall strategy, business development, operations and management of the Group
Mr. Wang Yulin (王育林)	[46]	Executive Director and Chief Executive Officer	April 2015	December 2012	Responsible for the Group’s business development, daily operations and management
Dr. Ye Hangjun (葉航軍)	[46]	Non-Executive Director	April 2021	April 2021	Providing professional advice, opinion and guidance to the Board
Mr. Yu Mingto (喻銘鐸)	[59]	Independent Non-executive Director	May 2020	May 2020	Providing independent opinion and judgment to the Board
Mr. Wang Hang (王航)	[51]	Independent Non-executive Director	May 2020	May 2020	Providing independent opinion and judgment to the Board
Ms. Qu Jingyuan (曲靜淵)	[49]	Independent Non-executive Director	April 2022	April 2022	Providing independent opinion and judgment to the Board

DIRECTORS AND SENIOR MANAGEMENT

Executive Director and Non-executive Directors

Mr. Lei Jun (雷軍), aged [52], is a non-executive Director and the chairman of the Board.

Mr. Lei co-founded Xiaomi Corporation (HKEx: 1810) with other partners, and currently serves as the chairman, the chief executive officer, the executive director and a member of the remuneration committee of Xiaomi Corporation. He joined Kingsoft Group in 1992 and has held various senior positions in Kingsoft Group, including the chairman of the Board since July 2011, a non-executive director since August 2008, an executive director between July 1998 and August 2008, and the chief executive officer between 1998 and December 2007. Since December 2011, Mr. Lei has served as a director of Kingsoft Office (SSE STAR Market: 688111), a public company listed on Shanghai Stock Exchange.

Mr. Lei received his bachelor’s degree in computer science from Wuhan University (武漢大學) in July 1991. He has been a member of the board of Wuhan University since November 2003.

Mr. Lei was elected as one of the “Top 10 Economic Personages of China” in 2017 and one of “100 Outstanding Private Entrepreneurs on the 40th Anniversary of the China’s Reform and Opening-up”. In 2020, Mr. Lei was honored with the title of “National Advanced Individual of Private Economy Fighting against COVID-19”, title of “Beijing Model Worker” and title of “Outstanding Entrepreneur in the 30th Anniversary of Capital Market”. In 2021, Mr. Lei was awarded the 11th “China Charity Award” by the Ministry of Civil Affairs of the People’s Republic of China, ranked first in Forbes “2021 China’s Best CEO List” and was selected as one of the “Top 10 News Figures of China’s Private Economy in 2021”.

Mr. Lei is also a famous angel investor in China.

Mr. Zou Tao (鄒濤), aged [47], is a non-executive Director and the vice chairman of the Board. Mr. Zou joined Kingsoft Group in 1998 and has held various senior positions in Kingsoft Group, including a senior vice president from December 2007 to December 2016, an executive director since August 2009, and the chief executive officer since December 2016. Mr. Zou is also a director of certain subsidiaries of Kingsoft Group. Mr. Zou has been a director of Seasun Holdings Limited, a director of Cheetah Mobile Inc. (NYSE: CMCM), a public company listed on the New York Stock Exchange, and chairman of Kingsoft Office (SSE STAR Market: 688111), a public company listed on Shanghai Stock Exchange. Mr. Zou also served as a director of Xunlei Limited (Nasdaq: XNET), a public company listed on the Nasdaq, from December 2016 to April 2020 and a director of 21Vianet Group, Inc. (Nasdaq: VNET), which is also a public company listed on the Nasdaq, from December 2016 to December 2020. Mr. Zou served as the CEO of Seasun Holdings until January 2018.

Mr. Zou received his bachelor’s degree in chemistry from Nankai University (南開大學) in June 1997.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Yulin (王育林), aged [46], is our executive Director and our chief executive officer. Mr. Wang is also a director and the general manager of certain subsidiaries of the Company.

Mr. Wang joined Kingsoft Group in December 2012 and served as a senior vice president at Kingsoft Group until March 2020. Mr. Wang served as our president from December 2012 to December 2016. Prior to joining Kingsoft Group, Mr. Wang served as the executive vice president at Phoenix New Media Limited (NYSE: FENG), a public company listed on the New York Stock Exchange, from March 2009 to December 2012.

Mr. Wang received his bachelor’s degree in chemistry from Nankai University (南開大學) in June 1998 and an MBA degree from Tsinghua University (清華大學) in January 2008.

Dr. Ye Hangjun (葉航軍), aged [46], is a non-executive Director since April 2021.

Dr. Ye Hangjun has served as a general manager of business segment of Xiaomi Corporation (HKEx: 1810), responsible for research and development of autonomous driving technology and products since December 2021. He joined Xiaomi Corporation in 2012 and served as an engineering director from September 2012 to February 2019, a general manager of business segment from February 2019 to February 2021, and the chairman of the technical committee of Xiaomi Corporation from February 2021 to December 2021. Before joining Xiaomi Corporation, he was a director of index download group, search platform department at Tencent Holdings Limited (HKEx: 0700), a public company listed on the Stock Exchange, from October 2010 to September 2012. Prior to that, he was a software engineer at Google Inc. (Nasdaq: GOOG), a public company listed on the Nasdaq, from February 2006 to October 2010. From July 2003 to February 2006, he served as a staff research member at International Business Machines Corporation (“IBM”) (NYSE: IBM), a public company listed on the New York Stock Exchange.

Dr. Ye received his PhD and bachelor’s degrees in computer science from Tsinghua University (清華大學) in July 2003 and June 1998, respectively.

Independent Non-Executive Directors

Mr. Yu Mingto (喻銘鐸), aged [59], is an independent non-executive Director since May 2020.

Since August 2019, Mr. Yu has served as the vice chairman of Egis Technology Inc. (6462.TWO), a capacitive and lens type fingerprint sensors service provider and a public company listed on Taiwan OTC Exchange. Prior to that, Mr. Yu served as the president at Kaiyu Consulting Inc. from July 2013 to September 2019, the chief financial officer at Xiaomi Corporation (HKEx: 1810) from October 2011 to November 2012 and at Mediatek Inc. (聯發科技) (2454. TW), a public company listed on the Taipei Stock Exchange, from 2001 to 2010. Mr. Yu has appropriate accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Mr. Yu received an MBA degree from the Wharton School, University of Pennsylvania in May 1995.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Hang (王航), aged [51], is an independent non-executive Director since May 7, 2020.

Mr. Wang is the founding partner of Hosen Capital (厚生投資), a Chinese private equity firm focusing on food and consumer sectors since he co-founded it in March 2010. Mr. Wang also serves as the vice chairman of the board of New Hope Group (新希望集團), a private enterprise group mainly engaged in modern agriculture and food industry, since 2012. Prior to that, he served as the chief operation officer of its finance department from 2001 to 2004 and its vice president from 2004 to 2012 since he joined New Hope Group in 2001. Mr. Wang also serves as a director of New Hope Liuhe Co., Ltd. (新希望六和股份有限公司) (SZSE: 000876), a company listed on the Shenzhen Stock Exchange since 2011. Additionally, from July 2017 to April 2020. Mr. Wang first served as the chairman and then the vice chairman of the board of Sichuan XW Bank Corp., Ltd. (四川新網銀行股份有限公司) (“**XW Bank**”), the third digital bank in China and co-founded by New Hope Group, Xiaomi, Hongqi Chain (紅旗連鎖, SZSE: 002697) and other shareholders in December 2016. Mr. Wang was re-elected and serves as the chairman of the board of XW Bank since April 2020. From July 2006 to October 2020, Mr. Wang first served as a non-executive director and then a supervisor of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司, the “**Minsheng Bank**”) (HKEx: 1988; SSE: 600016), a company listed on both the Stock Exchange and Shanghai Stock Exchange. Mr. Wang also serves as the vice chairman of the board of CMBC International Holdings Limited (民生商銀國際控股有限公司, the “**CMBCI**”), a wholly-owned subsidiary of Minsheng Bank since March 2015.

Mr. Wang obtained his bachelor’s degree and master’s degree in economics from Peking University (北京大學) in July 1992 and July 1996, respectively. He passed the PRC bar examination in September 1995, and obtained the Certificate of Securities (Asset Management) from the Asset Management Association of China (中國證券投資基金協會) in July 2017.

Ms. Qu Jingyuan (曲靜淵), aged [49], was appointed as an independent non-executive Director on April 14, 2022.

Ms. Qu has been the founding partner of Dajishi (Beijing) Technology Co., Ltd. (大技獅(北京)科技有限公司) since December 2019. Prior to that, Ms. Qu worked at Matrix Partners China (經緯創投(北京)投資管理顧問有限公司) as a director from May 2015 to May 2017 and a capital market consultant from May 2017 to May 2021. Between March 2007 and May 2015, Ms. Qu was the director and deputy general manager at Baofeng Group Co., Ltd. (暴風集團股份有限公司). She served as the manager of financial department and the financial director between March 2000 and August 2006 at Beijing Kingsoft Software Co., Ltd. (北京金山軟件有限公司). From February 2017 to April 2022, Ms. Qu served as an independent non-executive director of Kingsoft Office (SSE STAR Market: 688111), a public company listed on Shanghai Stock Exchange and served as an independent non-executive director of Chengdu Xgimi Technology Co., Ltd. (成都極米科技股份有限公司) (SSE STAR Market: 688696), a public company listed on Shanghai Stock Exchange from June 2019 to April 2021. Ms. Qu has appropriate accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Qu obtained the accounting qualification certificate conferred by Ministry of Finance of PRC in May 1996. Ms. Qu received her bachelor’s degree in accounting from Shandong Technology and Business University (山東工商學院) in July 1993 and the degree of EMBA from China Europe International Business School (中歐國際工商學院) in October 2013.

Disclosure Pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this Document, (1) none of the Directors had held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately prior to the Latest Practicable Date, (2) there is no other matter in respect of each of the Directors that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and (3) there is no other material matter relating to our Directors that needs to be brought to the attention of the Shareholders.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets out certain information in respect of the senior management of the Group:

Name	Age	Position	Date of Joining our Group	Role and responsibilities
Mr. Wang Yulin (王育林)	[46]	Executive Director and Chief Executive Officer	December 2012	Responsible for the Group’s business development, daily operations and management
Mr. He Haijian (何海建)	[40]	Chief Financial Officer	January 2020	Responsible for the Group’s financial planning, treasury, legal affairs, strategic investments, and investor relations affairs
Mr. Liang Shouxing (梁守星)	[42]	Chief Operating Officer	February 2015	Responsible for the management of operation system, edge cloud business and certain enterprise cloud business of the Group
Mr. Wang Shouhu (王首虎)	[52]	President	December 2021	Responsible for overall operation and management of the public service clients of the Group and Camelot

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Group	Role and responsibilities
Dr. Liu Tao (劉濤)	[40]	Senior Vice President	July 2015	Responsible for operation and management of general internet business system of the Group
Mr. Tian Kaiyan (田開顏)	[44]	Vice President	September 2013	Responsible for operation and management of technology research and development system of the Group
Mr. Qian Yifeng (錢一峰)	[36]	Vice President	October 2014	Responsible for operation and technology development of certain business verticals of the Group

Mr. Wang Yulin (王育林), aged [46], is the Director and the chief executive officer of the Company. For further details, please refer to the paragraph headed “– Executive Director and Non-Executive Directors” above.

Mr. He Haijian (何海建), aged [40], is our chief financial officer, and is responsible for the Group’s financial planning, treasury, legal affairs, strategic investments, and investor relations affairs.

Prior to joining the Group in January 2020, Mr. He served as an executive director of the TMT (telecommunications, media and technology) group and the mergers and acquisitions group sequentially at Goldman Sachs (Asia) L.L.C. from September 2015 to January 2020. Mr. He has extensive experience in complex merger and acquisition transactions. Mr. He was an associate of the TMT investment banking division at Bank of America Merrill Lynch from May 2014 to September 2015 in Hong Kong, and was a vice president at Citigroup Global Markets Inc. from October 2010 to May 2013 in New York.

Mr. He received his bachelor’s degree and master’s degree in electronic engineering from Southeast University (東南大學) in June 2003 and April 2006, respectively, and an MBA from University of Chicago in March 2014. Mr. He is also a Chartered Financial Analyst charter holder.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang Shouxing (梁守星), aged [42], is currently our chief operating officer, and is responsible for the management of operation system, edge cloud business and certain enterprise cloud business of the Group.

Mr. Liang joined the Group in February 2015. Prior to joining the Group, Mr. Liang once worked at Shanghai Qiniu Information Technology Co., Ltd. (上海七牛信息技術有限公司). Mr. Liang worked at Chuang Sheng Shi Lian Digital Technology (Beijing) Co., Ltd. (創盛視聯數碼科技(北京)有限公司) from January 2012 to April 2014. From June 2008 to September 2011, Mr. Liang worked at ChinaCache International Holdings Ltd. (Nasdaq: CCIH), a public company listed on the Nasdaq.

Mr. Liang received his bachelor’s degree in computer science from Fuzhou University (福州大學) in July 2000.

Mr. Wang Shouhu (王首虎), aged [52], was appointed as our president in December 2021, and is responsible for the overall operation and management of the public service clients of the Group and Camelot.

Mr. Wang joined Camelot in 2016. Mr. Wang has over 25 years of experience and expertise in enterprise service management and corporate consulting. Prior to joining Camelot, he worked at IBM for more than 19 years. During his employment at IBM, he successively served as an associate partner from 2002 to 2005, a partner from 2005 to 2011, a vice president based in Beijing from 2011 to 2014 and a vice president based in New York, the United States from 2014 to 2016. From 1997 to 2002, he worked at PricewaterhouseCoopers before PwC Consulting merged with IBM in 2002.

Mr. Wang received his bachelor’s degree in photoelectronic technology from Huazhong University of Science and Technology (華中科技大學) in July 1991 and master’s degree in optical and quantum electronics from Beijing Institute of Technology (北京理工大學) in February 1994.

Dr. Liu Tao (劉濤), aged [40], is our senior vice president and is responsible for the operation and management of general internet business system of the Group.

Prior to joining us in July 2015, Dr. Liu served as a data center architect at Baidu, Inc. (Nasdaq: BIDU), a public company listed on the Nasdaq, from July 2009 to July 2015.

Dr. Liu received his bachelor’s degree in communication and information system in September 2004 and PhD degree in June 2009, respectively, from the University of Science and Technology of China (中國科學技術大學).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tian Kaiyan (田開顏), aged [44], is currently our vice president and is responsible for operation and management of technology research and development system of the Group.

Mr. Tian is also a director and the general manager of certain subsidiaries of the Company. Prior to joining us in September 2013, Mr. Tian served as the business assistant to the chief executive officer and the strategy director of Kingsoft Group from 2012 to 2013. Prior to joining Kingsoft Group, he worked as a senior game producer at Zynga from January 2012 to August 2012. He was a program manager at Microsoft Corporation (Nasdaq: MSFT), a public company listed on the Nasdaq, from January 2008 to April 2011.

Mr. Tian received his bachelor’s degree in communication engineering in July 2001 and master’s degree in computer science and technology in April 2004, respectively, from Beijing University of Posts and Telecommunications (北京郵電大學).

Mr. Qian Yifeng (錢一峰), aged [36], is our vice president and is responsible for the operation and technology development of certain business verticals of the Group.

Prior to joining us in October 2014, Mr. Qian served as an engineer and an architect at Baidu, Inc. (Nasdaq: BIDU) from July 2010 to November 2014.

Mr. Qian received his bachelor’s degree in computer science from Nanjing University (南京大學) in June 2007 and his master’s degree in computer software and theory from the Institute of Software, Chinese Academy of Sciences (中國科學院軟件研究所) in July 2010.

Disclosure Pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this Document, (1) none of the senior management had held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately prior to the Latest Practicable Date, (2) there is no other matter in respect of each of our senior management that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and (3) there is no other material matter relating to our senior managers that needs to be brought to the attention of the Shareholders.

Directors’ and Senior Management’s Interests

As of the Latest Practicable Date, none of our Directors or members of our senior management are related to other Directors or members of our senior management of the Company.

DIRECTORS AND SENIOR MANAGEMENT

As of the Latest Practicable Date, save for the interests in the Shares of the Company held by our Directors which are disclosed in the section headed “Statutory and General Information – C. Further Information about Our Directors, Senior Management and Substantial Shareholders – 3. Disclosure of Interests” in Appendix IV, none of our Directors held any interest in the securities within the meaning of Part XV of the SFO.

JOINT COMPANY SECRETARIES

Ms. Wang Yi (王軼), aged [45], joined our Group in May 2021, as our general counsel and the Board secretary. She was appointed as our joint company secretary in April 2022. Prior to joining our Group, Ms. Wang worked as an executive director within the legal division at Goldman Sachs Services (Asia) Limited from May 2014 to May 2021. Prior to that, Ms. Wang practiced law with Latham & Watkins LLP as an associate from September 2013 to May 2014, and with Simpson Thacher & Bartlett LLP as an associate from October 2007 to August 2013. With over 14-year working experience at US law firms and investment bank, Ms. Wang has rich experience in securities offerings, corporate financing and general corporate matters.

Ms. Wang received her bachelor of arts degree majoring in English literature from Kinjo Gakuin University in Japan in March 2000, her master of arts in law from Waseda University in Japan in March 2003, and her Juris Doctor from Duke Law School in the U.S. in December 2006. Ms. Wang was admitted to the New York State bar in November 2008.

Ms. So Ka Man (蘇嘉敏), aged [48], joined our Group and was appointed as one of our joint company secretaries in April 2022. Ms. So is a director of corporate services of Tricor Services Limited and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. So is currently the company secretary or joint company secretary of companies listed on the Hong Kong Stock Exchange, namely, Xiaomi Corporation (HKEx: 1810), Kuaishou Technology (HKEx: 1024), China Logistics Property Holdings Co., Ltd (HKEx: 1589), China Yongda Automobiles Services Holdings Limited (HKEx: 3669), and Embry Holdings Limited (HKEx: 1388).

Ms. So received her bachelor’s degree in accountancy from the Hong Kong Polytechnic University in November 1996. Ms. So is a chartered secretary, a chartered governance professional and a fellow of both The Hong Kong Chartered Governance Institute (HKCGI) (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (CGI) (formerly known as The Institute of Chartered Secretaries and Administrators).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS’ REMUNERATION

For details of the appointment letters that we have entered into with our Directors, see “Statutory and General Information – C. Further Information about our Directors, Senior Management and Substantial Shareholders – 1. Particulars of Directors’ service agreements” in Appendix IV.

The remuneration of the Directors and senior management is paid in the form of fees, basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme and discretionary bonuses.

The aggregate amount of remuneration (including basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, equity-settled share-based payment and discretionary bonuses) expenses for the Directors for the three years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, was approximately RMB5.5 million, RMB115.8 million, RMB29.1 million and RMB0.8 million, respectively.

The aggregate amount of remuneration (including basic salaries, housing fund, allowances and benefits in kind, employer’s contributions to a retirement benefit scheme, equity-settled share-based payment, discretionary bonuses and remuneration incurred in respect of accepting office as Director) expenses for the five highest paid individuals of the Group, excluding the Directors, for the three years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, were approximately RMB35.8 million, RMB39.1 million, RMB28.1 million and RMB3.4 million, respectively.

Further information on the remuneration of the Directors and the five highest paid individuals during the Track Record Period is set out in the Accountants’ Report in Appendix IA.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to the Directors by our Group.

During the Track Record Period, no remuneration was paid to the Directors and the five highest paid individuals of the Group as an inducement to join or upon joining the Group. No compensation was paid to or receivable by any Director or any of the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of the Group. None of the Directors waived any emoluments during the Track Record Period.

EQUITY INCENTIVE PLANS

During the Track Record Period, we have adopted the 2013 Share Option Scheme, the 2013 Share Award Scheme and the 2021 Share Incentive Plan. The principal terms of these equity incentive plans are summarized in the paragraph headed “Statutory and General Information – D. Equity Incentive Plans” in Appendix IV.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

We have established the following committees in our Board of Directors: an Audit Committee, a Compensation Committee and a nominating and corporate governance committee. We plan to split up the current nominating and corporate governance committee of the Board and establish a separate Nomination Committee and a Corporate Governance Committee, respectively, effective upon the [REDACTED]. The committees operate and will operate in accordance with the terms of reference established and to be established by our Board.

Audit Committee

Our Audit Committee is in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (with effect from [REDACTED]). The Audit Committee oversees our accounting and financial reporting processes and the audits of the financial statements of the Company. The primary duties of the Audit Committee are, among other things:

- (a) to review and recommend to the Board for approval, the appointment, re-appointment or removal of the independent auditor, after considering its annual performance evaluation of the independent auditor;
- (b) to approve the remuneration and terms of engagement of the independent auditor and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- (c) to evaluate the independent auditor's qualifications, performance and independence;
- (d) to review with the independent registered public accounting firm any audit problems or difficulties and management's response;
- (e) to discuss with our independent auditor, among other things, the audits of the financial statements, including whether any material information should be disclosed, issues regarding accounting and auditing;
- (f) to review and approve all proposed related party transactions;
- (g) to review and recommend the financial statements for inclusion within our quarterly earnings releases and to our Board for inclusion in our annual reports;
- (h) to discuss the annual audited financial statements with management and the independent registered public accounting firm;
- (i) to periodically review and reassess the adequacy of the committee charter;

DIRECTORS AND SENIOR MANAGEMENT

- (j) to approve annual audit plans, and undertake an annual performance evaluation of the internal audit function;
- (k) to meet separately and periodically with management and the independent registered public accounting firm;
- (l) to monitor compliance with our code of business conduct and ethics, and reporting such compliance to the Board; and
- (m) to report regularly to the Board.

Our Audit Committee comprises three members, namely Mr. Yu Mingto, Ms. Qu Jingyuan, and Mr. Wang Hang. The chairman of the Audit Committee upon the [REDACTED] will be Mr. Yu Mingto, who is an independent non-executive Director with the appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules. We have also determined that each of Mr. Yu Mingto, Ms. Qu Jingyuan, and Mr. Wang Hang satisfies the requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq and meets the independence standards under Rule 10A-3 under the U.S. Exchange Act.

Compensation Committee

Our Compensation Committee is in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (with effect from the [REDACTED]). The Compensation Committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The primary duties of the Compensation Committee are, among other things:

- (a) to oversee the development and implementation of compensation programs in consultation with our management;
- (b) to review and approve, or recommend to the Board for its approval, the compensation for our executive officers;
- (c) to review periodically and approve any incentive compensation or equity plans, programs or other similar arrangements;
- (d) to periodically review and reassess the adequacy of the committee charter;
- (e) to select compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management; and
- (f) to report regularly to the Board.

DIRECTORS AND SENIOR MANAGEMENT

Upon [REDACTED], our Compensation Committee comprises three members, namely Ms. Qu Jingyuan, Mr. Lei Jun and Mr. Yu Mingto. The chairlady of the Compensation Committee upon the [REDACTED] will be Ms. Qu Jingyuan.

Nomination Committee

The Nomination Committee is expected to be spilt up from the current nominating and corporate governance committee of the Board effective upon the [REDACTED]. The Nomination Committee is expected to be in compliance with the requirements in respect of nomination committees in the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

The Nomination Committee assists the Board in selecting individuals qualified to become our directors and in determining the composition of the Board and its committees. The primary duties of the Nomination Committee, which shall be effective upon the [REDACTED], are among other things:

- (a) to recommend nominees to the Board for election or re-election to the Board, or for appointment to fill any vacancy on the Board;
- (b) to review and evaluate the size, composition, function and duties of the Board consistent with its needs;
- (c) to review candidates' qualifications for membership on the board or a committee of the Board based on the criteria approved by the Board;
- (d) to make recommendations to the Board as to determinations of director independence;
- (e) to review and approve compensation (including equity-based compensation) for the Directors;
- (f) to periodically review and reassess the adequacy of the committee charters; and
- (g) to evaluate the performance and effectiveness of the Board as a whole.

Upon the [REDACTED], the Nomination Committee will consist of Mr. Lei Jun, Mr. Wang Yulin, Ms. Qu Jingyuan, Mr. Yu Mingto and Mr. Wang Hang. The chairman of the Nomination Committee upon the [REDACTED] will be Mr. Lei Jun.

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance Committee

The Corporate Governance Committee is to be spilt up from the current nominating and corporate governance committee of the Board effective upon the [REDACTED]. The Corporate Governance Committee is expected to assist the Board to exercise its business judgment to act in what they reasonably believe to be in the best interests of the Company and the Shareholders, and also to ensure the compliance with the requirements under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

The primary duties of the Corporate Governance Committee, which shall be effective upon the [REDACTED], are among other things:

- (a) to develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and our senior management;
- (c) to review and monitor the Company’s policies and practices on compliance with the applicable legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors;
- (e) to review the Company’s compliance with the Corporate Governance Code;
- (f) to review and monitor the Company’s actions in furtherance of its ESG responsibilities and monitor its performance in ESG related matters;
- (g) to review and monitor the Company’s policies and practices on the management of data security and the compliance with the applicable legal and regulatory requirements;
- (h) to review and monitor whether the Company is operated and managed for the benefit of all of the Shareholders;
- (i) to seek to ensure effective and ongoing communication between the Company and the Shareholders; and
- (j) to report on the work of the Corporate Governance Committee on an annual basis.

Upon the [REDACTED], the Corporate Governance Committee will consist of four members, namely Mr. Zou Tao, Mr. Wang Yulin, Dr. Ye Hangjun and Ms. Qu Jingyuan. The chairman of the Corporate Governance Committee upon the [REDACTED] will be Mr. Zou Tao.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our Compliance Adviser pursuant to Rules 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 of the Listing Rules, the Compliance Adviser will advise the Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this Document or where the business activities, development or results of the Company deviate from any forecast, estimate or other information in this Document; and
- (d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the [REDACTED] of its [REDACTED] securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

CORPORATE GOVERNANCE CODE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, save as disclosed below, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the [REDACTED].

BOARD DIVERSITY POLICY

We are committed to promoting the culture of diversity in the Company. We have strived to promote diversity to the extent practicable by taking into consideration a number of factors in our corporate governance structure.

We have adopted a board diversity policy (the “**Board Diversity Policy**”) which sets out the approach to achieve and maintain diversity in the Board. Pursuant to the Board Diversity Policy, selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge, length of service and other related factors. We will also consider our own business model and special needs. The ultimate selection of Director candidates will be based on merits of the candidates and contribution that the candidates will bring to the Board.

DIRECTORS AND SENIOR MANAGEMENT

The Board currently consists of one female Director and six male Directors with a balanced mix of knowledge and skills, including but not limited to overall management and strategic development, finance, accounting and risk management. After the [REDACTED], we will strive to keep gender balance of the Board through measures implemented by the Nomination Committee in accordance with our Board Diversity Policy. In particular, we will keep identifying and selecting female individuals with a diverse range of skills, experience and knowledge in different fields who are suitably qualified to become our Board members and maintain at least one female Director in our Board.

Going forward and with a view to developing a pipeline of potential successors to our Board that may meet the board diversity requirements as set out above, we will (i) continue to make appointments based on merits with reference to board diversity as a whole; (ii) take steps to promote gender diversity at all levels of our Group by recruiting staff of different genders; (iii) consider the possibility of nominating female management staff who has the necessary skills and experience to our Board; and (iv) provide career development opportunities and more resources in training female staff with the aim of promoting them to the senior management or the Board so that we will have a pipeline of female senior management and potential successors to our Board in a few years’ time. Our Directors will exercise fiduciary duties in the process, acting in the best interests of our Company and the Shareholders as a whole when making the relevant appointments.

Upon the [REDACTED], The Nomination Committee will be responsible for the implementation of the Board Diversity Policy. The Nomination Committee will review our Board Diversity Policy from time to time to ensure its continued effectiveness, and will also include in successive annual reports a summary of the Board Diversity Policy, including any measurable objectives set for implementing the Board Diversity Policy and the progress on achieving these objectives.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Mr. Lei Jun is a renowned entrepreneur in China. As of the Latest Practicable Date, apart from his interests and directorships in the Company and Kingsoft Corporation, Mr. Lei Jun also holds directorships and equity interests in Xiaomi and its various subsidiaries, associate and affiliated companies. As Xiaomi and its relevant various subsidiaries, associate and affiliated companies mainly operate as separate businesses and have their own separate shareholder bases, Mr. Lei Jun has no current intention to inject any of these interests into our Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lei Jun is also a founding partner of Shunwei Capital (“**Shunwei**”), which operates investment funds specializing in start-ups, early to mid-stage and growth capital investments in internet and technology industries. While Shunwei may acquire non-controlling interests in certain business that operate in cloud services sectors similar to those in which our Group operates, Shunwei is a pure financial investor, and generally has no management or shareholding control over its investee companies. We therefore do not believe that Shunwei competes in any material way with our Group. In addition to the minority investments held by Shunwei, as a renowned angel investor in China, Mr. Lei Jun also personally holds a number of minority interests in private companies in a variety of sectors, none of which, to the best of Mr. Lei Jun’s knowledge, materially compete with our Group.

Each of the Directors confirms that as of the Latest Practicable Date, saved as disclosed in this Document, he/she did not have any interest in a business which materially competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), the following persons will have interests and/or short positions (as applicable) in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of substantial shareholder	Capacity/Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding of our Company as at the Latest Practicable Date ⁽¹⁾ (%)	Approximate percentage of shareholding of our Company after the [REDACTED] ⁽¹⁾ (%)
Kingsoft Corporation	Beneficial owner	1,423,246,584	37.40	[REDACTED]
Xiaomi Corporation ⁽²⁾	Beneficial owner	449,701,000	11.82	[REDACTED]
Mr. Lei Jun ⁽²⁾	Interest in controlled corporation	449,701,000	11.82	[REDACTED]

Notes:

- (1) The table above assumes (i) the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED] and (ii) the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans.
- (2) As of the Latest Practicable Date, Mr. Lei had the majority voting power in Xiaomi and is deemed to beneficially own our shares held by Xiaomi under the SFO.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), have any interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued under the Equity Incentive Plans):

	Number of Shares	Aggregate nominal value of Shares
Authorized share capital as of the date of this Document ⁽¹⁾	40,000,000,000	US\$40,000,000.00
Shares in issue as of the date of this Document ⁽¹⁾	3,805,284,801	US\$3,805,284.80
Shares to be issued under the [REDACTED]	[REDACTED]	[REDACTED]
Shares in issue immediately following the [REDACTED]	[REDACTED]	[REDACTED]

Note:

- (1) The authorized share capital of our Company was US\$40,000,000.00 divided into 40,000,000,000 ordinary shares of US\$0.001 each, of which 3,805,284,801 Shares are issued and fully paid up as at the date of this Document.

Assumptions

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the [REDACTED] and no further Shares will be issued under any Equity Incentive Plan. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

Ranking

The [REDACTED] will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this Document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this Document.

SHARE CAPITAL

[REDACTED]

Certain Shareholders were granted [REDACTED] by the Company to use its best efforts to register [REDACTED] in accordance with the Securities Act and the relevant [REDACTED] agreement dated April 7, 2020. For details please refer to Note 16 “Convertible Preferred Shares and Redeemable Convertible Preferred Shares” in the Accountant’s Report set out in Appendix IA to this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Upon completion of the [REDACTED], our Company has only one class of Shares. Pursuant to the Cayman Companies Act and the provisions of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its share capital, (ii) consolidate and divide its share capital into shares of larger amount, (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. Please see the paragraph headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2. Articles of Association – 2.4 Transfer of Shares” in Appendix III for further details.

2021 Share Incentive Plan

We adopted the 2021 Share Incentive Plan on November 15, 2021 and amended on [●], 2022. For details of the principal terms of the 2021 Share Incentive Plan, please refer to the paragraph headed “Statutory and General Information – D. Equity Incentive Plans – 3. 2021 Share Incentive Plan” in Appendix IV.

General mandate to issue Shares

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of not more than the sum of:

- 20% of the number of Shares in issue immediately following completion of the [REDACTED]; and
- the total number of Shares repurchased by us under the authority referred to in the paragraph headed “– General mandate to repurchase Shares” in this section.

SHARE CAPITAL

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

Please see the paragraph headed “Statutory and General Information – A. Further Information about Our Company – 4. Resolutions of our Shareholders” in Appendix IV for further details of this general mandate to allot, issue and deal with Shares.

General mandate to repurchase Shares

On March 31, 2022, our Board authorized the Company to adopt a share repurchase program, under which we may repurchase up to US\$100 million of our ordinary shares in the form of ADSs during a twelve-month period (the “**U.S. Share Repurchase Program**”). As of the Latest Practicable Date, the U.S. Share Repurchase Program has been adopted and such U.S. Share Repurchase Program shall lapse upon [REDACTED]. Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with a total number of up to 10% of the total number of our Shares in issue immediately following the completion of the [REDACTED].

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Statutory and General Information – A. Further Information about Our Company – 5. Repurchases of our Own Securities” in Appendix IV.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

SHARE CAPITAL

- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

Please see the paragraph headed “Statutory and General Information – A. Further Information about our Company – 4. Resolutions of our Shareholders” in Appendix IV to this Document for further details of this general mandate to repurchase Shares.

FINANCIAL INFORMATION

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

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

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

OVERVIEW

We are the largest independent cloud service provider in China in terms of revenue in 2021, according to Frost & Sullivan. We offer comprehensive, reliable and trusted cloud service to customers in strategically selected verticals. With extensive cloud infrastructure, cutting-edge cloud-native products based on our vigorous cloud technology R&D capabilities, well-architected industry-specific solutions and end-to-end fulfillment and deployment for customers, we achieved superior business and financial growth, with a revenue growth CAGR of 51.3% from 2019 to 2021, outpacing the broader industry growth CAGR of 36.4% for China’s cloud service market during the same period.

We have established our market leadership by addressing customers’ comprehensive needs. We provide a full suite of cloud products combining unified IaaS infrastructure and PaaS middleware, and tailored business applications which support a wide range of use cases that enable our customers’ diverse business objectives. We also offer our solutions in a holistic approach by merging our cloud solutions with dedicated customer services. Our end-to-end customer services cover planning, solution development, fulfillment and deployment, as well as ongoing maintenance and upgrade. The entire process is primarily executed by our in-house professionals, with strict adherence to high standards and full accountability.

FINANCIAL INFORMATION

We have strategically expanded our footprints into selected verticals as an early mover and have established a strong market presence in each selected vertical through efficient execution. As we continuously to complete lighthouse projects with vertical leaders, we have accumulated proprietary industry know-how and formed in-depth view of each selected vertical, which enables us to stay forefront of industry-specific cloud solutions. We have also aligned our research and development efforts with our business focuses, which enables us to act swiftly and develop new product modules and features that are specifically tailored to address a growing number of business needs faced by our customers.

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

Our revenue increased by 66.2% from RMB3,956.4 million in 2019 to RMB6,577.3 million in 2020, and further increased by 37.8% to RMB9,060.8 million (US\$1,421.8 million) in 2021, and from RMB1,813.5 million for the three months ended March 31, 2021 to RMB2,173.8 million (US\$342.9 million) for the three months ended March 31, 2022.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

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

FINANCIAL INFORMATION

Our ability to retain existing customers and acquire new customers

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

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

Our ability to upgrade and optimize our products and solutions

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

Our ability to continue to invest in technology, talent and infrastructure

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

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Our ability to effectively control our costs and expenses

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

Our ability to compete effectively

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

KEY OPERATING METRICS

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

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	For the Year Ended December 31,		
	2019	2020	2021
Public Cloud Services			
Number of Public Cloud Service			
Premium Customers	175	191	222
Net dollar retention rate of Public			
Cloud Service Premium Customers ⁽¹⁾	155%	146%	114%
Average revenues per Public Cloud			
Service Premium Customers (RMB in million) ⁽³⁾	19.2	26.4	27.3
Enterprise Cloud Services			
Number of Enterprise Cloud Service			
Premium Customers	67	124	382
Average revenues per Enterprise Cloud			
Services Premium Customers (RMB in million) ⁽³⁾	7.2	11.0	10.7
Total			
Number of Premium Customers ⁽²⁾	243	322	597
Average revenues per Premium			
Customer (RMB in million) ⁽³⁾	15.9	20.0	17.0

Notes:

- (1) Net dollar retention rate of Public Cloud Service Premium Customers is calculated by dividing the revenues from our Public Cloud Service Premium Customers, who were also our Public Cloud Service Premium Customers in the previous year, in the indicated period by the revenues from all of our Public Cloud Service Premium Customers in the previous corresponding period.
- (2) The Number of Premium Customers for the year ended December 31, 2021 includes customers of Camelot and Shenzhen Yunfan with revenue of over RMB700,000 for the same year.
- (3) Average revenues per Premium Customer for 2021 is calculated by dividing (i) the sum of (x) consolidated revenues of our Group generated from Premium Customers in 2021 and (y) revenues generated from Premium Customers of Camelot for the period from January 1 to September 3, 2021, by (ii) the number of Premium Customers for 2021.

IMPACT OF COVID-19

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

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These uncertainties may have impacts to our financial performance, to the extent it affects the general economic status, our customers, suppliers, other business partners, and our own operations. However, as a result of the balance of our businesses with exposure to diverse verticals and revenue models, such impacts are mixed in direction. On one hand, (i) travel restriction measures adopted by government authorities may limit our ability to provide on-site services to customers and delay project deployment completion, and (ii) businesses negatively impacted by the pandemic may cut their procurement budget, including cloud budget.

On the other hand, the pandemic accelerated cloud adoption as: (i) with restrictive measures imposed on transportation in response to the pandemic, people increasingly leverage the internet to fulfill daily activities from work, shopping, education to entertainment, which are increasingly supported by cloud infrastructure; and (ii) the healthcare industry in China increasingly tap into cloud technology to meet the challenges of public health events, and enterprises experiencing business fluctuations in the pandemic may consider cloud services to obtain better agility and cost control in the mid-to-long run.

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

OUR ACQUISITION OF CAMELOT

We completed the acquisition of Camelot in September 2021, and its results of operations have been consolidated into ours since then. Our statement of comprehensive profit or loss from the year ended December 31, 2021 consolidates the results of Camelot since September 2021.

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

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

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

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

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

See Note 2 to the Accountants’ Report in Appendix IA and Note 2 to the unaudited interim condensed consolidated financial information included in Appendix IB for a description of other significant accounting policies.

Goodwill

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

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

We are permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. For our annual impairment testing performed, we applied the qualitative assessments for our reporting units. In performing the qualitative assessments, we identified and considered the significance of relevant key factors, events, and circumstances that could affect the fair value of each reporting unit. These factors include such as industry and market considerations, overall financial performance of the reporting units, and other specific information related to the operations. We also assessed changes in each reporting unit's fair value and carrying value since the most recent date a fair value measurement was performed. As a result of the qualitative assessments performed, we concluded that it is more likely than not that the fair value of each of these reporting units exceeded its respective carrying value and therefore, no additional quantitative impairment testing was performed.

Impairment of long-lived assets

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

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DESCRIPTION OF KEY COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The table below sets forth our consolidated statements of profit or loss for the periods indicated derived from the Accountants’ Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB:

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)											
Selected Consolidated Statements of Operation:												
Revenues												
Public cloud services	3,458,843	87.4	5,166,851	78.5	6,159,085	966,495	68.0	1,391,833	76.7	1,380,807	217,817	63.5
Enterprise cloud services	486,308	12.3	1,372,689	20.9	2,897,817	454,731	32.0	420,032	23.2	792,509	125,015	36.5
Others	11,202	0.3	37,767	0.6	3,882	609	0.0	1,667	0.1	493	78	0.0
Total revenues	3,956,353	100.0	6,577,307	100.0	9,060,784	1,421,835	100.0	1,813,532	100.0	2,173,809	342,910	100.0
Cost of revenues ⁽¹⁾	(3,948,644)	(99.8)	(6,220,324)	(94.6)	(8,709,496)	(1,366,710)	(96.1)	(1,697,029)	(93.6)	(2,093,851)	(330,297)	(96.3)
Gross (loss)/profit	7,709	0.2	356,983	5.4	351,288	55,125	3.9	116,503	6.4	79,958	12,613	3.7
Operating expenses												
Selling and marketing expenses ⁽¹⁾	(317,426)	(8.0)	(409,211)	(6.2)	(518,167)	(81,312)	(5.7)	(112,826)	(6.2)	(144,405)	(22,779)	(6.6)
General and administrative expenses ⁽¹⁾	(238,648)	(6.0)	(379,892)	(5.8)	(601,702)	(94,420)	(6.6)	(91,177)	(5.0)	(221,763)	(34,982)	(10.2)
Research and development expenses ⁽¹⁾	(595,169)	(15.1)	(775,130)	(11.8)	(1,043,811)	(163,797)	(11.6)	(264,636)	(14.6)	(246,633)	(38,905)	(11.4)
Total operating expenses	(1,151,243)	(29.1)	(1,564,233)	(23.8)	(2,163,680)	(339,529)	(23.9)	(468,639)	(25.8)	(612,801)	(96,666)	(28.2)
Operating loss	(1,143,534)	(28.9)	(1,207,250)	(18.4)	(1,812,392)	(284,404)	(20.0)	(352,136)	(19.4)	(532,843)	(84,053)	(24.5)
Interest income	78,612	1.9	77,118	1.2	71,942	11,289	0.8	17,746	1.0	21,157	3,337	1.1
Interest expenses	(4,925)	(0.1)	(9,453)	(0.1)	(52,040)	(8,166)	(0.6)	(3,866)	(0.2)	(34,066)	(5,374)	(1.6)
Foreign exchange (loss)/gain	(38,961)	(1.0)	188,800	2.9	37,822	5,935	0.5	(48,375)	(2.7)	(18,741)	(2,956)	(0.9)
Other gain/(loss), net	-	-	14,301	0.2	83,606	13,120	0.9	5,782	0.3	(12,035)	(1,898)	(0.6)
Other income/(expense), net	6,612	0.2	(10,810)	(0.2)	95,047	14,915	1.0	1,926	0.1	20,038	3,161	0.9
Loss before income taxes	(1,102,196)	(27.9)	(947,294)	(14.4)	(1,576,015)	(247,311)	(17.4)	(378,923)	(20.9)	(556,490)	(87,783)	(25.6)
Income tax (expense)/benefit	(9,003)	(0.2)	(14,904)	(0.2)	(15,741)	(2,470)	(0.2)	(3,286)	(0.2)	1,670	263	0.1
Net loss	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(382,209)	(21.1)	(554,820)	(87,520)	(25.5)
Net loss attributable to:												
Kingsoft Cloud Holdings Limited	(1,111,199)	(28.1)	(962,259)	(14.6)	(1,588,712)	(249,303)	(17.5)	(382,464)	(21.1)	(553,249)	(87,272)	(25.4)
Non-controlling interests	-	-	61	0.0	(3,044)	(478)	(0.1)	255	0.0	(1,571)	(248)	(0.1)
	(1,111,199)	(28.1)	(962,198)	(14.6)	(1,591,756)	(249,781)	(17.6)	(382,209)	(21.1)	(554,820)	(87,520)	(25.5)

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Note:

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

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

Non-GAAP Financial Measures

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

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

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

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Adjusted Gross (Loss)/Profit and Adjusted Gross Margin (Non-GAAP Measures)

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

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

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

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

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

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

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

Revenues

We derive our revenues primarily from (i) public cloud services and (ii) enterprise cloud services. The following table sets forth a breakdown of our revenues, in absolute amounts and as percentages of total revenues, for the periods indicated.

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

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

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

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

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

FINANCIAL INFORMATION

Cost of Revenues

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

The following table sets forth a breakdown of our cost of revenues, in absolute amounts and as percentages of total cost of revenues, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							<i>(unaudited)</i>		<i>(unaudited)</i>			
	<i>(in thousands, except for percentages)</i>											
Cost of revenues												
IDC costs	2,856,591	72.3	4,058,848	65.2	5,101,528	800,541	58.6	1,112,712	65.6	1,110,345	175,153	53.0
Depreciation and amortization costs	599,193	15.2	746,245	12.0	785,173	123,211	9.0	174,815	10.3	246,140	38,828	11.8
Fulfillment costs	411,438	10.4	1,206,679	19.4	1,851,342	290,516	21.3	358,955	21.2	184,499	29,104	8.8
Solution development and services costs	43,954	1.2	37,148	0.6	678,178	106,421	7.8	9,534	0.6	475,956	75,080	22.7
Other costs	37,468	0.9	171,404	2.8	293,275	46,021	3.3	41,013	2.3	76,911	12,132	3.7
Total cost of revenues	<u>3,948,644</u>	<u>100.0</u>	<u>6,220,324</u>	<u>100.0</u>	<u>8,709,496</u>	<u>1,366,710</u>	<u>100.0</u>	<u>1,697,029</u>	<u>100.0</u>	<u>2,093,851</u>	<u>330,297</u>	<u>100.0</u>

IDC costs primarily consist of (i) bandwidth costs, which represent the purchase of bandwidth usage rights from telecommunication operators, and (ii) rack costs, which cover fees we pay to the IDC operators for using the rack space, associated utilities and services. Depreciation and amortization costs primarily consist of depreciation and amortization of our fixed assets, such as servers, and intangible assets. Fulfillment costs mainly represent purchases of technology components from third parties to fulfill the deployment of solutions. Solution development and services costs primarily represent payments to our solution development and services personnel for the development of products and solutions based on customers’ needs. Experience and know-how accumulated from developing such products and solutions may be re-utilized for other customers with similar needs. Other costs consist of other miscellaneous costs associated with our solutions and services.

FINANCIAL INFORMATION

Operating Expenses

The following table sets forth a breakdown of our operating expenses, in absolute amounts and as percentages of our total operating expenses, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							<i>(unaudited)</i>		<i>(unaudited)</i>			
	<i>(in thousands, except for percentages)</i>											
Operating expenses												
Research and development expenses	595,169	51.7	775,130	49.5	1,043,811	163,797	48.3	264,636	56.4	246,633	38,905	40.2
Selling and marketing expenses	317,426	27.6	409,211	26.2	518,167	81,312	23.9	112,826	24.1	144,405	22,779	23.6
General and administrative expenses	238,648	20.7	379,892	24.3	601,702	94,420	27.8	91,177	19.5	221,763	34,982	36.2
Total operating expenses	<u>1,151,243</u>	<u>100.0</u>	<u>1,564,233</u>	<u>100.0</u>	<u>2,163,680</u>	<u>339,529</u>	<u>100.0</u>	<u>468,639</u>	<u>100.0</u>	<u>612,801</u>	<u>96,666</u>	<u>100.0</u>

Research and development expenses

Research and development expenses consist primarily of (i) staff expenses, including salaries, bonuses and benefits paid to our research and development personnel, (ii) share-based compensation paid to our research and development personnel, and (iii) other miscellaneous expenses, primarily including depreciation and amortization expenses, office rental expenses and information technology expenses. The following table sets forth a breakdown of our research and development expenses for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							<i>(unaudited)</i>		<i>(unaudited)</i>			
	<i>(in thousands, except for percentages)</i>											
Research and development Expenses												
Staff expenses (excluding share-based compensation)	483,308	81.2	590,480	76.2	744,697	116,859	71.4	171,162	64.8	187,576	29,589	76.1
Share-based compensation	42,974	7.2	88,129	11.4	150,389	23,599	14.4	62,644	23.7	24,974	3,940	10.1
Other miscellaneous expenses	68,887	11.6	96,521	12.4	148,725	23,339	14.2	30,830	11.5	34,083	5,376	13.8
Total research and development expenses	<u>595,169</u>	<u>100.0</u>	<u>775,130</u>	<u>100.0</u>	<u>1,043,811</u>	<u>163,797</u>	<u>100.0</u>	<u>264,636</u>	<u>100.0</u>	<u>246,633</u>	<u>38,905</u>	<u>100.0</u>

FINANCIAL INFORMATION

Selling and marketing expenses

Selling and marketing expenses consist primarily of (i) staff expenses, including salaries, commissions, bonuses and benefits paid to sales and marketing personnel, (ii) share-based compensation paid to sales and marketing personnel, (iii) marketing and promotion expenses, (iv) depreciation and amortization expenses, mainly including amortization of intangible assets such as customer relationship, which were primarily acquired from the acquisition of Camelot, and (v) other miscellaneous expenses, primarily including office rental expenses. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%	<i>RMB</i>	%	<i>RMB</i>	<i>US\$</i>	%
	<i>(unaudited)</i>						<i>(unaudited)</i>					
	<i>(in thousands, except for percentages)</i>											
Selling and Marketing												
Expenses												
Staff expenses												
(excluding share-based												
compensation)	187,908	59.2	261,068	63.8	308,077	48,344	59.5	63,635	56.4	74,357	11,730	51.5
Share-based compensation	37,808	11.9	62,270	15.2	72,594	11,392	14.0	29,343	26.0	16,806	2,651	11.6
Marketing and promotion expenses	29,271	9.2	15,348	3.8	24,039	3,772	4.6	5,181	4.6	3,201	505	2.2
Depreciation and amortization expenses	662	0.2	841	0.2	50,559	7,934	9.8	216	0.2	37,105	5,853	25.7
Other miscellaneous expenses	61,777	19.5	69,684	17.0	62,898	9,870	12.1	14,451	12.8	12,936	2,040	9.0
Total selling and marketing expenses	317,426	100.0	409,211	100.0	518,167	81,312	100.0	112,826	100.0	144,405	22,779	100.0

FINANCIAL INFORMATION

General and administrative expenses

Our general and administrative expenses consist of (i) staff expenses, including salaries, bonuses and benefits paid to general and administrative personnel, (ii) share-based compensation paid to general and administrative personnel, (iii) credit losses primarily for account receivables and contract assets, and (iv) other miscellaneous expenses, primarily including depreciation and amortization expenses, office rental expenses, general operation expenses and professional service fees. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2019		2020		2021		2021		2022			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							<i>(unaudited)</i>		<i>(unaudited)</i>			
	<i>(in thousands, except for percentages)</i>											
General and Administrative Expenses												
Staff expenses (excluding share-based compensation)	90,154	37.8	79,590	21.0	165,861	26,027	27.6	26,925	29.5	66,416	10,477	29.9
Share-based compensation	31,988	13.4	169,101	44.5	193,886	30,425	32.2	25,627	28.1	47,783	7,537	21.5
Credit losses	61,920	25.9	31,881	8.4	114,124	17,909	19.0	10,125	11.1	66,431	10,479	30.0
Other miscellaneous expenses	54,586	22.9	99,320	26.1	127,831	20,059	21.2	28,500	31.3	41,133	6,489	18.6
Total general and administrative expenses	238,648	100.0	379,892	100.0	601,702	94,420	100.0	91,177	100.0	221,763	34,982	100.0

Interest Income

Our interest income consists primarily of interests earned on cash deposits in banks and short-term investments. In 2019, 2020 and 2021, and the three months ended March 31, 2021 and 2022, we had interest income of RMB78.6 million, RMB77.1 million, RMB71.9 million (US\$11.3 million), RMB17.7 million and RMB21.2 million (US\$3.3 million), respectively.

FINANCIAL INFORMATION

Interest Expenses

Our interest expenses consist primarily of interest expenses related to our bank loans and loans due to related parties. In 2019, 2020 and 2021, and the three months ended March 31, 2021 and 2022, we had interest expenses of RMB4.9 million, RMB9.5 million, RMB52.0 million (US\$8.2 million), RMB3.9 million and RMB34.1 million (US\$5.4 million), respectively.

Foreign Exchange (Loss)/Gain

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

Other Gain/(Loss), Net

Our other gain/(loss), net consists primarily of net gains or losses from changes in fair value of equity investments and purchase consideration of a business acquisition. In 2019, 2020 and 2021, we had other gain, net of nil, RMB14.3 million and RMB83.6 million (US\$13.1 million), respectively. In the three months ended March 31, 2021, we had other gain, net of RMB5.8 million, and in the three months ended March 31, 2022, we had other loss, net of RMB12.0 million (US\$1.9 million).

Other Income/(Expense), Net

Our other income/(expenses), net consists primarily of reimbursements from the ADR depository bank and government allowances and subsidies, including income due to certain temporary preferential tax treatment. We had other income, net, of RMB6.6 million in 2019, other expense, net, of RMB10.8 million in 2020, other income, net, of RMB95.0 million (US\$14.9 million) in 2021, and other income, net of RMB1.9 million and RMB20.0 million (US\$3.2 million) for the three months ended March 31, 2021 and 2022, respectively.

Taxation

Cayman Islands

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

FINANCIAL INFORMATION

Hong Kong

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

PRC

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

DISCUSSION OF RESULTS OF OPERATIONS

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

Revenues

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

Public cloud services

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

FINANCIAL INFORMATION

Enterprise cloud services

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

Cost of revenues

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

Gross (loss)/profit

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

Research and development expenses

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

Selling and marketing expenses

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

FINANCIAL INFORMATION

General and administrative expenses

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

Operating loss

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

Interest income

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

Interest expense

Our interest expense increased from RMB3.9 million for the three months ended March 31, 2021 to RMB34.1 million (US\$5.4 million) for the three months ended March 31, 2022, primarily due to (i) the increase of our short-term bank loans, and (ii) loans we obtained from Kingsoft Group and Xiaomi Group in 2021.

Foreign exchange loss

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

Other gain/(loss), net

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

Other income/(expense), net

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

FINANCIAL INFORMATION

Income tax expense

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

Net loss

As a result of the foregoing, our net loss increased by 45.2% from RMB382.2 million for the three months ended March 31, 2021 to RMB554.8 million (US\$87.5 million) for the three months ended March 31, 2022. Our net loss margin increased from 21.1% for the three months ended March 31, 2021 to 25.5% for the three months ended March 31, 2022.

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

Revenues

Our revenues increased by 37.8% from RMB6,577.3 million in 2020 to RMB9,060.8 million (US\$1,421.8 million) in 2021, which was attributable to an increase by 111.1% in the revenue generated by enterprise cloud services, and an increase by 19.2% in the revenue generated by public cloud services over the same periods.

Public cloud services

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

Enterprise cloud services

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

FINANCIAL INFORMATION

Cost of revenues

Our cost of revenues increased by 40.0% from RMB6,220.3 million in 2020 to RMB8,709.5 million (US\$1,366.7 million) in 2021, primarily driven by (i) an increase in IDC costs from RMB4,058.8 million to RMB5,101.5 million to support our business expansion, (ii) an increase in fulfillment costs from RMB1,206.7 million to RMB1,851.3 million, which was in line with the increase in our revenues, and (iii) a significant increase in solution development and services cost from RMB37.1 million to RMB678.2 million as we expanded our solutions and services to meet customers’ growing demands for end-to-end solutions.

Gross (loss)/profit

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

Research and development expenses

Our research and development expenses increased by 34.7% from RMB775.1 million in 2020 to RMB1,043.8 million (US\$163.8 million) in 2021, primarily driven by an increase of number of our research and development personnel, an increase in share-based compensation expenses and our continuous focus on research and development efforts.

Selling and marketing expenses

Our selling and marketing expenses increased by 26.6% from RMB409.2 million in 2020 to RMB518.2 million (US\$81.3 million) in 2021, primarily driven by (i) an increase in staff expenses from RMB323.3 million to RMB380.7 million (US\$59.7 million), mainly driven by an increase in the number of our sales and marketing personnel primarily due to our increased sales and marketing efforts; and (ii) a significant increase in depreciation and amortization expenses from RMB0.8 million to RMB50.6 million (US\$7.9 million) primarily due to the amortization of intangible assets related to sales and marketing, such as customer relationship, recorded as a result of our enlarged customer base.

FINANCIAL INFORMATION

General and administrative expenses

Our general and administrative expenses increased by 58.4% from RMB379.9 million in 2020 to RMB601.7 million (US\$94.4 million) in 2021, primarily attributable to (i) an increase in staff expenses from RMB248.7 million to RMB359.7 million (US\$56.4 million), mainly driven by an increase in the number of our general and administrative personnel; and (ii) an increase in credit losses primarily for account receivables and contract assets from RMB31.9 million to RMB114.1 million (US\$17.9 million) primarily as a result of the increase of our account receivables and contract assets due to our business growth.

Operating loss

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

Interest income

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

Interest expense

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

Foreign exchange gain/(loss)

Our foreign exchange gain decreased from RMB188.8 million in 2020 to RMB37.8 million (US\$5.9 million) in 2021, primarily because of fluctuations of the exchange rates.

Other gain, net

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

Other income/(expense), net

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

FINANCIAL INFORMATION

Income tax expense

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

Net loss

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

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

Revenues

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

Public cloud services

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

Enterprise cloud services

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

FINANCIAL INFORMATION

Cost of revenues

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

Gross (loss)/profit

As a result of the foregoing, our gross profit increased significantly from RMB7.7 million in 2019 to RMB357.0 million in 2020. Our gross profit margin increased from 0.2% to 5.4%, primarily resulting from economies of scale and our enhanced efficiency, specifically attributable to (i) increased sales of standardized cloud products and solutions, and (ii) existing customer renewals and cross-sells.

Research and development expenses

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

Selling and marketing expenses

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

General and administrative expenses

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

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Operating loss

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

Interest income

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

Interest expense

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

Foreign exchange gain/(loss)

We recorded foreign exchange gain of RMB188.8 million in 2020, as compared to foreign exchange loss of RMB39.0 million in 2019, primarily due to the fluctuation of exchange rates.

Other gain, net

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

Other income/(expense), net

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

Income tax expense

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

Net loss

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

FINANCIAL INFORMATION

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED BALANCE SHEETS

The table below sets forth selected information from our consolidated balance sheets as of the dates indicated, which has been extracted from the Accountants’ Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB:

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

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Current Assets and Liabilities

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

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

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

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

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

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

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Cash and Cash Equivalents

Our cash and cash equivalents consist of cash on hand and time deposits or other highly liquid investments placed with banks or other financial institutions which are unrestricted as to withdrawal or use and have original maturities of less than three months. Our cash and cash equivalents increased from RMB2,023.3 million as of December 31, 2019 to RMB3,424.7 million as of December 31, 2020 primarily attributable to the net proceeds from our US IPO and follow-on offering in 2020, further increased to RMB4,217.5 million (US\$661.8 million) as of December 31, 2021 primarily attributable to increases in the proceeds from short-term bank loans and loans from related parties. Our cash and cash equivalents decreased to RMB3,219.4 million (US\$507.9 million) as of March 31, 2022, primarily due to our cash outflows in operating activities and investing activities.

Short-term Investments

During the Track Record Period, our short-term investments consisted of cash deposits at fixed rates with original maturities of three to 12 months. Our short-term investments increased from RMB225.4 million as of December 31, 2019 to RMB2,693.0 million as of December 31, 2020 primarily due to our increased deposits of cash at fixed rates, especially upon receipt of proceeds from our US IPO and follow-on offering in 2020. Our short-term investments slightly decreased to RMB2,491.1 million (US\$390.9 million) as of December 31, 2021 and to RMB2,348.5 million (US\$376.2 million) as of March 31, 2022.

Restricted Cash

Our restricted cash mainly represents the cash reserved in escrow accounts for the purchase consideration in relation to our acquisition of Camelot, cash secured for certain payables to suppliers and advances paid by certain customers to guarantee our performance under certain revenue contracts. Our restricted cash was nil, nil, RMB239.1 million (US\$37.5 million) and RMB163.0 million (US\$25.7 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively. Our cash reserved for purchase consideration to acquire Camelot that was largely released in May 2022.

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Accounts Receivable, Net of Allowance

Our accounts receivable, net of allowance consist primarily of receivables from our customers in consideration for the products and solutions provided by us. Our accounts receivable, net of allowance increased from RMB1,347.5 million as of December 31, 2019 to RMB2,334.9 million as of December 31, 2020, and further to RMB3,571.0 million (US\$560.4 million) as of December 31, 2021, primarily due to our overall business growth. Our accounts receivable, net of allowance slightly decreased to RMB3,525.3 million (US\$556.1 million) as of March 31, 2022.

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

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

The average accounts receivable, net of allowance turnover days increase throughout the Track Record Period, primarily because, with our growing business, we agreed to a more diversified spread of settlement terms with a growing base of customers from a broader range of industry verticals who have different requirements on settlement cycles. The increase of such turnover days from the three months ended March 31, 2021 to the three months ended March 31, 2022 was also attributable to the temporary payment delays caused by the restrictive measures, including lockdowns, of various cities in China, due to the resurgence of COVID-19 in 2022.

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

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

As of June 30, 2022, RMB1,535.8 million, or 44% of our accounts receivable, net of allowance outstanding as of March 31, 2022, had been subsequently settled. Throughout the Track Record Period, we have not experienced material recoverability issues for our accounts receivable. We assess our customers’ credit quality carefully, taking into account their financial position, past experience and other factors. We have in place dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments as scheduled.

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Prepayments and Other Assets

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

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

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Our prepayments and other assets increased by 96.1% from RMB458.4 million as of December 31, 2019 to RMB898.9 million in December 31, 2020, primarily due to (i) an increase in individual income tax receivable from nil to RMB231.4 million, which represents amounts due from certain employees related to their individual income taxes arising from exercise and vesting of share-based awards, and (ii) an increase in VAT prepayments from RMB360.4 million to RMB470.6 million, primarily due to the increased deductible VAT driven by our business growth. Our prepayments and other assets further increased by 90.9% to RMB1,716.1 million (US\$269.3 million) as of December 31, 2021, primarily due to (i) a significant increase in contract assets, net from nil to RMB550.1 million (US\$86.3 million), which represents our rights to consideration for work completed in relation to our services performed but not billed as of December 31, 2021, primarily incurred by Camelot, which we acquired in 2021, (ii) an increase in VAT prepayments from RMB470.6 million to RMB619.4 million (US\$97.2 million), primarily due to the increased deductible VAT driven by our overall business growth, and (iii) a significant increase in contract costs from RMB13.9 million to RMB145.6 million (US\$22.9 million), which represents the increases of costs incurred in advance of revenue recognition arising from direct and incremental cost related to enterprise cloud services provided, primarily incurred by Camelot. Our prepayments and other assets remained stable from December 31, 2021 to March 31, 2022, being RMB1,716.1 million (US\$269.3 million) and RMB1,693.0 million (US\$267.1 million) as of each date, respectively.

Property and Equipment, Net

Our property and equipment, net consist primarily of our electronic equipment, construction in progress and data center machinery and equipment. Our property and equipment, net increased from RMB1,721.0 million as of December 31, 2019 to RMB1,956.8 million as of December 31, 2020, and further to RMB2,364.1 million (US\$371.0 million) as of December 31, 2021 and RMB2,421.2 million (US\$381.9 million) as of March 31, 2022, primarily due to our continued investment in our infrastructure and equipment to support our business growth.

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Intangible Assets

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

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

Our net intangible assets increased from RMB7.4 million as of December 31, 2019 to RMB16.6 million as of December 31, 2020, primarily attributable to an increase of software and copyrights from RMB1.4 million to RMB10.5 million, mainly due to our continued investment in technologies to support our business growth. Our net intangible assets further increased to RMB1,169.8 million (US\$183.6 million) as of December 31, 2021, primarily attributable to an increase in customer relationship from nil to RMB587.5 million (US\$92.2 million) and trademarks and domain names from RMB4.0 million to RMB476.4 million (US\$74.8 million), mainly due to our acquisition of Camelot. Our net intangible assets remained stable from December 31, 2021 to March 31, 2022, being RMB1,169.8 million (US\$183.6 million) and RMB1,121.8 million (US\$177.0 million) as of each date, respectively.

Goodwill

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

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Lease Liabilities

Our operating leases are mainly related to office space and buildings. Our operating lease liabilities increased from nil as of December 31, 2019 to RMB259.4 million as of December 31, 2020, primarily due to the adoption of ASU No. 2016-02, *Leases*, on January 1, 2020 by modified retrospective method. Our lease liabilities were RMB266.9 million (US\$41.9 million), RMB285.4 million (US\$45.0 million) and RMB401.6 million (US\$59.5 million) as of December 31, 2021, March 31, 2022 and May 31, 2022, respectively. The increase of lease liabilities from March 31, to May 31, 2022 was primarily due to obtaining new leases.

Accounts Payable

Our accounts payable represent payable to suppliers for their goods and services provided, such as IDC expenses. Our accounts payable increased from RMB1,254.6 million as of December 31, 2019 to RMB2,057.4 million as of December 31, 2020 and further to RMB2,938.6 million (US\$461.1 million) as of December 31, 2021, primarily due to our increased IDC costs. Our accounts payable decreased to RMB2,580.7 million (US\$407.1 million) as of March 31, 2022, primarily due to our settlement of accounts payables. Our suppliers generally offer us credit terms ranging from 30 days to 180 days.

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

	For the Year Ended December 31,			For the Three Months	
	2019	2020	2021	Ended March 31, 2021	2022
			<i>(days)</i>		
Average accounts payable turnover days	98	101	107	119	120

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

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

As of June 30, 2022, RMB1,219.1 million, or 47% of our accounts payable outstanding as of March 31, 2022, had been subsequently settled.

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Accrued Expenses and Other Current Liabilities

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

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

Our accrued expenses and other current liabilities decreased from RMB949.2 million as of December 31, 2019 to RMB845.4 million as of December 31, 2020, and then increased to RMB2,223.8 million (US\$349.0 million) as of December 31, 2021. The increase from December 31, 2020 to December 31, 2021 was primarily attributable to the increased payments made for purchase of property and equipment and staff compensation, as well as the purchase consideration payable recorded in 2021 due to our acquisition of Camelot. Our accrued expenses and other current liabilities then decreased to RMB1,843.2 million (US\$290.8 million) as of March 31, 2022, primarily due to our settlement of payables for the purchase of property and equipment.

Income Tax Payable

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

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Related Party Transactions

Amounts due to related parties

We recorded amounts due to related parties of RMB104.3 million, RMB113.0 million, RMB1,309.3 million (US\$205.5 million) and RMB1,238.9 million (US\$195.4 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively. The significant increase from RMB113.0 million as of December 31, 2020 to RMB1,309.3 million (US\$205.5 million) as of December 31, 2021 was primarily because (i) we entered into a loan agreement with Kingsoft Group for an aggregate principal amount of RMB500.0 million (US\$78.5 million) bearing a fixed annual interest rate of 4.65%, which will be repaid in November 2022; and (ii) we entered into several loan agreements with Xiaomi Group which are secured by our electronic equipment. All the balances with related parties except for the loans from Xiaomi Group were unsecured.

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

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

Amounts due from related parties

Our amounts due from related parties during the Track Record Period primarily consisted of account receivables for cloud services we provided to related parties. We recorded amounts due from related parties of RMB134.0 million, RMB210.8 million, RMB212.9 million (US\$33.4 million) and RMB317.1 million (US\$50.0 million) as of December 31, 2019, 2020, 2021 and March 31, 2022, respectively.

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

Note:

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

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

Other Liabilities

Our other liabilities primarily consist of deferred government grants, purchase consideration payable and others. We recorded other liabilities of nil, RMB40.6 million, RMB1,232.7 million (US\$193.4 million) and RMB1,239.7 million (US\$195.6 million) as of December 31, 2019, 2020, 2021, and March 31, 2022, respectively. The significant increase in our other liabilities from December 31, 2020 to December 31, 2021 was primarily due to the increase in the non-current portion of purchase consideration payable from nil to RMB1,180.5 million (US\$185.2 million), which represents the purchase consideration to acquire Camelot to be settled by June 30, 2023, of which the majority is expected to be settled by ordinary shares. See Note 13 to the Accountants’ Report included in Appendix IA.

Bank Loans

Our short-term bank loans increased from nil as of December 31, 2019 to RMB278.5 million as of December 31, 2020, and further increased to RMB1,348.2 million (US\$211.6 million) as of December 31, 2021, primarily due to increased bank loans for cash management purposes. Our short-term bank loans remained stable thereafter, being RMB1,491.1 million (US\$235.2 million) and RMB1,222.9 million (US\$181.3 million) as of March 31, 2022 and May 31, 2022, respectively. All of our short-term bank loans as of December 31, 2019, 2020, 2021, March 31 and May 31, 2022 were unsecured. The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2019, 2020, 2021 and March 31, 2022 was nil, 4.28%, 4.59% and 4.59%, respectively.

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

As of May 31, 2022, we had utilized RMB1,222.9 million from our secured banking facilities, and RMB382.1 million remained unutilized under our banking facilities. There are no commitment fees and conditions under which lines may be withdrawn associated with our unused facilities.

KEY FINANCIAL RATIOS

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

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

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

As a result of our continuous business expansion, our revenue growth rate was 66.2% in 2020 compared to 2019, 37.8% in 2021 compared to 2020 and 19.9% for three months ended March 31, 2022 compared to the same period in 2021. Our adjusted gross profit margin (non-GAAP) increased significantly from 0.4% in 2019 to 5.6% in 2020, primarily resulting from economies of scale and our enhanced efficiency, specifically attributable to (i) increased sales of standardized cloud products and solutions, and (ii) existing customer renewals and cross-sells. Our adjusted gross profit margin (non-GAAP) decreased from 5.6% in 2020 to 4.1% in 2021 primarily because we planned and committed to costs for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand over the course of 2021 turned out to be weaker, mainly resulted from a general demand slowdown in the internet sector of China. Our adjusted gross profit margin (non-GAAP) decreased from 6.7% for the three months ended March 31, 2021

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to 3.8% for the three months ended March 31, 2022, primarily because we planned and committed to costs for underlying resources including IDC costs at the beginning of 2021 based on the then foreseeable market demand, while the actual market demand in the first quarter of 2022 remained to be weaker than expected, which mainly resulted from a general demand slowdown in the internet sector of China.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of liquidity primarily consist of net proceeds from the sale and issuance of our shares, including the net proceeds we received from our US IPO and follow-on offering in 2020, and proceeds from financing facilities such as bank loans and related party loans, which have historically been sufficient to meet our working capital and capital expenditure requirements. Our cash and cash equivalents consist of cash on hand and time deposits placed with banks which are unrestricted as to withdrawal or use and have original maturities of less than three months. As of March 31, 2022, we had RMB5,604.0 million (US\$884.0 million) in cash and cash equivalents and short-term investment, which included cash deposits at fixed rates. As of March 31, 2022, substantially all of our cash and cash equivalents were located in the PRC and Hong Kong.

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

Additionally, we have historically been loss-making, and we had been generating net operating cash outflows during the Track Record Period. We generated net loss of RMB1,111.2 million, RMB962.2 million and RMB1,591.8 million (US\$249.8 million) in 2019, 2020 and 2021, respectively, and RMB382.2 million and RMB554.8 million (US\$87.5 million) during three months ended March 31, 2021 and March 31, 2022, respectively. As of March 31, 2022, we had an accumulated deficit of RMB8,012.0 million (US\$1,263.9 million). We recorded net operating cash outflows of RMB439.1 million, RMB290.4 million, RMB708.9 million (US\$111.2 million) and RMB626.0 million (US\$98.8 million) in 2019, 2020, 2021 and three

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months ended March 31, 2022, respectively. If we are unable to achieve and sustain profitability, or if we experience net operating cash outflows again in the future, our business, liquidity, financial condition and results of operations may be materially and adversely affected. See “Risk Factors – Risks Relating to Our Business and Industry – We have a history of net loss and we may not be able to achieve or subsequently maintain profitability.”

Working Capital

Taking into account (i) the financial resources available to us, including a total of RMB5,431.3 million cash resources as of May 31, 2022 (that include cash and cash equivalents and short-term investments), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) currently available financing facilities and our ability to obtain additional financing facilities, and (iv) our plans to continue to enhance our financial performance, details of which are set out in “Business – Business Sustainability and Path to Profitability,” our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

Cash Flows

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

	For the Year Ended December 31,			US\$	For the Three Months Ended March 31,		
	2019	2020	2021		2021	2022	US\$
	RMB	RMB	RMB		RMB	RMB	
	<i>(in thousands)</i>				<i>(unaudited)</i>		
Net cash used in operating activities	(439,132)	(290,433)	(708,869)	(111,236)	(497,151)	(626,008)	(98,750)
Net cash generated from/ (used in) investing activities	883,247	(4,314,003)	(421,623)	(66,162)	(238,180)	(524,766)	(82,780)
Net cash generated from financing activities	64,507	6,124,153	2,212,487	347,187	98,854	97,609	15,397
Net increase/(decrease) in cash, cash equivalents and restricted cash	508,622	1,519,717	1,081,995	169,789	(636,477)	(1,053,165)	(166,133)
Cash, cash equivalents and restricted cash at beginning of the year/period	1,507,071	2,023,263	3,424,674	537,406	3,424,674	4,456,621	703,015
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,570	(118,306)	(50,048)	(7,854)	5,251	(21,017)	(3,315)
Cash, cash equivalents and restricted cash at end of the year/period	2,023,263	3,424,674	4,456,621	699,341	2,793,448	3,382,439	533,567

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

Operating Activities

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

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

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

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

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Investing Activities

Net cash used in investing activities was RMB524.8 million (US\$82.8 million) during the three months ended March 31, 2022, which was mainly attributable to (i) purchase of short-term investments of RMB861.0 million (US\$135.8 million) and (ii) purchase of property and equipment of RMB621.0 million (US\$98.0 million).

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

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

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

Financing Activities

Net cash generated from financing activities was RMB97.6 million (US\$15.4 million) during the three months ended March 31, 2022, which was mainly attributable to proceeds from short-term bank loans of RMB173.0 million (US\$27.3 million).

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

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

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

CAPITAL EXPENDITURES

Our capital expenditures are incurred primarily in connection with purchases of property and equipment and intangible assets. Our capital expenditures were RMB999.7 million, RMB1,591.6 million, RMB735.4 million (US\$115.4 million), RMB213.4 million and RMB622.4 million (US\$98.2 million) in 2019, 2020, 2021, the three months ended March 31, 2021 and the three months ended March 31, 2022, respectively. Our purchases of property and equipment were RMB999.5 million, RMB1,559.9 million, RMB723.3 million (US\$113.5 million), RMB212.2 million and RMB621.0 million (US\$98.0 million), accounting for 100.0%, 98.0%, 98.4%, 99.4% and 99.8% of our capital expenditures in 2019, 2020, 2021, the three months ended March 31, 2021 and the three months ended March 31, 2022, respectively. For our future commitments for capital expenditure, see “— Contractual Obligations.” We intend to fund our future capital expenditures with an existing cash balance, cash generated from operating activities, expected net [REDACTED] from the [REDACTED]. We will continue to make capital expenditures to meet the expected growth of our business.

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RECONCILIATION BETWEEN U.S. GAAP AND IFRS

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

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

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
	<i>(unaudited)</i>				
Net loss attributable to ordinary shareholders as reported under U.S. GAAP	(1,160,924)	(982,027)	(1,588,712)	(382,464)	(553,249)
IFRS adjustments					
Preferred Shares	(612,234)	(286,270)	-	-	-
Operating leases	(230)	(7,401)	(5,217)	(3,935)	(894)
Equity investments	(4,825)	(11,033)	(46,156)	2,238	(5,484)
Share-based compensation	11,385	16,728	6,561	1,180	(167)
Issuance costs	(8,920)	(11,745)	-	-	(2,949)
Provision for credit losses	6,634	(4,645)	-	-	-
Net loss attributable to ordinary shareholders as reported under IFRS	<u>(1,769,114)</u>	<u>(1,286,393)</u>	<u>(1,633,524)</u>	<u>(382,981)</u>	<u>(562,743)</u>
	As of December 31,			As of March 31,	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>				
	<i>(unaudited)</i>				
Total shareholders' (deficit) equity as reported under U.S. GAAP	(4,197,259)	8,240,050	11,492,423	8,050,216	11,016,391
IFRS adjustments					
Preferred Shares	794,689	-	-	-	-
Operating leases	(223)	(7,629)	(12,842)	(11,564)	(13,735)
Equity investments	(4,825)	(15,858)	(62,014)	(13,620)	(67,498)
Share-based compensation	-	-	-	-	-
Issuance costs	(9,003)	-	-	-	(2,945)
Provision for credit losses	(1,039)	(5,684)	-	-	-
Total shareholders' (deficit) equity as reported under IFRS	<u>(3,417,660)</u>	<u>8,210,879</u>	<u>11,417,567</u>	<u>8,025,032</u>	<u>10,932,213</u>

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Preferred shares

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

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

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

Operating leases

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

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

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

Equity investments

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

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

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Share-based compensation

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

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

Issuance costs

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

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

Provision for credit losses

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

INDEBTEDNESS

Borrowings

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

Our loans from related parties were nil, nil, RMB1,209.1 million (US\$189.7 million), RMB1,152.7 million (US\$181.8 million) and RMB1,105.7 million (US\$163.9 million) as of December 31, 2019, 2020, 2021 and March 31, 2022 and May 31, 2022, respectively, which were recorded as amounts due to related parties. See “– Discussion of Selected Items from the Consolidated Balance Sheets – Related Party Transactions – Amounts due to related parties.”

Lease Liabilities

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

Other Indebtedness

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

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Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021, March 31, 2022 and May 31, 2022.

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

CONTRACTUAL OBLIGATIONS

As of December 31, 2019, we had commitments for the construction of an exhibition hall of RMB21.6 million, which were scheduled to be paid within one year. As of December 31, 2020, we had commitments for the construction of a data center of RMB110.8 million, which were scheduled to be paid within one year. As of December 31, 2021, we had commitments for the construction of such data center of RMB46.4 million (US\$7.3 million), which were scheduled to be paid within one year. As of March 31, 2022, we had commitments for the construction of such data center of RMB34.3 million (US\$5.4 million), which were scheduled to be paid within one year.

OFF-BALANCE SHEET ARRANGEMENTS

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

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 21 to the Accountants’ Report included in Appendix IA and Note 19 the unaudited interim condensed consolidated financial information set out in Appendix IB was conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become

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non-reflective of our future performance. For details of the balances with related parties categorized based on trade and non-trade nature, see Note 20 to the Accountants’ Report included in Appendix IA and the unaudited interim condensed consolidated financial information set out in Appendix IB.

HOLDING COMPANY STRUCTURE

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

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

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Concentration of Credit Risk

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

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

Business, Customer, Political, Social and Economic Risks

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

Our top five customers in aggregate accounted for 65.7%, 61.5%, 50.5% and 48.2% of our total revenues in 2019, 2020, 2021 and the three months ended March 31, 2022, respectively. Our largest customer in each year during the Track Record Period accounted for proximately 30.9%, 28.1%, 21.9% and 17.9% of our total revenue for 2019, 2020, 2021 and the three months ended March 31, 2022, respectively.

Currency Convertibility Risk

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

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Foreign Currency Exchange Rate Risk

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For the RMB against the U.S. dollar, there was depreciation of approximately 1.3% during the year ended December 31, 2019, appreciation of approximately 6.3%, 2.3% and 0.5% during the years ended December 31, 2020, 2021 and the three months ended March 31, 2022, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

FINANCIAL INFORMATION OF CAMELOT

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

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

Principal Components of Statement of Comprehensive Income

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

	For the year ended December 31,		For the period from January 1 to September 3,
	2019	2020	2021
	<i>RMB (in thousands)</i>		
Revenue	1,647,644	1,676,022	1,288,720
Cost of revenue	<u>(1,277,463)</u>	<u>(1,261,748)</u>	<u>(1,016,439)</u>
Gross profit	370,181	414,274	272,281
Selling and marketing expenses	(43,835)	(66,275)	(37,646)
General and administrative expenses	(131,462)	(143,968)	(133,535)
Research and development expenses	<u>(82,860)</u>	<u>(87,535)</u>	<u>(40,148)</u>
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	<u>10,117</u>	<u>12,741</u>	<u>6,018</u>
Profit before income taxes	127,436	123,412	49,812
Income tax expense	<u>(17,652)</u>	<u>(14,228)</u>	<u>(4,528)</u>
Net income	<u><u>109,784</u></u>	<u><u>109,184</u></u>	<u><u>45,284</u></u>

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Revenue

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

Cost of Revenue

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

Selling and marketing expenses

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

General and administrative expenses

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

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Research and development expenses

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

Operating income

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

Net income

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

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

Liquidity and Capital Resources

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

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Cash flows

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

	For the year ended	For the year ended	For the period
	December 31,	December 31,	from January 1
	2019	2020	to September 3,
	<i>RMB (in thousands)</i>		
Net cash generated from (used in)			
operating activities	110,329	245,993	(47,481)
Net cash used in investing activities	(5,837)	(2,850)	(3,199)
Net cash (used in) generated from			
financing activities	(25,045)	(31,032)	10,000
Effect of exchange rate changes on			
cash and cash equivalents, and			
restricted cash	6,673	(7,586)	(18,676)
Net increase (decrease) in cash			
and cash equivalents, and			
restricted cash	79,447	212,111	(40,680)
Cash and cash equivalents, and			
restricted cash at beginning of			
year/period	388,276	474,396	678,921
Cash and cash equivalents, and			
restricted cash at end of			
year/period	474,396	678,921	619,565

Cash flows from operating activities

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

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

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

Cash flows from investing activities

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

Cash flows from financing activities

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

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Current Assets and Liabilities

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

	As of December 31, 2019	2020	As of September 3, 2021
	<i>RMB (in thousands)</i>		
Current assets			
Cash and cash equivalents	474,185	674,444	618,439
Restricted cash	211	4,477	1,126
Accounts receivable, net of allowance	289,241	233,734	260,877
Prepayments and other current assets	538,848	551,843	652,609
Total current assets	<u>1,302,485</u>	<u>1,464,498</u>	<u>1,533,051</u>
Current liabilities			
Accounts payable	139,678	127,312	110,142
Accrued expenses and other liabilities	542,258	598,546	651,755
Short-term bank loans	48,930	10,000	20,000
Income tax payable	7,495	16,836	13,427
Amounts due to related parties	27,952	25,432	16,345
Current operating lease liabilities	–	9,911	12,168
Total current liabilities	<u>766,313</u>	<u>788,037</u>	<u>823,837</u>
Net current assets	<u><u>536,172</u></u>	<u><u>676,461</u></u>	<u><u>709,214</u></u>

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

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

Cash and cash equivalents

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

Restricted cash

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

Accounts receivables

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

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Prepayments and other assets

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

Accounts payable

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

Accrued expenses and other liabilities

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

Short-term bank loans

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

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

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

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

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Income tax payable

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

Accounts due to related parties

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

Current operating lease liabilities

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

RECENT ACCOUNTING PRONOUNCEMENTS

For detailed discussion on recent accounting pronouncements, see Note 2 to the Accountants’ Report included in Appendix IA and Note 2 to the unaudited interim condensed consolidated financial information set out in Appendix IB.

DISTRIBUTABLE RESERVES

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

[REDACTED] EXPENSES

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

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

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared in accordance with rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purpose only, and is set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 as if the [REDACTED] had taken place on March 31, 2022.

The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the shareholders of the Company had the [REDACTED] been completed as of March 31, 2022 or any future date. It is prepared based on the consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 as set out in the unaudited interim condensed consolidated financial information as set out in Appendix IB to the document, and adjusted as described below.

Consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022 RMB'000 (Note 1)	Estimated net [REDACTED] from the [REDACTED] RMB'000 (Notes 2, 5)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company RMB'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share RMB HK\$ (Note 3) (Note 5)	Unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company per ADS RMB HK\$ (Note 4) (Note 5)
Based on the indicative [REDACTED] of [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED]
4,402,839	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED]

Notes:

- (1) The consolidated net tangible assets attributable to the shareholders of the Company as of March 31, 2022 is extracted from the unaudited interim condensed consolidated financial information set out in Appendix IB, which is based on the unaudited consolidated net assets attributable to the shareholders of the Company of RMB10,134,504,000 after deducting the goodwill of RMB4,609,847,000 and intangible assets, net of RMB1,121,818,000 as of March 31, 2022.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the [REDACTED] of [REDACTED], after deduction of the [REDACTED] fees and other related expenses payable by the Group and does not take into account of any shares which may be issued upon the exercise of the [REDACTED].

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- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] in issue immediately upon the completion of the [REDACTED], assuming that the [REDACTED] has been completed on March 31, 2022 for the purpose of the pro forma financial information, and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED], the Shares to be issued pursuant to the share-based compensation plans including the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase of Shares by the Company.
- (4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents 15 shares.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the estimated net [REDACTED] from the [REDACTED] are converted from Hong Kong dollars into Renminbi (“RMB”) at an exchange rate of HK\$1.00 to RMB0.8593 and the unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is converted from RMB to Hong Kong dollars at the same exchange rate. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2022.

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business – Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED] commissions, fees and estimated expenses payable by us in connection with the [REDACTED], assuming no [REDACTED] is exercised and based upon an indicative [REDACTED] of HK\$[REDACTED] for both the [REDACTED] and the [REDACTED], or HK\$[REDACTED] if the [REDACTED] is exercised in full.

We intend to use the net [REDACTED] we expect to receive from the [REDACTED] for the purposes and in the amounts set out below.

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for upgrading our technology infrastructure to support our core business growth, including purchase of high-performance servers and procurement of data center services in the next 24 months. We plan to further apportion the use of [REDACTED] as follows.
 - o Approximately [REDACTED]%, or HK\$[REDACTED], will be used to purchase high-performance servers from qualified suppliers to upgrade our computing power and storage capabilities, in order to deliver higher-quality cloud service and enhance the economies of scale. Particularly, our plans to deploy infrastructure will be oriented by market demand for cloud services and projects of our customers. Specifically, we plan to purchase an aggregate of approximately [REDACTED] units of high-performance servers, and the estimated average cost for such servers is approximately HK\$[REDACTED] per unit.
 - o Approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund part of our procurement of data center services, including network bandwidth and server racks, to support our business needs.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for technology, products and solutions development in the next 24 months to strengthen our capabilities in meeting market demands. We plan to further apportion the use of [REDACTED] as follows.
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be invested in enhancing our IaaS capabilities, such as cloud computing, storage and data lake;
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be invested in improving our PaaS capabilities, such as container, big data and cloud security; and

FUTURE PLANS AND USE OF [REDACTED]

- o approximately [REDACTED]%, or HK\$[REDACTED], will be invested in developing more industry-specific solutions to our customers in verticals where we have established presence and selected verticals with strong growth potential, such as financial services, healthcare and intelligent mobility.

We believe that qualified and experienced talents are crucial to sustain our leadership in China’s cloud service market, and the ongoing refinement of our products and solution. We rely on our R&D personnel, including engineers, researchers, programmers and computer and data scientists with experience in cloud and software development to achieve the plans above. We intend to apply the [REDACTED] to fund compensation packages offered to our R&D personnel.

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for expanding our ecosystem through strategic partnership and investments in the next 36 months. Specifically, we intend to explore potential investments that are complementary to our business. We plan to prudently evaluate and consider such potential investments, with relevant attributes including: (i) technologies, solutions and products that are complementary to ours, such as PaaS and SaaS products and solutions; (ii) proven industry know-how in both the verticals that we have already established strong presence and intend to increase the penetration, and the verticals that we may expand into in the future; and (iii) established and premium customer base. Leveraging such potential strategic investments and acquisitions, we expect to achieve synergies in terms of enhancing our technology capabilities, optimizing our product offerings and expanding our user base, among others. According to Frost & Sullivan, there are sufficient number of potential targets in China that meet our criteria. As of the Latest Practicable Date, we did not identify any investment target in this regard.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for general corporate purposes.

To the extent that our actual net [REDACTED] from the [REDACTED] is higher or lower than our estimate above, we will increase or decrease our allocation of the net [REDACTED] for the purposes set out above on a pro rata basis.

If the net [REDACTED] of the [REDACTED] are not immediately used for the purposes described above, to the extent permitted by the relevant laws and regulations, we will deposit the net [REDACTED] into short-term demand deposits with banks, as long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

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[REDACTED]

[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.

APPENDIX IA

ACCOUNTANTS’ REPORT

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]

APPENDIX IA

ACCOUNTANTS’ REPORT

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.

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS

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

	<i>Notes</i>	As at December 31,			2021 US\$ <i>Note 2(e)</i>
		2019 RMB	2020 RMB	2021 RMB	
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

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED BALANCE SHEETS (continued)

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

	<i>Notes</i>	As at December 31,			2021 US\$ <i>Note 2(e)</i>
		2019 RMB	2020 RMB	2021 RMB	
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

APPENDIX IA

ACCOUNTANTS’ REPORT

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,			
	<i>Notes</i>	2019	2020	2021	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
					<i>Note 2(e)</i>
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		<u>2,419,991</u>	<u>3,465,599</u>	<u>7,515,880</u>	<u>1,179,405</u>
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	—	—	—

APPENDIX IA

ACCOUNTANTS’ REPORT

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,			
	<i>Notes</i>	2019	2020	2021	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
					<i>Note 2(e)</i>
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)	<i>15</i>	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)	<i>2(y), 11</i>	–	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	<i>22</i>				
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)	<i>16</i>	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)	<i>16</i>	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)	<i>16</i>	5,965,273	–	–	–

APPENDIX IA

ACCOUNTANTS’ REPORT

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,			
	<i>Notes</i>	2019	2020	2021	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
					<i>Note 2(e)</i>
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

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Notes	For the year ended December 31,			
		2019 RMB	2020 RMB	2021 RMB	2021 US\$
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)

APPENDIX IA

ACCOUNTANTS’ REPORT

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,			
	<i>Notes</i>	2019	2020	2021	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
					<i>Note 2(e)</i>
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
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before income taxes		(1,102,196)	(947,294)	(1,576,015)	(247,311)
Income tax expense	<i>15</i>	(9,003)	(14,904)	(15,741)	(2,470)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
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)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss attributable to Kingsoft Cloud Holdings Limited		<u>(1,111,199)</u>	<u>(962,259)</u>	<u>(1,588,712)</u>	<u>(249,303)</u>
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	<i>16</i>	(49,725)	(19,768)	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss attributable to ordinary shareholders		<u>(1,160,924)</u>	<u>(982,027)</u>	<u>(1,588,712)</u>	<u>(249,303)</u>

APPENDIX IA

ACCOUNTANTS’ REPORT

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 RMB	2020 RMB	2021 RMB	2021 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)

APPENDIX IA

ACCOUNTANTS’ REPORT

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

APPENDIX IA

ACCOUNTANTS’ REPORT

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	Ordinary shares	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
		Number of shares	Number of shares	Amount	Amount	Amount	Amount	Amount	Amount
		Amount	Amount	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)
Net (loss) profit for the year		-	-	-	-	-	-	(962,259)	(962,198)
Accretion to redemption value of redeemable convertible preferred shares	16	-	-	-	-	(19,768)	-	-	(19,768)
Repurchase of ordinary shares	20	-	-	(5,475,254)	(38)	(26,662)	-	-	(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
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
Issuance of ordinary shares upon follow-on offering on Nasdaq	20	-	-	138,750,000	945	1,880,288	-	-	1,881,233
Other comprehensive loss	17	-	-	-	-	-	(552,788)	-	(552,788)
Share-based compensation	17	-	-	-	-	330,114	-	-	330,114
Exercise and vesting of share-based awards	17	-	-	76,883,116	517	22,390	-	-	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

APPENDIX IA

ACCOUNTANTS’ REPORT

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

	Notes	Ordinary shares Number of shares*	Amount RMB	Additional paid-in capital RMB	Accumulated other comprehensive loss RMB	Accumulated deficit RMB	Total Kingsoft Cloud Holdings Limited shareholders’ equity RMB	Non- controlling interests RMB	Total shareholders’ equity 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, <i>Credit Losses</i> (“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	17	-	-	-	(139,442)	-	(139,442)	(133)	(139,575)
Share-based compensation		-	-	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.

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<i>Notes</i>	For the year ended December 31,			
		2019	2020	2021	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
					<i>Note 2(e)</i>
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	<i>8, 9</i>	604,581	758,038	855,604	134,263
Share-based compensation	<i>17</i>	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	<i>2(k)</i>	–	(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	<i>11</i>	–	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)

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

	<i>Notes</i>	For the year ended December 31,			
		2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2021 <i>US\$</i>
					<i>Note 2(e)</i>
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)	–	–	–
		<u>883,247</u>	<u>(4,314,003)</u>	<u>(421,623)</u>	<u>(66,162)</u>
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	–	–
		<u>64,507</u>	<u>6,124,153</u>	<u>2,212,487</u>	<u>347,187</u>
Net cash generated from financing activities					
		64,507	6,124,153	2,212,487	347,187

APPENDIX IA

ACCOUNTANTS’ REPORT

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

	<i>Notes</i>	For the year ended December 31,			
		2019 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>	2021 <i>US\$</i>
					<i>Note 2(e)</i>
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		<u>2,023,263</u>	<u>3,424,674</u>	<u>4,456,621</u>	<u>699,341</u>
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	<i>13</i>	609,363	181,038	759,391	119,165
Acquisitions of equity investments included in accrued expenses and other liabilities	<i>13</i>	15,500	–	–	–
Purchase consideration included in accrued expenses and other liabilities	<i>13</i>	–	–	1,328,508	208,472
Settlement of senior executive loans by repurchase of ordinary shares	<i>20</i>	–	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	<i>4</i>	–	–	3,617,083	567,599

APPENDIX IA

ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
				<i>Note 2(e)</i>
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

APPENDIX IA

ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
				<i>Note 2(e)</i>
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	–	–	–

APPENDIX IA

ACCOUNTANTS’ REPORT

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,			2021 US\$ Note 2(e)
	2019 RMB	2020 RMB	2021 RMB	
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

APPENDIX IA

ACCOUNTANTS’ REPORT

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	<i>Notes</i>	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

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ACCOUNTANTS’ REPORT

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.

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ACCOUNTANTS’ REPORT

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.

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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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>4,319,284</u>	<u>7,520,328</u>	<u>8,087,439</u>
Total non-current liabilities			
	<u>4,319,284</u>	<u>7,520,328</u>	<u>8,087,439</u>
Total liabilities	<u>7,498,116</u>	<u>11,424,882</u>	<u>15,845,335</u>

	For the year ended December 31,		
	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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.

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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.

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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.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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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

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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.

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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.

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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 quantity 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.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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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

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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.

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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.

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(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 <i>RMB</i>
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)
	<hr/>
Goodwill	<u>4,561,033</u>

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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>486,308</u>	<u>1,372,689</u>	<u>2,897,817</u>
Others:			
Recognized at a point in time	11,202	36,611	1,208
Recognized over time	–	1,156	2,674
	<u>11,202</u>	<u>37,767</u>	<u>3,882</u>
	<u><u>3,956,353</u></u>	<u><u>6,577,307</u></u>	<u><u>9,060,784</u></u>

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:

	<i>RMB</i>
Within 1 year	27,852
More than 1 year	<u>23,505</u>
Total	<u><u>51,357</u></u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Revenue recognized from amounts included in contract liabilities at the beginning of the period	<u>22,782</u>	<u>37,550</u>	<u>112,221</u>

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Accounts receivable	1,370,375	2,350,641	3,603,240
Allowance for credit losses	(22,894)	(15,770)	(32,265)
	<u>1,347,481</u>	<u>2,334,871</u>	<u>3,570,975</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>1,347,481</u>	<u>2,334,871</u>	<u>3,570,975</u>

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

	As of December 31,		
	2019	2020	2021
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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)
	<u>22,894</u>	<u>15,770</u>	<u>32,265</u>

* 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.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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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
	<u>421,938</u>	<u>887,086</u>	<u>1,687,021</u>
Non-current portion:			
Prepayments for electronic equipment	33,970	8,978	25,388
Others	2,498	2,846	3,678
	<u>36,468</u>	<u>11,824</u>	<u>29,066</u>

* 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
	<u>3,366,657</u>	<u>4,314,665</u>	<u>5,446,524</u>
Less: accumulated depreciation	<u>(1,645,683)</u>	<u>(2,357,875)</u>	<u>(3,082,421)</u>
Property and equipment, net	<u>1,720,974</u>	<u>1,956,790</u>	<u>2,364,103</u>

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

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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 <i>RMB</i>	2020 <i>RMB</i>	2021 <i>RMB</i>
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:

	<i>RMB</i>
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:

	<i>RMB</i>
Balance as of December 31, 2019 and 2020	–
Goodwill acquired in business combinations (<i>Note 4</i>)	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.

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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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
	<i>RMB</i>	<i>RMB</i>
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
	<u>329,763</u>	<u>321,661</u>
Total future lease payments	329,763	321,661
Less: imputed interest	(70,336)	(54,782)
	<u>259,427</u>	<u>266,879</u>
Total lease liability balance	<u>259,427</u>	<u>266,879</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>1,254,589</u>	<u>2,057,355</u>	<u>2,938,632</u>
Total	<u>1,254,589</u>	<u>2,057,355</u>	<u>2,938,632</u>

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ACCOUNTANTS’ REPORT

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 RMB	2020 RMB	2021 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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Short-term bank loans	–	278,488	1,348,166
Long-term third-party bank loan guaranteed by a related party (<i>Note 21</i>):			
Current portion	100,000	74,351	–
Non-current portion	74,351	–	–
	<u>174,351</u>	<u>352,839</u>	<u>1,348,166</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 1 year	100,000	352,839	1,348,166
Between 1 year and 2 years	74,351	–	–
	<u>174,351</u>	<u>352,839</u>	<u>1,348,166</u>

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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
PRC	(1,167,367)	(1,095,015)	(1,646,607)
Non-PRC	65,171	147,721	70,592
	<u>(1,102,196)</u>	<u>(947,294)</u>	<u>(1,576,015)</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Current income tax expense	9,180	15,081	27,593
Deferred income tax benefit	(177)	(177)	(11,852)
	<u>9,003</u>	<u>14,904</u>	<u>15,741</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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)
	<u>9,003</u>	<u>14,904</u>	<u>15,741</u>
Income tax expense	<u>9,003</u>	<u>14,904</u>	<u>15,741</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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(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)
	<u>–</u>	<u>247,033</u>	<u>496,695</u>
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
	<u>206</u>	<u>247,062</u>	<u>694,786</u>

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.

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(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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>–</u>	<u>12,613</u>	<u>26,885</u>
Balance at end of the year	<u>–</u>	<u>12,613</u>	<u>59,049</u>

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.

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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.

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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.

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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).

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ACCOUNTANTS’ REPORT

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 <i>US\$</i>	Weighted- average grant date fair value <i>US\$</i>	Weighted- average remaining contractual term <i>Year</i>	Aggregate intrinsic value <i>US\$</i>
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	<u>(62,280,000)</u>	0.05			
Outstanding, December 31, 2019	<u>129,852,000</u>	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	<u>(48,996,540)</u>	0.07			
Outstanding, December 31, 2020	<u>86,759,375</u>	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	<u>(29,906,941)</u>	0.07	0.71		
Outstanding, December 31, 2021	<u><u>61,760,202</u></u>	0.07	0.87	6.61	0.98
Vested and expected to vest at December 31, 2021	<u><u>61,760,202</u></u>	0.07	0.87	6.61	0.98
Exercisable as of December 31, 2021	<u><u>28,437,976</u></u>	0.07	0.46	5.22	0.98

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ACCOUNTANTS’ REPORT

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
	<hr/>	
Outstanding, December 31, 2019	53,296,176	0.70
	<hr/>	
Granted	25,300,000	0.78
Vested	(21,470,416)	0.65
Forfeited	(3,523,200)	0.76
	<hr/>	
Outstanding, December 31, 2020	53,602,560	0.76
	<hr/>	
Granted	29,076,828	2.04
Vested	(19,020,640)	0.71
Forfeited	(5,671,482)	1.61
	<hr/>	
Outstanding, December 31, 2021	57,987,266	1.32
	<hr/> <hr/>	
Expected to vest at December 31, 2021	57,987,266	1.32
	<hr/> <hr/>	

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.

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ACCOUNTANTS’ REPORT

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	<u>19,556,800</u>	0.87			
Outstanding, December 31, 2019	<u>19,556,800</u>	0.87	0.30	9.93	
Granted	19,200,000	0.77			
Forfeited	(1,148,800)	0.87			
Exercised	<u>(416,160)</u>	0.87			
Outstanding, December 31, 2020	<u>37,191,840</u>	0.82	0.31	9.00	2.09
Exercised	(8,081,820)	0.64	0.33		
Forfeited	<u>(1,241,600)</u>	0.87	0.30		
Outstanding, December 31, 2021	<u><u>27,868,420</u></u>	0.83	0.31	7.99	0.22
Vested and expected to vest at December 31, 2021	<u><u>27,868,420</u></u>	0.83	0.31	7.99	0.22
Exercisable as of December 31, 2021	<u><u>12,566,340</u></u>	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.

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ACCOUNTANTS’ REPORT

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.

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ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>121,279</u>	<u>330,114</u>	<u>434,350</u>

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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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)	–
	<u>(1,160,924)</u>	<u>(982,027)</u>	<u>(1,588,712)</u>
Net loss attributable to ordinary shareholders – basic and diluted	<u>(1,160,924)</u>	<u>(982,027)</u>	<u>(1,588,712)</u>
Denominator:			
Weighted average number of ordinary shares outstanding – basic and diluted	<u>889,521,200</u>	<u>2,400,874,197</u>	<u>3,441,729,444</u>
Basic and diluted loss per share	<u>(1.31)</u>	<u>(0.41)</u>	<u>(0.46)</u>

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.

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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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>688,307</u>	<u>777,369</u>	<u>929,524</u>
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
	<u>41,734</u>	<u>63,878</u>	<u>91,843</u>

* 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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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	–	–
	<u>133,968</u>	<u>210,826</u>	<u>212,901</u>
Amounts due to related parties:			
Kingsoft Group**	81,909	80,294	544,376
Xiaomi Group***	22,350	32,704	764,941
	<u>104,259</u>	<u>112,998</u>	<u>1,309,317</u>

* 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
	<i>RMB</i>
2022	236,206
2023	241,168
2024	<u>231,714</u>
	<u>709,088</u>

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.

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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)

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

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
				<i>Note 2(e)</i>
Operating expenses				
General and administrative expenses	<u>(6,734)</u>	<u>(27,052)</u>	<u>(40,913)</u>	<u>(6,420)</u>
Total operating expenses	<u>(6,734)</u>	<u>(27,052)</u>	<u>(40,913)</u>	<u>(6,420)</u>
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	<u>(1,145,405)</u>	<u>(981,093)</u>	<u>(1,582,142)</u>	<u>(248,273)</u>
Loss before income taxes	<u>(1,107,784)</u>	<u>(961,638)</u>	<u>(1,587,744)</u>	<u>(249,151)</u>
Income tax expense	<u>(3,415)</u>	<u>(621)</u>	<u>(968)</u>	<u>(152)</u>

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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,			2021 US\$ Note 2(e)
	2019 RMB	2020 RMB	2021 RMB	
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,			2021 US\$ Note 2(e)
	2019 RMB	2020 RMB	2021 RMB	
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.

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ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>5,501</u>	<u>114,969</u>	<u>28,420</u>
	<u>5,501</u>	<u>115,832</u>	<u>29,066</u>

(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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Year ended December 31, 2019						
Kuiguang Niu (Note (a))	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

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

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

(b) Executive directors

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

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

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.

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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) Mingo 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
	<u>5</u>	<u>5</u>	<u>5</u>

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>35,813</u>	<u>39,102</u>	<u>28,139</u>

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	–
	<u>4</u>	<u>4</u>	<u>4</u>

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.

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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:

Consolidated Statements of Comprehensive Income (Loss) (Extract)	Year ended December 31, 2019							Amount as reported under IFRSs
	Amount as reported under US GAAP	IFRSs adjustments					Provision for credit losses	
	RMB	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	(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)

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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, 2020							Amount as reported under IFRSs
	Amount as reported under US GAAP	IFRSs adjustments					Provision for credit losses (Note (vi))	
		Preferred Shares (Note (i))	Operating leases (Note (ii))	Equity		Issuance costs (Note (v))		
				investments (Note (iii))	Share-based compensation (Note (iv))			
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)

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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 IFRSs RMB
	Amount as reported under US GAAP RMB	IFRSs adjustments					
		Preferred Shares (Note (i)) RMB	Operating leases (Note (ii)) RMB	Equity investments (Note (iii)) RMB	Share-based compensation (Note (iv)) RMB	Issuance costs (Note (v)) 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	<u>(1,588,712)</u>	<u>–</u>	<u>(5,217)</u>	<u>(46,156)</u>	<u>6,561</u>	<u>–</u>	<u>(1,633,524)</u>
Other comprehensive (loss) income, net of tax of nil – Foreign currency translation adjustments	<u>(139,575)</u>	<u>–</u>	<u>4</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(139,571)</u>

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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 IFRSs RMB
	Amount as reported under US GAAP RMB	IFRSs adjustments					Provision for credit losses RMB	
		Preferred Shares (Note (i)) RMB	Operating leases (Note (ii)) RMB	Equity investments (Note (iii)) RMB	Share-based compensation (Note (iv)) RMB	Issuance costs (Note (v)) 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)

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ACCOUNTANTS’ REPORT

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)	Amount as reported under US GAAP RMB	As of December 31, 2020						Amount as reported under IFRSs RMB
		Preferred Shares <i>(Note (i))</i> RMB	Operating leases <i>(Note (ii))</i> RMB	IFRSs adjustments			Provision for credit losses <i>(Note (vi))</i> RMB	
				Equity investments <i>(Note (iii))</i> RMB	Share-based compensation <i>(Note (iv))</i> RMB	Issuance costs <i>(Note (v))</i> 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

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ACCOUNTANTS’ REPORT

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, 2021						Amount as reported under IFRSs RMB
	Amount as reported under US GAAP RMB	IFRSs adjustments					
		Preferred Shares	Operating leases	Equity investments	Share-based compensation	Issuance costs	
		(Note (i))	(Note (ii))	(Note (iii))	(Note (iv))	(Note (v))	
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.

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ACCOUNTANTS’ REPORT

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,		As at
		2019	2020	September 3,
		RMB	RMB	2021
				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

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ACCOUNTANTS’ REPORT

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

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

	<i>Notes</i>	As at December 31,		As at
		2019	2020	September 3,
		<i>RMB</i>	<i>RMB</i>	2021
				<i>RMB</i>
Non-current liabilities				
Other liabilities	2.11	35,049	35,663	36,260
Non-current operating lease liabilities	2.8	—	9,460	11,803
		<u>35,049</u>	<u>45,123</u>	<u>48,063</u>
Total non-current liabilities		35,049	45,123	48,063
		<u>35,049</u>	<u>45,123</u>	<u>48,063</u>
Total liabilities		801,362	833,160	871,900
		<u>801,362</u>	<u>833,160</u>	<u>871,900</u>
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
		<u>430</u>	<u>(7)</u>	<u>733</u>
Total Camelot Employee Scheme, Inc. shareholders’ equity		262,580	594,601	633,629
Non-controlling interests		288,833	115,268	122,758
		<u>288,833</u>	<u>115,268</u>	<u>122,758</u>
Total equity		551,413	709,869	756,387
		<u>551,413</u>	<u>709,869</u>	<u>756,387</u>
Total liabilities, non-controlling interests and shareholders’ equity		1,352,775	1,543,029	1,628,287
		<u>1,352,775</u>	<u>1,543,029</u>	<u>1,628,287</u>

APPENDIX IA

ACCOUNTANTS’ REPORT

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

		Year ended December 31,		The period from January 1, 2021 to September 3, 2021
	<i>Notes</i>	2019	2020	2021
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Revenue	2.4	1,647,644	1,676,022	1,288,720
Cost of revenue		<u>(1,277,463)</u>	<u>(1,261,748)</u>	<u>(1,016,439)</u>
Gross profit		<u>370,181</u>	<u>414,274</u>	<u>272,281</u>
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		<u>(82,860)</u>	<u>(87,535)</u>	<u>(40,148)</u>
Total operating expenses		<u>(258,157)</u>	<u>(297,778)</u>	<u>(211,329)</u>
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		<u>10,117</u>	<u>12,741</u>	<u>6,018</u>
Profit before income taxes		127,436	123,412	49,812
Income tax expense	2.9	<u>(17,652)</u>	<u>(14,228)</u>	<u>(4,528)</u>
Net income		109,784	109,184	45,284
Less: net income attributable to non-controlling interests		<u>61,803</u>	<u>56,244</u>	<u>8,082</u>
Net income attributable to Camelot Employee Scheme, Inc.		<u>47,981</u>	<u>52,940</u>	<u>37,202</u>
Other comprehensive income (loss), net of tax of nil:				
Foreign currency translation adjustments		<u>1,037</u>	<u>(419)</u>	<u>557</u>
Comprehensive income		110,821	108,765	45,841
Less: Comprehensive income attributable to non-controlling interests		<u>61,850</u>	<u>56,262</u>	<u>7,899</u>
Comprehensive income attributable to Camelot Employee Scheme, Inc.		<u>48,971</u>	<u>52,503</u>	<u>37,942</u>

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ACCOUNTANTS’ REPORT

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									
	Notes	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)		Retained earnings	Non-controlling interests		Total equity
		Number of shares	Amount		income (loss)	Total		interests		
		RMB	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	

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ACCOUNTANTS’ REPORT

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								
	Notes	Ordinary shares	Additional	Accumulated	Retained	Non-	Total	Total	
		Number of shares	paid-in capital	other comprehensive income (loss)					controlling interests
	Amount			earnings	Total	interests	equity		
	RMB	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

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ACCOUNTANTS’ REPORT

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		Additional		Accumulated	Non-	Total	
		Number	Amount	paid-in	comprehensive	Retained	controlling	equity	
<i>Note</i>		of shares		capital	income (loss)	earnings	Total	interests	
			<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
		250,361,880	2	395,582	(7)	199,024	594,601	115,268	709,869
		-	-	-	-	(1,885)	(1,885)	(409)	(2,294)
		-	-	-	-	37,202	37,202	8,082	45,284
		-	-	-	740	-	740	(183)	557
	2.13	-	-	2,971	-	-	2,971	-	2,971
		250,361,880	2	398,553	733	234,341	633,629	122,758	756,387

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ACCOUNTANTS’ REPORT

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

		Year ended December 31,		The period from
	Notes	2019	2020	January 1, 2021 to
		RMB	RMB	September 3, 2021
				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)
		<u>110,329</u>	<u>245,993</u>	<u>(47,481)</u>
Net cash generated from (used in) operating activities		110,329	245,993	(47,481)

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ACCOUNTANTS' REPORT

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,		The period from
	2019	2020	January 1, 2021 to
	RMB	RMB	September 3, 2021
			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

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ACCOUNTANTS’ REPORT

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.

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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	–
	<u>1,647,644</u>	<u>1,676,022</u>	<u>1,288,720</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 1 year	4,919	7,942	4,992
More than 1 year	214	782	433
Total	<u>5,133</u>	<u>8,724</u>	<u>5,425</u>

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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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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

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ACCOUNTANTS’ REPORT

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,		As at
	2019	2020	September 3,
	<i>RMB</i>	<i>RMB</i>	2021
			<i>RMB</i>
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)	–
	<u> </u>	<u> </u>	<u> </u>
Balance at end of the year/period	<u>29,815</u>	<u>25,798</u>	<u>35,181</u>

* 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,		As at
	2019	2020	September 3,
	<i>RMB</i>	<i>RMB</i>	2021
			<i>RMB</i>
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
	<u> </u>	<u> </u>	<u> </u>
	<u>538,848</u>	<u>551,843</u>	<u>652,609</u>
Non-current portion:			
Prepayments	165	165	165
	<u> </u>	<u> </u>	<u> </u>
	<u>165</u>	<u>165</u>	<u>165</u>

* 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.

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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
	2019	2020	September 3,
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>36,538</u>	<u>31,935</u>	<u>33,838</u>
Less: accumulated depreciation	(23,313)	(18,780)	(20,046)
Property and equipment, net	<u><u>13,225</u></u>	<u><u>13,155</u></u>	<u><u>13,792</u></u>

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.

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

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%.

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ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
PRC	125,008	121,569	51,959
Non-PRC	2,428	1,843	(2,147)
	<u>127,436</u>	<u>123,412</u>	<u>49,812</u>

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Current income tax expense	23,918	21,041	16,045
Deferred income tax benefit	(6,266)	(6,813)	(11,517)
	<u>17,652</u>	<u>14,228</u>	<u>4,528</u>

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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		For the
	December 31,		period ended
	2019	2020	September 3,
	RMB	RMB	2021
			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
	<u>17,652</u>	<u>14,228</u>	<u>4,528</u>
Income tax expense			

Deferred tax

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

	As at December 31,		As at
	2019	2020	September 3,
	RMB	RMB	2021
			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)
	<u>36,089</u>	<u>46,523</u>	<u>59,145</u>
Deferred tax liabilities:			
Operating lease right-of-use assets	–	(3,621)	(4,726)
	<u>–</u>	<u>(3,621)</u>	<u>(4,726)</u>
Deferred tax assets, net	<u>36,089</u>	<u>42,902</u>	<u>54,419</u>

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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, 2019 RMB	2020 RMB	As at September 3, 2021 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	<u>30,183</u>	<u>27,941</u>	<u>32,121</u>

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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,		As at
	2019	2020	September 3,
	<i>RMB</i>	<i>RMB</i>	2021
			<i>RMB</i>
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
	<u> </u>	<u> </u>	<u> </u>
Total	<u>139,678</u>	<u>127,312</u>	<u>110,142</u>

2.11 Accrued expenses and other liabilities

	As at December 31,		As at
	2019	2020	September 3,
	<i>RMB</i>	<i>RMB</i>	2021
			<i>RMB</i>
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
	<u> </u>	<u> </u>	<u> </u>
	<u>542,258</u>	<u>598,546</u>	<u>651,755</u>
Non-current portion:			
Uncertain tax position	30,183	27,941	26,647
Others	4,866	7,722	9,613
	<u> </u>	<u> </u>	<u> </u>
	<u>35,049</u>	<u>35,663</u>	<u>36,260</u>

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

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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 <i>RMB</i>	Weighted- average grant date fair value <i>RMB</i>	Weighted- average remaining contractual term <i>Years</i>	Aggregate Intrinsic Value <i>RMB</i>
Outstanding, January 1, 2019	–	–	–	–	–
Granted	2,176,889	0.99	5.83		
Outstanding, December 31, 2019	<u>2,176,889</u>	0.99	5.83	–	5.81
Vested and expected to vest at December 31, 2019	<u>2,176,889</u>	0.99	5.83	–	5.81
Exercisable at December 31, 2019	<u>2,176,889</u>	0.99	5.83	–	5.81

APPENDIX IA

ACCOUNTANTS’ REPORT

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

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.

APPENDIX IA

ACCOUNTANTS’ REPORT

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
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cost of revenue	–	4,419	816
Selling and marketing expenses	118	16,932	7
General and administrative expenses	12,581	28,340	2,148
	<u>12,699</u>	<u>49,691</u>	<u>2,971</u>

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.

APPENDIX IA

ACCOUNTANTS’ REPORT

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:

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

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.

APPENDIX IB

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

**REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

To the Board of Directors of Kingsoft Cloud Holdings Limited

Introduction

We have reviewed the interim financial information set out on pages IB-2 to IB-32, which comprises the unaudited interim condensed consolidated balance sheet of Kingsoft Cloud Holdings Limited (the “Company”), its subsidiaries (collectively referred to as the “Group”) as at 31 March 2022 and the related unaudited interim condensed consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the three-month period then ended, and explanatory notes. The directors of the Company are responsible for the preparation of this interim financial information in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certificated Public Accounts. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with U.S. GAAP.

[●]

Certified Public Accountants

Hong Kong

[Date]

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2022

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

		December 31,	As at March 31,	March 31,
	<i>Notes</i>	2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
ASSETS				
Current assets:				
Cash and cash equivalents		4,217,528	3,219,414	507,850
Restricted cash		239,093	163,025	25,717
Accounts receivable, net of allowance for credit losses of RMB32,265 and RMB32,384 as of December 31, 2021 and March 31, 2022, respectively	5	3,570,975	3,525,311	556,104
Short-term investments		2,491,056	2,384,549	376,153
Prepayments and other assets	6	1,687,021	1,669,145	263,303
Amounts due from related parties	19	207,143	311,306	49,107
Total current assets		<u>12,412,816</u>	<u>11,272,750</u>	<u>1,778,234</u>
Non-current assets:				
Property and equipment, net	7	2,364,103	2,421,162	381,929
Intangible assets, net	8	1,169,767	1,121,818	176,962
Goodwill	9	4,625,115	4,609,847	727,185
Prepayments and other assets	6	29,066	23,817	3,757
Equity investments	2	207,166	211,744	33,402
Amounts due from related parties	19	5,758	5,758	908
Deferred tax assets, net		7,798	3,637	574
Operating lease right-of-use assets	10	256,451	265,322	41,854
Total non-current assets		<u>8,665,224</u>	<u>8,663,105</u>	<u>1,366,571</u>
Total assets		<u>21,078,040</u>	<u>19,935,855</u>	<u>3,144,805</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2022 (continued)

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

	<i>Notes</i>	December 31, 2021 RMB	As at March 31, 2022 RMB (<i>unaudited</i>)	March 31, 2022 US\$ (<i>unaudited</i>)
LIABILITIES, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable (including accounts payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB2,733,487 and RMB2,407,188 as of December 31, 2021 and March 31, 2022, respectively)	<i>11</i>	2,938,632	2,580,718	407,098
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 RMB1,208,868 and RMB868,376 as of December 31, 2021 and March 31, 2022, respectively)	<i>12</i>	2,223,840	1,843,193	290,757
Short-term bank loans (including short-term bank loans of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB1,348,166 and RMB1,485,000 as of December 31, 2021 and March 31, 2022, respectively)	<i>13</i>	1,348,166	1,491,144	235,222
Income tax payable (including income tax payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB1,026 and RMB nil as of December 31, 2021 and March 31, 2022, respectively)	<i>14</i>	60,217	41,482	6,544
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 RMB797,731 and RMB789,566 as of December 31, 2021 and March 31, 2022, respectively)	<i>19</i>	836,435	824,737	130,099
Current operating lease liabilities (including current operating lease liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB70,672 and RMB70,172 as of December 31, 2021 and March 31, 2022, respectively)	<i>10</i>	108,590	111,759	17,630
Total current liabilities		7,515,880	6,893,033	1,087,350

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2022 (continued)

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

	<i>Notes</i>	December 31, 2021 RMB	As at March 31, 2022 RMB (<i>unaudited</i>)	March 31, 2022 US\$ (<i>unaudited</i>)
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 RMB472,882 and RMB414,152 as of December 31, 2021 and March 31, 2022, respectively)	19	472,882	414,152	65,331
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB nil and RMB nil as of December 31, 2021 and March 31, 2022, respectively)		205,889	198,946	31,383
Other liabilities (including other liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB6,975 and RMB5,985 as of December 31, 2021 and March 31, 2022, respectively)	12	1,232,677	1,239,669	195,553
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 RMB121,057 and RMB123,595 as of December 31, 2021 and March 31, 2022, respectively)	10	158,289	173,664	27,395
Total non-current liabilities		<u>2,069,737</u>	<u>2,026,431</u>	<u>319,662</u>
Total liabilities		<u>9,585,617</u>	<u>8,919,464</u>	<u>1,407,012</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2022 (continued)

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

	<i>Notes</i>	December 31, 2021 RMB	As at March 31, 2022 RMB <i>(unaudited)</i>	March 31, 2022 US\$ <i>(unaudited)</i>
Shareholders' equity:				
Ordinary shares (par value of US\$0.001 per share; 40,000,000,000 shares authorized as of December 31, 2021 and March 31, 2022; 3,805,284,810 and 3,805,284,801 shares issued, 3,646,381,840 and 3,653,179,567 shares outstanding as of December 31, 2021 and March 31, 2022, respectively)		24,782	24,824	3,916
Additional paid-in capital		18,245,801	18,341,302	2,893,269
Accumulated deficit		(7,458,752)	(8,012,001)	(1,263,862)
Accumulated other comprehensive loss	21	(207,882)	(219,621)	(34,644)
Total Kingsoft Cloud Holdings Limited shareholders' equity		10,603,949	10,134,504	1,598,679
Non-controlling interests		888,474	881,887	139,114
Total equity		11,492,423	11,016,391	1,737,793
Total liabilities, non-controlling interests and shareholders' equity		21,078,040	19,935,855	3,144,805

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial information.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2022

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

	<i>Notes</i>	For the three months ended March 31,		
		2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenues:	<i>4, 19</i>			
Public cloud services (including related party amounts of RMB225,903 and RMB265,682 for the three months ended March 31, 2021 and 2022, respectively)		1,391,833	1,380,807	217,817
Enterprise cloud services (including related party amounts of RMB nil and RMB17,313 for the three months ended March 31, 2021 and 2022, respectively)		420,032	792,509	125,015
Others		1,667	493	78
Total revenues		1,813,532	2,173,809	342,910
Cost of revenues (including related party amounts of RMB6 and RMB nil for the three months ended March 31, 2021 and 2022, respectively)	<i>19</i>	(1,697,029)	(2,093,851)	(330,297)
Gross profit		116,503	79,958	12,613
Operating expenses:				
Selling and marketing expenses		(112,826)	(144,405)	(22,779)
General and administrative expenses		(91,177)	(221,763)	(34,982)
Research and development expenses		(264,636)	(246,633)	(38,905)
Total operating expenses		(468,639)	(612,801)	(96,666)

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2022 (continued)

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

		For the three months ended March 31,		
	<i>Notes</i>	2021	2022	2022
		<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Operating loss		(352,136)	(532,843)	(84,053)
Interest income		17,746	21,157	3,337
Interest expense		(3,866)	(34,066)	(5,374)
Foreign exchange loss		(48,375)	(18,741)	(2,956)
Other gain (loss), net		5,782	(12,035)	(1,898)
Other income, net		1,926	20,038	3,161
		<hr/>	<hr/>	<hr/>
Loss before income taxes		(378,923)	(556,490)	(87,783)
Income tax (expense) benefit	14	(3,286)	1,670	263
		<hr/>	<hr/>	<hr/>
Net loss		(382,209)	(554,820)	(87,520)
		<hr/>	<hr/>	<hr/>
Less: net income (loss) attributable to non-controlling interests		255	(1,571)	(248)
		<hr/>	<hr/>	<hr/>
Net loss attributable to Kingsoft Cloud Holdings Limited		(382,464)	(553,249)	(87,272)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net loss per share:				
Basic and diluted	17	(0.11)	(0.15)	(0.02)
Shares used in the net loss per share computation:				
Basic and diluted	17	3,343,336,997	3,648,282,282	3,648,282,282
Other comprehensive income (loss), net of tax of nil:				
Foreign currency translation adjustments		70,773	(9,764)	(1,540)
		<hr/>	<hr/>	<hr/>
Comprehensive loss		(311,436)	(564,584)	(89,060)
Less: Comprehensive income attributable to non-controlling interests		255	408	64
		<hr/>	<hr/>	<hr/>
Comprehensive loss attributable to Kingsoft Cloud Holdings Limited shareholders		(311,691)	(564,992)	(89,124)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial information.

APPENDIX IB

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2022

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

	Ordinary shares						
	Number of shares*	Amount RMB	Additional paid-in capital RMB	Accumulated comprehensive (loss) income RMB	Accumulated deficit RMB	Total Kingsoft Cloud Holdings Limited shareholders' equity RMB	Total shareholders' equity RMB
Balance as of December 31, 2020	3,339,618,633	22,801	14,149,984	(68,440)	(5,864,356)	8,239,989	8,240,050
Adoption of ASC 326	-	-	-	-	(5,684)	(5,684)	(5,684)
Net loss	-	-	-	-	(382,464)	(382,464)	(382,209)
Other comprehensive income	-	-	-	70,773	-	70,773	70,773
Share-based compensation	-	-	123,113	-	-	123,113	123,113
Exercise and vesting of share-based awards	10,245,675	67	4,104	-	-	4,171	4,171
Balance as of March 31, 2021 (unaudited)	3,349,864,308	22,868	14,277,201	2,333	(6,252,504)	8,049,898	8,050,214
Balance as of December 31, 2021	3,646,381,840	24,782	18,245,801	(207,882)	(7,458,752)	10,603,949	11,492,423
Net loss	-	-	-	-	(553,249)	(553,249)	(554,820)
Other comprehensive (loss) income	-	-	-	(11,743)	-	(11,743)	(9,764)
Capital contribution from non-controlling interests	-	-	-	-	-	-	2,143
Disposal of a subsidiary	-	-	-	4	-	4	(9,134)
Share-based compensation	-	-	93,182	-	-	93,182	93,182
Exercise and vesting of share-based awards	6,797,727	42	2,319	-	-	2,361	2,361
Balance as of March 31, 2022 (unaudited)	3,653,179,567	24,824	18,341,302	(219,621)	(8,012,001)	10,134,504	11,016,391
Balance as of March 31, 2022, in US\$ (unaudited)	3,653,179,567	3,916	2,893,269	(34,644)	(1,263,862)	1,598,679	1,737,793

* As of March 31, 2021 and 2022, 196,260,647 and 152,105,234 ordinary shares, respectively, were issued in relation to the share awards. These shares are legally issued but not outstanding.

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial information.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2022

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

	For the three months ended March 31,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(382,209)	(554,820)	(87,520)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	180,466	287,481	45,349
Share-based compensation	123,113	93,182	14,699
Provision for credit losses	13,096	66,431	10,479
Changes in fair value of financial instruments	(5,782)	123	19
Impairment of equity investments	–	5,000	789
Changes in fair value of purchase consideration of a business acquisition	–	6,912	1,090
Impairment of contract costs	–	3,431	541
Foreign exchange loss	48,375	18,741	2,956
Deferred income tax	(29)	(2,782)	(439)
Non-cash operating lease expenses	14,564	18,129	2,860
Gain on disposal of property and equipment	(1)	(2,986)	(471)
Changes in operating assets and liabilities:			
Accounts receivable	(315,107)	(24,299)	(3,832)
Prepayment and other assets	(87,632)	70,927	11,188
Amounts due from related parties	15,629	(104,162)	(16,431)
Accounts payable	117,955	(339,292)	(53,522)
Accrued expenses and other liabilities	(224,425)	(138,184)	(21,798)
Operating lease liabilities	(1,767)	(8,455)	(1,334)
Amounts due to related parties	3,347	(2,650)	(418)
Income tax payable	3,256	(18,735)	(2,955)
Net cash used in operating activities	(497,151)	(626,008)	(98,750)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(212,172)	(620,953)	(97,953)
Disposals of property and equipment	–	3,720	587
Purchases of intangible assets	(1,249)	(1,413)	(223)
Purchases of short-term investments	(496,476)	(861,033)	(135,824)
Proceeds from maturities of short-term investments	543,952	957,525	151,046
Acquisition of business, net of cash acquired	(72,835)	(35)	(6)
Disposal of a subsidiary	–	(2,577)	(407)
Asset-related government grants received	600	–	–
Net cash used in investing activities	(238,180)	(524,766)	(82,780)

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial information.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2022 (continued)

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

	Notes	For the three months ended March 31,		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of short-term bank loans		–	(30,000)	(4,732)
Proceeds from short-term bank loans		96,000	172,977	27,286
Payments of [REDACTED] cost		(1,311)	(297)	(47)
Capital contribution from non-controlling interests		–	2,143	338
Repayment of loans due to related parties		–	(54,788)	(8,643)
Proceeds from exercise of options		4,165	7,574	1,195
		<u>98,854</u>	<u>97,609</u>	<u>15,397</u>
Net cash generated from financing activities		98,854	97,609	15,397
Effect of exchange rate changes on cash and cash equivalents, and restricted cash		5,251	(21,017)	(3,315)
Net decrease in cash and cash equivalents, and restricted cash		(636,477)	(1,053,165)	(166,133)
Cash and cash equivalents, and restricted cash at beginning of period		<u>3,424,674</u>	<u>4,456,621</u>	<u>703,015</u>
Cash and cash equivalents, and restricted cash at end of period		<u>2,793,448</u>	<u>3,382,439</u>	<u>533,567</u>
Supplemental disclosures of cash flow information:				
Restricted cash		–	163,025	25,717
Income taxes paid		59	19,845	3,130
Interest expense paid		3,664	45,654	7,202
Cash payments for operating leases		578,086	1,409	222
Non-cash investing and financing activities:				
Purchases of property and equipment included in accrued expenses and other liabilities	12	198,180	524,581	82,751
Right-of-use assets obtained in exchange for operating lease liabilities		–	23,980	3,783
[REDACTED] costs included in accrued expenses and other liabilities		–	3,016	475

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial information.

APPENDIX IB

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
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**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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(All amounts in thousands, except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PREPARATION

Kingsoft Cloud Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on January 3, 2012. The Company and its subsidiaries (including the Company’s subsidiaries, the variable interest entities, and subsidiaries of the 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 the 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 of March 31, 2022, there have been no material changes to the Company’s principal subsidiaries, variable interest entities, and subsidiaries of the variable interest entities since December 31, 2021.

These unaudited interim condensed consolidated financial information of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information using accounting policies that are consistent with those used in the preparation of the Company’s audited consolidated financial information for the year ended December 31, 2021.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial information contain all normal recurring adjustments necessary to present fairly the financial position, operating results and cash flows of the Company for each of the periods presented. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of results to be expected for any other interim period or for the full year of 2022. The consolidated balance sheet as of December 31, 2021 was derived from the audited consolidated financial information at that date but does not include all of the disclosures required by U.S. GAAP for annual financial information. These unaudited interim condensed consolidated financial information should be read in conjunction with the Company’s consolidated financial information for the year ended December 31, 2021.

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 Technology Co., Ltd. and Kingsoft Cloud (Beijing) Information Technology Co., Ltd., 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 Beijing Kingsoft Cloud Technology Co., Ltd. and Beijing Yunxiang Zhisheng Technology Co., Ltd. (collectively, the “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. Therefore, the Company is the primary beneficiary of the VIEs. 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”).

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

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 condensed consolidated balance sheets, interim condensed consolidated statements of comprehensive loss and interim condensed consolidated statements of cash flows:

	As at December 31, 2021 RMB	March 31, 2022 RMB (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	2,209,647	1,195,395
Restricted cash	89,704	14,350
Accounts receivable, net of allowance for credit losses of RMB30,082 and RMB20,245 as of December 31, 2021 and March 31, 2022, respectively	3,170,860	3,062,754
Prepayments and other assets	907,350	967,939
Amounts due from related parties	184,137	285,703
Amounts due from subsidiaries of the Group	2,157,428	2,000,443
Total current assets	8,719,126	7,526,584
Non-current assets:		
Property and equipment, net	2,157,093	2,188,702
Intangible assets, net	93,662	83,152
Prepayments and other assets	27,036	23,374
Goodwill	64,082	48,814
Equity investments	162,244	167,185
Amounts due from related parties	4,712	4,712
Operating lease right-of-use assets	184,908	178,098
Total non-current assets	2,693,737	2,694,037
Total assets	11,412,863	10,220,621
LIABILITIES		
Current liabilities:		
Accounts payable	2,733,487	2,407,188
Accrued expenses and other liabilities	1,208,868	868,376
Short-term bank loans	1,348,166	1,485,000
Income tax payable	1,026	-
Amounts due to related parties	797,731	789,566
Current operating lease liabilities	70,672	70,172
Amounts due to subsidiaries of the Group	1,597,946	1,943,554
Total current liabilities	7,757,896	7,563,856
Non-current liabilities:		
Other liabilities	6,975	5,985
Non-current operating lease liabilities	121,057	123,595
Amounts due to related parties	472,882	414,152
Amounts due to subsidiaries of the Group	7,486,525	7,057,639
Total non-current liabilities	8,087,439	7,601,371
Total liabilities	15,845,335	15,165,227

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

	For the three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenues	1,688,141	1,453,024
Net loss	(380,102)	(571,892)
Net cash used in operating activities	(518,574)	(597,343)
Net cash used in investing activities	(217,870)	(583,552)
Net cash generated from financing activities	604,689	82,046

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 93.09% and 66.84% of the Group’s consolidated revenue for the three months ended March 31, 2021 and 2022, respectively, after elimination of inter-entity transactions.

As of March 31, 2022, other than RMB750,000 of VIEs’ subsidiaries’ electronic equipment that was secured for the loans borrowed from Xiaomi Group (Note 19), and RMB14,350 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 VIE’s subsidiaries are without recourse to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of consolidated financial information 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 interim condensed consolidated financial information include, but are not limited to, allowance for credit losses 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.

Convenience translation

Amounts in U.S. dollars are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.3393 per US\$1.00 on March 31, 2022 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.

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UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

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.

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. As of December 31, 2021 and March 31, 2022, the carrying amounts of the Group’s equity investments measured using the measurement alternative were RMB207,166 and RMB211,744, respectively, including accumulated impairment of RMB nil and RMB5,000, and accumulated upward adjustment of RMB96,793 and RMB96,793, respectively. The Group recognized RMB5,782 and RMB nil of unrealized gains (upward adjustments), and 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 (loss), net on the interim condensed consolidated statements of comprehensive loss for the three months ended March 31, 2021 and 2022, respectively.

In February 2022, the Group disposed certain equity interests in Beijing Yunshu Xunlian Technology Co., Ltd. (“Beijing Yunshu”), and deconsolidated Beijing Yunshu’s financial results from the Group’s consolidated financial information from the date of disposal. The Group measured its remaining interests in Beijing Yunshu at fair value upon deconsolidation, and the loss recognized from the disposal of Beijing Yunshu was immaterial. Subsequent to the deconsolidation, the Group owns 15.63% equity interests in Beijing Yunshu and the remaining equity interests are accounted for using the measurement alternative.

Fair value measurements

Financial instruments of the Group primarily include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, contract assets, equity investments, accounts payable, purchase consideration payable, certain other liabilities, amounts due from and due to related parties and bank loans. 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 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.

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.

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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.

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.

Accounts receivable and contract assets, net

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 interim condensed 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.

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 information 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.

A change in the terms or conditions of share options is accounted for as a modification of share-based awards. The Group 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, the Group recognizes incremental compensation cost in the period the modification occurred. For unvested share-based award, the Group 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.

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Concentration of credit risks

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, 2021 and March 31, 2022, 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 asset balance. As of March 31, 2022, no individual customer accounted for more than 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.

Impact of COVID-19

For the three months ended March 31, 2021 and 2022, 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.

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 information 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 adopted this guidance on January 1, 2022 and does not expect any material impact on the Group’s consolidated financial information as a result of adopting the new standard.

3. BUSINESS COMBINATION

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 information 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.

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Acquisition of Camelot

In September 2021, the Group completed the acquisition of Camelot Technology Co., Ltd. and its subsidiaries (collectively referred to as “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 information of the Group since September 2021.

The total purchase consideration was RMB5,290,553, which consisted of 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)
	<hr/>
Goodwill	4,561,033
	<hr/> <hr/>

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.

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

4. REVENUES

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

	For the three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Public cloud services recognized over time	1,391,833	1,380,807
Enterprise cloud services:		
Recognized at a point in time	417,906	265,609
Recognized over time	2,126	526,900
	420,032	792,509
Others:		
Recognized at a point in time	1,025	–
Recognized over time	642	493
	1,667	493
	1,813,532	2,173,809

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at March 31, 2022 are primarily related to enterprise cloud services, which are as follows:

	<i>RMB</i>
	<i>(unaudited)</i>
Within one year	37,226
More than one year	27,197
Total	64,423

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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 three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue recognized from amounts included in contract liabilities at the beginning of the period	35,439	103,873

5. ACCOUNTS RECEIVABLE, NET

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Accounts receivable	3,603,240	3,557,695
Allowance for credit losses	(32,265)	(32,384)
Accounts receivable, net	3,570,975	3,525,311

An ageing analysis of the trade receivables as at December 31, 2021 and March 31, 2022, based on the past due date and net of provisions, is as follows:

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Not yet due	2,411,907	1,698,240
Within 3 months	478,156	403,263
Between 4 months and 6 months	202,060	944,644
Between 7 months and 1 year	371,200	308,565
More than 1 year	107,652	170,599
Accounts receivable, net	3,570,975	3,525,311

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

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

	For the three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Balance at beginning of the period	15,770	32,265
Adoption of ASC 326*	5,684	–
Provision for expected credit losses	13,096	78,811
Write-offs charged against the allowance	(24,783)	(67,903)
Recoveries during the period	–	(10,789)
	9,767	32,384
	9,767	32,384

* 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.

6. PREPAYMENTS AND OTHER ASSETS

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Current portion:		
Prepayments to suppliers	162,528	158,622
Contract costs*	145,628	151,153
Contract assets, net**	550,068	528,691
VAT prepayments	619,391	670,080
Interest receivable	21,463	18,027
Individual income tax receivable*** <i>(Note 12)</i>	48,949	5,669
Others	138,994	136,903
	1,687,021	1,669,145
	1,687,021	1,669,145
Non-current portion:		
Prepayments for electronic equipment	25,388	20,965
Others	3,678	2,852
	29,066	23,817
	29,066	23,817

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(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 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 periods. The allowance for credit losses on contract assets was RMB1,591 and RMB nil as of December 31, 2021 and March 31, 2022, respectively. The amounts charged to expenses for credit losses on contract assets and recoveries from the allowance were RMB2,586 and RMB4,177 for the three months ended March 31, 2022, respectively.
- *** Represents amounts due from certain employees related to their individual income taxes (“IIT”) arising from exercise and vesting of share-based awards.

7. PROPERTY AND EQUIPMENT, NET

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Electronic equipment	5,123,149	5,410,893
Office equipment and fixtures	15,462	15,768
Data center machinery and equipment	144,328	144,328
Building	15,768	158,434
Construction in progress	147,817	3,435
	<u>5,446,524</u>	<u>5,732,858</u>
Less: accumulated depreciation	(3,082,421)	(3,311,696)
	<u>2,364,103</u>	<u>2,421,162</u>

Depreciation expense of the property and equipment for the three months ended March 31, 2021 and 2022 was RMB176,683 and RMB244,727, respectively.

8. INTANGIBLE ASSETS, NET

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Customer relationships	620,100	620,833
Patents and technologies	67,900	60,900
Trademarks and domain names	497,098	497,043
Software and copyrights	71,752	77,800
Others	3,637	3,147
	<u>1,260,487</u>	<u>1,259,723</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Less: accumulated amortization		
Customer relationships	(32,637)	(57,146)
Patents and technologies	(8,138)	(10,150)
Trademarks and domain names	(20,722)	(33,093)
Software and copyrights	(26,692)	(35,042)
Others	(2,531)	(2,474)
	<u>(90,720)</u>	<u>(137,905)</u>
Intangible assets, net	<u>1,169,767</u>	<u>1,121,818</u>

Amortization expense of intangible assets for the three months ended March 31, 2021 and 2022 was RMB3,783 and RMB42,754, respectively. As of March 31, 2022, estimated amortization expense of the existing intangible assets for each of the next five years is as follows:

	<i>RMB</i>
	<i>(unaudited)</i>
Remaining nine months of 2022	127,673
2023	169,313
2024	167,653
2025	165,195
2026 and thereafter	<u>491,984</u>
Total	<u>1,121,818</u>

9. GOODWILL

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

	Cloud service	Cloud-based	
	and solutions	digital solutions	
	<i>RMB</i>	<i>RMB</i>	Total
			<i>RMB</i>
Balance as of December 31, 2021	3,669,031	956,084	4,625,115
Disposal of a subsidiary (unaudited)	<u>(15,268)</u>	<u>–</u>	<u>(15,268)</u>
Balance as of March 31, 2022 (unaudited)	<u>3,653,763</u>	<u>956,084</u>	<u>4,609,847</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

10. LEASES

As of March 31, 2022, the undiscounted future minimum payments under the Group’s operating lease liabilities and reconciliation to the operating lease liabilities recognized on the interim condensed consolidated balance sheets were as below:

	<i>RMB</i> <i>(unaudited)</i>
Remaining nine months of 2022	110,655
2023	64,238
2024	55,303
2025	34,042
2026 and thereafter	75,599
	<hr/>
Total future lease payments	339,837
Less: imputed interest	(54,414)
	<hr/>
Total lease liability balance	<u>285,423</u>

11. ACCOUNTS PAYABLE

An ageing analysis of the accounts payable as at December 31, 2021 and March 31, 2022, based on the invoice date, is as follows:

	As at	
	December 31, 2021	March 31, 2022
	<i>RMB</i>	<i>RMB</i> <i>(unaudited)</i>
Within 3 months	1,340,662	1,070,161
Between 4 months and 1 year	1,209,146	1,084,889
More than 1 year	388,824	425,668
	<hr/>	<hr/>
Accounts payable	<u>2,938,632</u>	<u>2,580,718</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Current portion:		
Customer advances	378,957	341,712
Salary and welfare payable	600,775	534,855
Purchase of property and equipment	759,391	524,581
Accrued expenses	116,021	101,039
Other tax and surcharges payable	91,287	83,455
Deferred government grants	8,488	5,339
Purchase consideration payable*	148,038	147,399
Individual income tax payable** <i>(Note 6)</i>	48,949	2,418
Others	71,934	102,395
	<u>2,223,840</u>	<u>1,843,193</u>
Non-current portion:		
Deferred government grants	6,975	5,985
Purchase consideration payable*	1,180,470	1,187,382
Others	45,232	46,302
	<u>1,232,677</u>	<u>1,239,669</u>

* The amount represents the remaining purchase consideration to acquire Camelot. As of March 31, 2022, 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 RMB253,171 and RMB934,211 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.

13. BANK LOANS

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Short-term bank loans	<u>1,348,166</u>	<u>1,491,144</u>
	<u>1,348,166</u>	<u>1,491,144</u>

APPENDIX IB

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION (continued)**

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

The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2021 and March 31, 2022 was 4.59%. The maturity dates for the outstanding loans as of March 31, 2022 range from May 2022 to March 2023.

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

14. TAXATION

There is an immaterial provision for income taxes because the Company and a majority of its consolidated entities are in a current loss position for all the periods presented. The Company recorded a full valuation allowance against deferred tax assets of a majority of its consolidated entities because they were in a cumulative loss position as of December 31, 2021 and March 31, 2022.

As of December 31, 2021 and March 31, 2022, the Group had unrecognized tax benefits of RMB59,049 and RMB41,345, of which RMB43,095 and RMB24,118, respectively, were deducted against the deferred tax assets on tax losses carried forward, and the remaining amounts of RMB15,954 and RMB17,227, respectively, were presented in other liabilities in the interim condensed consolidated balance sheets. The Group’s unrecognized tax benefits for the years ended December 31, 2021 and March 31, 2022, 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, 2021 and March 31, 2022, there are RMB15,954 and RMB17,227 of unrecognized tax benefits that if recognized would impact the annual effective tax rate, respectively. For the periods presented, the Group did not record any interest 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.

15. SHARE-BASED PAYMENTS

During the three months ended March 31, 2022, the Board of Directors approved the grants of 76,895,312 awards and 8,417,040 awards to employees under the Share Award Scheme and Share Option Scheme, respectively. The share-based awards are accounted for as equity awards and generally contain service vesting conditions, which generally vest over a period from two to five years. The fair value of the awarded shares is the price of the Company’s publicly traded shares at their respective grant dates.

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 appraiser. 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.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

The assumptions used to estimate the fair value of the share options granted are as follows:

	For the three months ended March 31,	
	2021	2022
Risk-free rate	1.13%-1.62%	1.75%-2.00%
Expected volatility range	37.00%-38.03%	35.62%-42.06%
Exercise multiple	2.20-2.80	2.20
Fair market value per ordinary share as at valuation dates	US\$3.04-US\$3.49	US\$0.33-US\$0.73

Share based compensation expense for the three months ended March 31, 2021 and 2022 was RMB123,113 and RMB93,182, respectively.

16. RESTRICTED NET ASSETS

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 RMB3,590,295 as of March 31, 2022.

17. LOSS PER SHARE

Basic and diluted loss per share for the periods presented are calculated as follows:

	For the three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Numerator:		
Net loss attributable to ordinary shareholders – basic and diluted	<u>(382,464)</u>	<u>(553,249)</u>
Denominator:		
Weighted average number of ordinary shares outstanding – basic and diluted	<u>3,343,336,997</u>	<u>3,648,282,282</u>
Basic and diluted loss per share	<u>(0.11)</u>	<u>(0.15)</u>

For the periods presented herein, the computation of basic loss per share using the two-class method is not applicable. The effects of all outstanding 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.

18. TREASURY STOCK

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. As of March 31, 2022, no shares have been repurchased by the Company.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

19. RELATED PARTY TRANSACTIONS

(a) Related Parties

Name of related parties	Relationship with the Group
Kingsoft Corporation Limited (“Kingsoft”) and its subsidiaries (“Kingsoft Group”)	Principal shareholder of the Company
Xiaomi Corporation and its subsidiaries (“Xiaomi Group”)	Entities controlled by a director of the Company

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

	For the three months ended March 31,	
	2021	2022
	<i>RMB</i>	<i>RMB</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenues:		
Public cloud services provided to Xiaomi Group	193,913	220,741
Public cloud services provided to Kingsoft Group	31,990	44,941
Enterprise cloud services provided to Xiaomi Group	–	15,275
Enterprise cloud services provided to Kingsoft Group	–	2,038
	<u>225,903</u>	<u>282,995</u>
Purchase of devices from Xiaomi Group	69	29
Interest expense on loan due to Xiaomi Group	–	11,386
Interest expense on loan due to Kingsoft Group	–	5,812
Rental of building from Xiaomi Group*	16,662	13,305
Administrative services from Kingsoft Group	3,025	3,557
	<u>19,756</u>	<u>34,089</u>

* The Group entered into agreements to lease building and office space from Xiaomi Group. As of December 31, 2021 and March 31, 2022, the related operating lease right-of-use assets amounted to RMB210,551 and RMB201,889 and operating lease liabilities amounted to RMB238,180 and RMB241,445, respectively.

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

	As at	
	December 31,	March 31,
	2021	2022
	<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>
Amounts due from related parties:		
Xiaomi Group	175,170	270,138
Kingsoft Group	37,731	46,926
	<u>212,901</u>	<u>317,064</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

	As at December 31, 2021 RMB	March 31, 2022 RMB (unaudited)
Amounts due to related parties:		
Kingsoft Group*	544,376	543,330
Xiaomi Group**	764,941	695,559
	1,309,317	1,238,889

* 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 Xiaomi Group which are secured by the Group’s electronic equipment. As of December 31, 2021 and March 31, 2022, the fixed interest rate for these loans was 4.36%. As of December 31, 2021 and March 31, 2022, the current portion of the loans was RMB236,206 and RMB238,543, and the non-current portion of the loans was RMB472,882 and RMB414,152, respectively. Under the terms of the agreements, the Group will repay in fixed quarterly installments over 3 years according to the following schedule:

	2022 RMB
Remaining nine months of 2022	179,813
2023	241,168
2024	231,714
	652,695

All the balances with related parties except for the loans from Xiaomi Group were unsecured. All outstanding balances except for loans from Xiaomi Group and Kingsoft Group are repayable on demand unless otherwise disclosed. The credit losses for the amount due from related parties were immaterial for the periods presented.

20. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

The Group has commitments for the construction of a data center of RMB34,312 at March 31, 2022, which are scheduled to be paid within one year.

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.

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

21. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<i>RMB</i>
Balance as of January 1, 2021	(68,440)
Foreign currency translation adjustments, net of tax of nil	<u>70,773</u>
Balance as of March 31, 2021 (unaudited)	<u><u>2,333</u></u>
Balance as of January 1, 2022	(207,882)
Disposal during the year	4
Foreign currency translation adjustments, net of tax of nil	<u>(11,743)</u>
Balance as of March 31, 2022 (unaudited)	<u><u>(219,621)</u></u>

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

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

The interim financial information are 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 interim financial information of the Group prepared under U.S. GAAP and IFRSs are as follows:

Consolidated Statements of Comprehensive Income (Loss) (Extract)	For the three months ended March 31, 2021						Amount as Reported under IFRSs <i>RMB</i>
	Amount as Reported under US GAAP <i>RMB</i>	IFRSs adjustments					
		Preferred Shares <i>(Note (i))</i> <i>RMB</i>	Operating leases <i>(Note (ii))</i> <i>RMB</i>	Equity investments <i>(Note (iii))</i> <i>RMB</i>	Share-based Compensation <i>(Note (iv))</i> <i>RMB</i>	Issuance costs <i>(Note (v))</i> <i>RMB</i>	
Cost of revenues	(1,697,029)	–	950	–	957	–	(1,695,122)
Selling and marketing expenses	(112,826)	–	–	–	3,672	–	(109,154)
General and administrative expenses	(91,177)	–	873	–	(4,675)	–	(94,979)
Research and development expenses	(264,636)	–	–	–	1,226	–	(263,410)
Interest expense	(3,866)	–	(5,758)	–	–	–	(9,624)
Other gain (loss), net	5,782	–	–	(6,601)	–	–	(819)
Other income, net	1,926	–	–	8,839	–	–	10,765
(Loss) income before income taxes	(378,923)	–	(3,935)	2,238	1,180	–	(379,440)
Net (loss) income	(382,209)	–	(3,935)	2,238	1,180	–	(382,726)
Net (loss) income attributable to ordinary shareholders	<u>(382,464)</u>	<u>–</u>	<u>(3,935)</u>	<u>2,238</u>	<u>1,180</u>	<u>–</u>	<u>(382,981)</u>

APPENDIX IB **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

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

Consolidated Balance Sheet (Extract)	As of March 31, 2022						Amount as reported under IFRSs
	Amount as reported under US GAAP	IFRSs adjustments					
		Preferred Shares	Operating leases	Equity investments	Share-based compensation	Issuance costs	
		(Note (i))	(Note (ii))	(Note (iii))	(Note (iv))	(Note (v))	
	RMB	RMB	RMB	RMB	RMB	RMB	
Prepayments and other assets	1,669,145	-	-	-	-	(2,945)	1,666,200
Property and equipment, net	2,421,162	-	1,500	-	-	-	2,422,662
Equity investments	211,744	-	-	(67,498)	-	-	144,246
Operating lease right-of-use assets	265,322	-	(15,235)	-	-	-	250,087
Total assets	19,935,855	-	(13,735)	(67,498)	-	(2,945)	19,851,677
Additional paid-in capital	18,341,302	2,236,919	-	-	(63,455)	21,205	20,535,971
Accumulated deficit	(8,012,001)	(1,700,368)	(13,742)	(67,498)	63,455	(23,614)	(9,753,768)
Accumulated other comprehensive (income) loss	(219,621)	(536,551)	7	-	-	(536)	(756,701)
Total shareholders' equity (deficit)	11,016,391	-	(13,735)	(67,498)	-	(2,945)	10,932,213

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.

(ii) Operating leases

Under U.S. GAAP, 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 IFRSs, 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.

APPENDIX IB

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
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**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED
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(All amounts in thousands, except for number of shares and per share data)

(iii) Equity investments

Equity investments primarily comprise 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 listing of existing shares in profit or loss.

23. SUBSEQUENT EVENT

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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants’ Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix IA to this document, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountants’ Report set forth in Appendix IA and the unaudited interim condensed consolidated financial information set forth in Appendix IB to the document.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared in accordance with rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purpose only, and is set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022 as if the [REDACTED] had taken place on March 31, 2022.

The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the shareholders of the Company had the [REDACTED] been completed as at March 31, 2022 or any future date. It is prepared based on the consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022 as set out in the unaudited interim condensed consolidated financial information as set out in Appendix IB to the document, and adjusted as described below.

Consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022 RMB’000 (Note 1)	Estimated net [REDACTED] from the [REDACTED] RMB’000 (Notes 2, 5)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company RMB’000	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share RMB HK\$ (Note 3) (Note 5)	Unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company per ADS RMB HK\$ (Note 4) (Note 5)
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Based on the
indicative

[REDACTED] of [REDACTED]	4,402,839	[REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED]
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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The consolidated net tangible assets attributable to the shareholders of the Company as at March 31, 2022 is extracted from the unaudited interim condensed consolidated financial information set out in Appendix IB to this document, which is based on the unaudited consolidated net assets attributable to the shareholders of the Company of RMB10,134,504,000 after deducting the goodwill of RMB4,609,847,000 and intangible assets, net of RMB1,121,818,000 as at March 31, 2022.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the indicative [REDACTED] of [REDACTED], after deduction of the [REDACTED] fees and other related expenses to be incurred by the Group and does not take into account of any shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] in issue immediately upon the completion of the [REDACTED], assuming that the [REDACTED] has been completed on March 31, 2022 for the purpose of the pro forma financial information, and does not take into account of any shares which may be issued upon the exercise of the [REDACTED], the Shares to be issued pursuant to the share-based compensation plans including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase of Shares by the Company.
- (4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents 15 shares.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the estimated net [REDACTED] from the [REDACTED] are converted from Hong Kong dollars into Renminbi (“RMB”) at an exchange rate of HK\$1.00 to RMB0.8593 and the unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of the Company per Share is converted from RMB to Hong Kong dollars at the same exchange rate. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2022.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III **SUMMARY OF THE CONSTITUTION OF THE COMPANY
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SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is on display on the websites of the Stock Exchange and the Company as specified in Appendix V in the section headed "Documents available on display".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 Ordinary Shares

The share capital of the Company consists of ordinary shares. The share capital of the Company at the date of adoption of the Articles is US\$40,000,000.00 divided into 40,000,000,000 shares of a nominal or par value of US\$0.001 each.

2.2 Dividends

The Board of Directors may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board of Directors. The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. The Board of Directors may also declare and pay dividends out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Board of Directors may determine and resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board of Directors has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind. All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof.

All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

2.3 Voting Rights

In respect of matters requiring shareholders' vote, subject to the Articles and to any rights or restrictions attached to any Shares, at any general meeting, (a) every shareholder present in person (or, in the case of a Member being a corporation, by its duly authorized representative) or by proxy shall have the right to speak; (b) on a show of hands every shareholder present in any such manner shall have one vote; and (c) on a poll every shareholder present in any such manner shall have one vote for every ordinary share of which they are the holder, except where the Member is required, by the Listing Rules, to abstain from voting to approve the matter under consideration. Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded. A poll may be demanded by: (a) the chairman of such meeting; or (b) by at least three Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or (c) by a Member or Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and representing not less than one tenth of the total voting rights of all Members having the right to vote at the meeting; or (d) by a Member or Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all shares conferring that right; or (e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution requires the affirmative vote of not less than three-fourths of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association.

2.4 Transfer of Shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature on behalf of it (or any successor thereto) or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee, which is consistent with any standard form of transfer as prescribed by the Designated Stock Exchange. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Designated Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice in accordance with the requirements of the Designated Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

2.5 Liquidation

On a winding up of the Company, (i) if the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

2.6 Power of Company to Purchase its Own Shares

The Company is empowered by the Companies Act and the Memorandum and Articles of Association to purchase its own shares subject to certain restrictions and the Board of Directors may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Designated Stock Exchange. Under the Companies Act, the purchase by the Company of its own shares may be paid out of the Company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such purchase, or out of capital (including share premium account and capital redemption reserve fund) if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be purchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the Company has commenced liquidation.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

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In addition, the Company may accept the surrender of any fully paid share for no consideration unless, as a result of such surrender, there would no longer be any issued shares of the Company other than shares held as treasury shares.

2.7 Variation of Rights of Shares

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, be varied with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

2.8 General Meetings of Shareholders

The Company shall hold a general meeting as its annual general meeting in each financial year (within a period of not more than six months after the end of its financial year (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it and held at such time and place as may be determined by the Board of Directors.

A majority of the Board of Directors or the Chairman of the Board may call extraordinary general meetings, which extraordinary general meetings shall be held at such times and locations (as permitted hereby) as such person or persons shall determine. Any one or more Members holding not less than ten per cent of the votes attaching to the total issued and paid up share capital of the Company on a one vote per share basis at the date of deposit of the requisition shall at all times have the right, by written requisition to the Board of Directors or the Secretary of the Company, to require an extraordinary general meeting to be convened or add resolutions to a meeting agenda. An annual general meeting shall be called by not less than twenty-one (21) days' Notice and any other general meeting (including an extraordinary general meeting) shall be called by not less than fourteen (14) days' Notice in writing and shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice of a shareholders' meeting shall be given to all Members other than to such Members as, under the provisions of the Memorandum and Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors.

All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of: (a) the declaration and sanctioning of dividends; (b) consideration and adoption of the accounts and balance sheet and the reports of the Directors and auditors and other documents required to be annexed to the balance sheet; and (c) the election of Directors.

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2.9 Appointment and Removal of Directors

The Articles of Association provide that unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two, and there shall be no maximum number of Directors unless otherwise determined from time to time by the Board of Directors.

The Articles of Association provide that, the Company may by ordinary resolution appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Board. In addition, the Board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, appoint any person as a Director to fill a casual vacancy or as an addition to the existing Board. A Director shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. The Company may by ordinary resolution remove any Director (including a managing or other executive director).

The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two.

There is no shareholding qualification for Directors nor is there any specific age limit for Directors.

The office of a Director shall be vacated if the Director:

- (a) resigns his office by notice in writing delivered to the Company at the office or tendered at a meeting of the Board;
- (b) becomes of unsound mind or dies;
- (c) without special leave of absence from the Board, is absent from meetings of the Board for three consecutive meetings and the Board resolves that his office be vacated;
- (d) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (e) is prohibited by law from being a Director; or
- (f) ceases to be a Director by virtue of any provision of law or is removed from office pursuant to the Articles.

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2.10 Proceedings of the Board

The Directors may meet together (whether within or without the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.11 Changes in Share Capital

The Company may by ordinary resolution:

- (a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (c) without prejudice to the powers of the Board under the Articles, divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions. For the avoidance of doubt, subject to the rules of the Designated Stock Exchange and/or any competent regulatory authority, (i) where a class of shares has been authorized by the Company no resolution of the Company in general meeting is required for the issuance of shares of that class and the Directors may issue shares of that class, and (ii) where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";
- (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the Companies Act), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;

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- (e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.

The Company may by special resolution reduce its share capital or any capital redemption reserve or other undistributable reserve in any way permitted by law and the rules of the Designated Stock Exchange.

2.12 Directors' Power to Issue Shares and Warrants

Subject to the provisions of the Companies Act, the rules of the Designated Stock Exchange and the Memorandum and Articles of Association, and to any special rights conferred on the holders of any shares or class of shares, any share in a class of shares authorized by the Company (whether forming part of the present capital or not) may be issued.

Subject to the Companies Act, the rules of the Designated Stock Exchange and the Memorandum and Articles of Association, the Board may issue options, warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

2.13 Directors Borrowing Powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

2.14 Disclosure of Interest in Contracts with the Company or any of our Subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by

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the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Notwithstanding the foregoing, no "Independent Director" as defined in the rules of the Designated Stock Exchange or in Rule 10A-3 under the Exchange Act, and with respect of whom the Board has determined constitutes an "Independent Director" for purposes of compliance with applicable law or the rules of the Designated Stock Exchange, shall without the consent of the Audit Committee take any of the foregoing actions or any other action that would reasonably be likely to affect such Director's status as an "Independent Director" of the Company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

Subject to the Memorandum and Articles of Association, unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

2.15 Remuneration of Directors

The remuneration of the Directors shall be determined by the Board.

The Directors shall be entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the board or general meetings or separate meetings of any class of shares or of debenture of the Company or otherwise in connection with the discharge of his duties as a Director.

2.16 Restriction on Ownership of Securities

There are no provisions in the Articles of Association relating to restrictions on ownership of the Company's shares or securities.

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SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 3, 2012 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;

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- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

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8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

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12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

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15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is on display on the websites as referred to in the section headed "Documents available on display" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on January 3, 2012.

Our registered office address is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Accordingly, our Company’s corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III.

Our principal place of business in Hong Kong is at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 12, 2022 with the Registrar of Companies in Hong Kong. Ms. So Ka Man has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

As at the date of this Document, our Company’s head office is located at Building E, Xiaomi Science and Technology Park, No. 33 Xierqi Middle Road, Haidian District, Beijing, 100085, the People’s Republic of China.

2. Changes in share capital of our Company

Our Company was incorporated with an authorized share capital of US\$300,000 divided into 300,000,000 Shares of a nominal or par value of US\$0.001 each.

The following sets out the changes in the Company’s issued share capital during the two years immediately preceding the date of this Document:

- (a) On September 3, 2021, we issued an aggregate of 247,475,446 Shares to the Founders and Non-founders shareholders of Camelot pursuant to the Camelot Merger Agreement.
- (b) On November 17, 2021, 13 Shares held by Forebright Precious Steed Limited were surrendered and canceled.

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- (c) On November 30, 2021, 10 Shares held by Mr. Zhang Hongjiang were surrendered and canceled.
- (d) On December 13, 2021, we issued 9,643,163 and 2,041,269 Shares to Accedge Limited and Herocoba Limited, respectively, pursuant to a share purchase agreement dated December 7, 2021.
- (e) On January 12, 2022, 9 Shares held by Design Time Limited were surrendered and canceled.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this Document.

3. Changes in the share capital of our major subsidiaries and operating entities

A summary of the corporate information and the particulars of our major subsidiaries and operating entities are set out in Note 1 to the Accountants’ Report as set out in Appendix IA.

The following sets out the changes in the share capital of our major subsidiaries and operating entities during the two years immediately preceding the date of this Document:

Beijing Kingsoft Cloud

On September 3, 2020, the registered capital of Beijing Kingsoft Cloud increased from RMB410,000,000 to RMB910,000,000.

Yunxiang Zhisheng

On February 7, 2021, the registered capital of Yunxiang Zhisheng increased from RMB890,000,000 to RMB1,390,000,000.

Camelot Technology

On August 14, 2020, the registered capital of Camelot Technology increased from RMB176,944,000 to RMB182,790,771.

On December 28, 2020, Camelot Technology converted into a joint stock company with a registered capital of RMB250,000,000 being subscribed by all the then existing shareholders of Camelot Technology in proportion to their respective equity interests in Camelot Technology before the conversion.

Save as disclosed above, there has been no alteration in the share capital of our major subsidiaries and operating entities within the two years immediately preceding the date of this Document.

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4. Resolutions of our Shareholders

Resolutions of our Shareholders were passed on [●], 2022, pursuant to which, among others:

- (a) the Memorandum and Articles were approved and adopted conditional upon [REDACTED];
- (b) conditional upon all the conditions set out in the paragraph headed “Structure of the [REDACTED] – Conditions of the [REDACTED]” in this Document being fulfilled:
 - (i) the [REDACTED] (including the [REDACTED]) was approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect the same as it thinks fit;
 - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the [REDACTED]; and
 - (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree on the price per [REDACTED] with the [REDACTED];
- (c) the amendments to the rules of the 2021 Share Incentive Plan were approved and adopted and the Directors were authorized, at their absolute discretion, to grant awards to subscribe for Shares under the 2021 Share Incentive Plan and to allot, issue and deal with Shares pursuant to the vesting of awards granted under the 2021 Share Incentive Plan;
- (d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than by way of [REDACTED] or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangement which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not to exceed 20% of the number of the Shares in issue immediately following completion of the [REDACTED], such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, or (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or (iii) until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;

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- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of the Shares in issue immediately following the completion of the [REDACTED], such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, or (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or (iii) until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and
- (f) the general mandate mentioned in paragraph (e) above be extended by the addition to the number of the Shares which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by the Company pursuant to the mandate to purchase shares referred to in paragraph (f) above.

5. Repurchases of our Own Securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders’ approval*

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution of our Company passed by our Shareholders on [●], 2022, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the number of Shares in issue immediately following the completion of the [REDACTED] until (i) the conclusion of our next annual general meeting, or (ii) the date by which our next annual general meeting is required by the Articles of Association or any applicable law to be held, or (iii) the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

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(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. As a matter of Cayman Islands law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act.

(iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the [REDACTED]. Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be canceled and destroyed. Under the laws of the Cayman Islands, unless the Directors resolve to hold the shares purchased by our Company as treasury shares prior to the purchase, shares purchased by our Company shall be treated as canceled and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Islands law.

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(v) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a [REDACTED] company has breached the Listing Rules.

(vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

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(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands.

On the basis of the current financial position as disclosed in this Document and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this Document. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED], but assuming that the [REDACTED] is not exercised, could accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting (the “**Relevant Period**”).

(d) General

None of the Directors or, to the best of their knowledge having made all reasonable inquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands. Saved as disclosed in this Document, our Company has not repurchased any Shares since our incorporation.

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If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this Document and are or may be material:

- (a) an agreement and plan of merger dated July 31, 2021 entered into by and among our Company, Camelot Employee Scheme, INC., Yiming Ma, Heidi Chou, Benefit Overseas Limited and Dreams Power Ltd., pursuant to which, our Company acquired the controlling interests in Camelot using a combination of cash and our Shares as consideration;
- (b) a share purchase agreement dated December 7, 2021 entered into by and among our Company, Accedge Limited (“**Accedge**”), Herocoba Limited (“**Herocoba**”), Wang Xijie (the “**Yunfan Founder**”), Deng Qingliang, Xie Song, Wang Xiang (together with the Yunfan Founder, the “**Yunfan Management**”), Vigode Group Limited, Vigode Holdings Limited (“**Vigode Holdings**”), Dongtai Yunrui Technology Co., Ltd.* (東台市雲睿科技有限公司), Shenzhen Yunfan Jiasu Technology Co., Ltd.* (深圳市雲帆加速科技有限公司), pursuant to which Accedge and Herocoba agreed to sell and the Company agreed to purchase the entire issued share capital of Vigode Holdings in consideration for the issue of 9,643,163 and 2,041,269 Shares to Accedge and Herocoba, respectively;

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- (c) a supplemental agreement dated July 15, 2022 entered into among Beijing Kingsoft Cloud Technology Co., Ltd. (北京金山雲科技有限公司), Zhuhai Kingsoft Cloud Technology Co., Ltd. (珠海金山雲科技有限公司), Ms. Qiu Weiqin (求偉芹), Beijing Kingsoft Digital Entertainment Technology Co., Ltd. (北京金山數字娛樂科技有限公司) and Beijing Kingsoft Cloud Network Technology Co., Ltd. (北京金山雲網絡技術有限公司), pursuant to which amendments were made to certain agreements governing the contractual arrangements in relation to Zhuhai Kingsoft Cloud;
- (d) a supplemental agreement dated July 15, 2022 entered into among Beijing Yunxiang Zhisheng Technology Co., Ltd. (北京雲享智勝科技有限公司), Kingsoft Cloud (Beijing) Information Technology Co., Ltd. (金山雲(北京)信息技術有限公司), Ms. Qiu Weiqin (求偉芹) and Mr. Wang Yulin (王育林), pursuant to which amendments were made to certain agreements governing the contractual arrangements in relation to Kingsoft Cloud Information; and
- (e) the [REDACTED].

2. Intellectual Property Rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks that we consider to be material to our business:

No.	Trademark	Places of Registration
1.	Kingsoft cloud	Hong Kong
2.	金山云	Hong Kong
3.		PRC, Hong Kong
4.	Ksyun	Hong Kong
5.	Kscloud	Hong Kong
6.	KINGCLOUD	PRC, Hong Kong

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(b) Patents

As of the Latest Practicable Date, our Group had registered the following patents which we consider to be material to our Group’s business:

No.	Number of Patent	Name of Patent	Application Date	Expiry Date
1.	CN201910931745.2	Data processing method, device and cloud server for file system (文件系統的數據處理方法、裝置和雲服務器)	September 27, 2019	September 27, 2039
2.	CN201811534730.4	A service detection method and device (一種服務探活方法及裝置)	December 14, 2018	December 14, 2038
3.	CN201910473217.7	Host creation and data backup method, device, electronic device and storage medium (主機創建和數據備份方法、裝置、電子設備及存儲介質)	May 31, 2019	May 31, 2039
4.	CN201911102928.X	CDN back-to-source verification method and verification server, CDN cluster (CDN回源的校驗方法和校驗服務器、CDN集群)	November 12, 2019	November 12, 2039
5.	CN201811653800.8	Management system, method and electronic device for container in tenant cluster VPC (對租戶集群VPC內部容器的管理系統、方法及電子設備)	December 29, 2018	December 29, 2038
6.	CN201910471456.9	Leasing method, device, cloud platform and readable storage medium of physical host (物理主機的租賃方法、裝置、雲平台及可讀存儲介質)	May 31, 2019	May 31, 2039
7.	CN201811165919.0	Container resource management method, device and cloud platform (容器資源的管理方法、裝置和雲平台)	September 30, 2018	September 30, 2038
8.	CN201710417173.7	Primary and secondary service system and primary node failure recovery method (主備服務系統及主節點故障恢復方法)	June 6, 2017	June 6, 2037
9.	CN202010533235.2	Network routing method, device and management server for virtual machine (虛擬機的網絡路由方法、裝置和管理服務器)	June 11, 2020	June 11, 2040

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No.	Number of Patent	Name of Patent	Application Date	Expiry Date
10.	CN201910580117.4	Permission management method and device for cloud computing resources (一種雲計算資源的權限管理方法及裝置)	June 28, 2019	June 28, 2039
11.	CN202010105676.2	Live streaming transmission method, device, CDN server and computer readable medium (直播流傳輸方法、裝置、CDN服務器及計算機可讀介質)	February 20, 2020	February 20, 2040
12.	CN202010736994.9	A service authentication method, apparatus, device, system and storage medium (一種服務鑒權方法、裝置、設備、系統及存儲介質)	July 28, 2020	July 28, 2040
13.	CN201811162297.6	A kind of image file downloading method, device, electronic device and storage medium (一種鏡像文件下載方法、裝置、電子設備及存儲介質)	September 30, 2018	September 30, 2038
14.	CN202011526583.3	Memory processing method and device, electronic device and storage medium (內存的處理方法和裝置、電子設備和存儲介質)	December 22, 2020	December 22, 2040
15.	CN202110028189.5	Method, device and electronic device for deadlock detection of database transaction (數據庫事務的死鎖檢測方法、裝置及電子設備)	January 11, 2021	January 11, 2041
16.	CN202110514551.X	Control method, device and system for Internet of Things equipment (物聯網設備的控制方法、裝置、系統)	May 12, 2021	May 12, 2041
17.	CN201810077039.1	Bandwidth adjustment method, device, electronic device, and computer-readable storage medium (帶寬調整方法、裝置、電子設備及計算機可讀存儲介質)	January 26, 2018	January 26, 2038
18.	CN202011194931.1	A method and related device for data balancing in a distributed storage system (一種分佈式存儲系統數據均衡的方法和相關裝置)	October 30, 2020	October 30, 2040

APPENDIX IV STATUTORY AND GENERAL INFORMATION

No.	Number of Patent	Name of Patent	Application Date	Expiry Date
19.	CN201910923302.9	A software code processing method, device, electronic device and storage medium (一種軟件代碼處理方法、裝置、電子設備及存儲介質)	September 27, 2019	September 27, 2039
20.	CN201710228017.6	A method, device and system for network stability testing of VPC cluster (一種VPC集群的網絡穩定性測試方法、裝置及系統)	April 10, 2017	April 10, 2037
21.	CN202110398287.8	Data mapping method, medical text data mapping method, device and electronic equipment (數據映射方法、醫學文本數據映射方法、裝置及電子設備)	April 14, 2021	April 14, 2041
22.	CN201710258074.9	A method and device for verifying the correctness of data (一種數據正確性校驗方法及裝置)	April 19, 2017	April 19, 2037
23.	CN201811463985.6	Virtual private cloud communication system, system configuration method and controller (虛擬私有雲通信系統、系統配置方法及控制器)	November 30, 2018	November 30, 2038
24.	CN201811221616.6	A motion estimation method, apparatus and electronic device based on video coding (一種基於視頻編碼的運動估計方法、裝置及電子設備)	October 19, 2018	October 19, 2038
25.	CN201710441708.4	Data storage method, device, electronic device and computer-readable storage medium (數據存儲方法、裝置、電子設備及計算機可讀存儲介質)	June 13, 2017	June 13, 2037
26.	CN201410783840.X	A fast implementation method of transform and inverse transform in H.265 video coding (H.265視頻編碼中變換與反變換的快速實施方法)	December 16, 2014	December 16, 2034
27.	CN201210543951.4	A data synchronization method, client, server, terminal and system (一種數據同步方法、客戶端、服務器、終端和系統)	December 14, 2012	December 14, 2032
28.	CN201610584045.7	Method and device for upgrading virtual machine monitor (一種虛擬機監視器升級方法及裝置)	July 22, 2016	July 22, 2036

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No.	Number of Patent	Name of Patent	Application Date	Expiry Date
29.	CN201511026242.9	Physical resource allocation method, device and system (物理資源分配方法、裝置及系統)	December 31, 2015	December 31, 2035
30.	CN201510552927.0	A kind of virtual machine disk data transfer method and device (一種虛擬機磁盤數據遷移方法及裝置)	September 1, 2015	September 1, 2035
31.	CN201710452576.5	Live data transmission method, device, electronic device, server and storage medium (直播數據傳輸方法、裝置、電子設備、服務器及存儲介質)	June 15, 2017	June 15, 2037
32.	CN201310294315.7	File synchronization method, device, client, server and device (文件同步的方法、裝置、客戶端、服務器端及設備)	July 12, 2013	July 12, 2033
33.	CN201510553036.7	Data information backup method, data backup method and device (數據信息備份方法、數據備份方法及裝置)	September 1, 2015	September 1, 2035
34.	CN201710256717.6	A method and device for creating a cloud host (一種雲主機創建方法及裝置)	April 19, 2017	April 19, 2037
35.	CN201611029823.2	Host resource allocation method and device, host scheduling method and device (宿主機資源分配方法、裝置、宿主機調度方法及裝置)	November 15, 2016	November 15, 2036
36.	CN201610720068.6	Function variable name resolution method, device and system (域名解析方法、裝置及系統)	August 24, 2016	August 24, 2036
37.	CN201610452846.8	An attack detection method and device (一種攻擊檢測方法及裝置)	June 21, 2016	June 21, 2036
38.	CN201810062914.9	A data transfer method, device, electronic device and readable storage medium (一種數據遷移方法、裝置、電子設備及可讀存儲介質)	January 23, 2018	January 23, 2038
39.	CN201310294131.0	Data processing method, client, server and equipment (數據處理方法、客戶端、服務器端及設備)	July 12, 2013	July 12, 2033
40.	CN201310093782.3	Directory jumping method and device (目錄跳轉方法及裝置)	March 22, 2013	March 22, 2033
41.	CN201210491796.6	File synchronization method, server, client and terminal device (文件同步方法、服務器、客戶端及終端設備)	November 27, 2012	November 27, 2032

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No.	Number of Patent	Name of Patent	Application Date	Expiry Date
42.	CN201410521974.4	Distributed file system reading method, client device and distributed file system (分佈式文件系統的讀方法、客戶端設備及分佈式文件系統)	September 30, 2014	September 30, 2034
43.	CN201410522064.8	A database migration method and device (一種數據庫遷移方法及裝置)	September 30, 2014	September 30, 2034
44.	CN201410523108.9	A database backup and recovery method, device and system (一種數據庫備份、恢復方法、裝置及系統)	September 30, 2014	September 30, 2034
45.	CN201610822438.7	A kind of video perception coding method and device (一種視頻感知編碼方法及裝置)	September 13, 2016	September 13, 2036
46.	CN201610320213.1	A method and device for scheduling cloud computing cluster resources (一種雲計算集群資源的調度方法及裝置)	May 13, 2016	May 13, 2036
47.	CN201610454968.0	Systems, methods, control servers and proxy servers for accessing private clusters (訪問私有集群的系統、方法、控制服務器和代理服務器)	June 22, 2016	June 22, 2036
48.	CN201780006030.5	Encoding and decoding method, apparatus, encoder, decoder, decoder and storage medium (編碼和解碼方法、裝置、編碼器、解碼器、解碼器及存儲介質)	October 17, 2017	October 17, 2037
49.	CN201610832334.4	A data backup and recovery method and device (一種數據備份、恢復方法及裝置)	September 19, 2016	September 19, 2036
50.	CN202010546266.1	A data recovery method and distributed data recovery system (一種數據恢復方法及分佈式數據恢復系統)	June 16, 2020	June 16, 2040

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(c) Copyrights

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be material in relation to our Group’s business:

No.	Copyright Name	Registration Number	Place of Registration
1.	Kingsoft KS3 Standard Storage Service System V1.0 (金山KS3標準存儲服務系統V1.0)	2015SR239798	PRC
2.	Kingsoft Cloud Kback Data Backup System V1.0 (金山雲Kback數據備份系統V1.0)	2015SR240013	PRC
3.	Kingsoft Video Cloud Service System Software V2.0 (金山視頻雲服務系統軟件V2.0)	2017SR178080	PRC
4.	Kingsoft Cloud Physical Host Software V1.0 (金山雲物理主機軟件V1.0)	2017SR360088	PRC
5.	Kingsoft Cloud IaaS Platform Core System V1.0 (金山雲IaaS平台核心系統V1.0)	2018SR063408	PRC
6.	Kingsoft Cloud PaaS Platform Core System V1.0 (金山雲PaaS平台核心系統V1.0)	2018SR079052	PRC
7.	Kingsoft Cloud Server Security Guard System V1.0 (金山雲服務器安全衛士系統V1.0)	2018SR169731	PRC
8.	Kingsoft Cloud Web Application Firewall Software V1.0 (金山雲Web應用防火牆軟件V1.0)	2018SR169675	PRC
9.	Kingsoft Cloud High-Definition IP Software V2.0 (金山雲高防IP軟件V2.0)	2018SR168958	PRC
10.	Kingsoft Cloud Private Cloud Application Software V3.0 (金山雲私有雲應用軟件V3.0)	2018SR437063	PRC
11.	Kingsoft Cloud Big Data Integration System V1.0 (金山雲大數據集成系統V1.0)	2018SR532401	PRC
12.	Kingsoft Cloud Deep Learning Platform Software V1.0 (金山雲深度學習平台軟件V1.0)	2018SR873162	PRC

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No.	Copyright Name	Registration Number	Place of Registration
13.	Kingsoft Cloud Enterprise Block Storage Software V1.0 (金山雲企業級塊存儲軟件V1.0)	2018SR926557	PRC
14.	Kingsoft Cloud Container Engine Software V1.0 (金山雲容器引擎軟件V1.0)	2018SR1031373	PRC
15.	Kingsoft Cloud Distributed Database Software V1.0 (金山雲分佈式數據庫軟件V1.0)	2019SR0659998	PRC
16.	Kingsoft Cloud Big Data Cloud Platform Software V2.0 (金山雲大數據雲平台軟件V2.0)	2019SR0989540	PRC
17.	Kingsoft Cloud Microservice Platform Core System V1.0 (金山雲微服務平台核心系統V1.0)	2019SR1025405	PRC
18.	Kingsoft Cloud H.265 Codec Software V1.0 (金山雲H.265編解碼器軟件V1.0)	2019SR1077526	PRC
19.	Kingsoft Yunjizhi HD Software V1.0 (金山雲集智高清軟件V1.0)	2019SR1077265	PRC
20.	Kingsoft Cloud Elastic Scaling Software V1.0 (金山雲彈性伸縮軟件V1.0)	2019SR1113531	PRC
21.	Kingsoft Cloud Private Cloud Container Cloud Application Software V3.0 (金山雲私有雲容器雲應用軟件V3.0)	2019SR1113580	PRC
22.	Kingsoft Cloud Smart Hospital Integrated Business Service Platform Software V1.0 (金山雲智慧醫院綜合業務服務平台軟件V1.0)	2019SR1204031	PRC
23.	Kingsoft Cloud Peering Connection Software V2.0 (金山雲對等連接軟件V2.0)	2019SR1264254	PRC
24.	Kingsoft Cloud Load Balancing Software V1.0 (金山雲負載均衡軟件V1.0)	2019SR1289833	PRC
25.	Kingsoft Cloud Virtual Private Network Software V1.0 (金山雲虛擬私有網絡軟件V1.0)	2019SR1349714	PRC

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No.	Copyright Name	Registration Number	Place of Registration
26.	Kingsoft Cloud Cloud Physical Machine Software V1.0 (金山雲雲物理機軟件V1.0)	2019SR1290323	PRC
27.	KAMP Kingsoft Cloud Multi-Cloud Application Management Software V1.0 (KAMP金山雲多雲應用管理軟件V1.0)	2020SR0251223	PRC
28.	Kingsoft Cloud Private Cloud Cloud Native Application Software V1.0 (金山雲私有雲雲原生應用軟件V1.0)	2020SR0280789	PRC
29.	Kingsoft Cloud DragonBase Distributed Database Software V2.0 (金山雲DragonBase分佈式數據庫軟件V2.0)	2020SR0340626	PRC
30.	Kingsoft Cloud Edge Cloud Application Software V1.0 (金山雲邊緣雲應用軟件V1.0)	2020SR0354833	PRC
31.	Industrial Internet Service Platform Software V1.0 (工業互聯網服務平台軟件V1.0)	2020SR0531254	PRC
32.	Elastic Block Storage Software V1.0 (彈性塊存儲軟件V1.0)	2020SR1018077	PRC
33.	Kingsoft Cloud City Smart Cloud ETL Software V1.0 (金山雲城市智能雲ETL軟件V1.0)	2020SR1500182	PRC
34.	Kingsoft Cloud IoT Platform Software V1.0.0 (金山雲物聯網平台軟件V1.0.0)	2020SR1503441	PRC
35.	Kingsoft Cloud Game Platform Software V1.0 (金山雲雲遊戲平台軟件V1.0)	2020SR0833362	PRC
36.	Kingsoft Cloud Health and Medical Big Data Integrated Software V1.0 (金山雲健康醫療大數據集成軟件V1.0)	2020SR1586369	PRC
37.	Kingsoft Cloud AI-house Smart Habitat Platform System v1.0.0 (金山雲AI-house智慧人居平台系統v1.0.0)	2020SR1917360	PRC
38.	Kingsoft Cloud Hyper-converged System V6 (金山雲超融合系統V6)	2021SR0354032	PRC

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No.	Copyright Name	Registration Number	Place of Registration
39.	Kingsoft Cloud Distributed Object Storage Software V3.0 (金山雲分佈式對象存儲軟件V3.0)	2021SR0354316	PRC
40.	Kingsoft Cloud Distributed Block Storage System V1.0 (金山雲分佈式塊存儲系統V1.0)	2021SR0369646	PRC
41.	Kingsoft Cloud Galaxy Platform Software V3 (金山雲銀河平台軟件V3)	2021SR0420075	PRC
42.	Kingsoft Cloud Distributed File Storage System V1.0 (金山雲分佈式文件存儲系統V1.0)	2021SR0422522	PRC
43.	Kingsoft Cloud Market System Software V2.0 (金山雲雲市場系統軟件V2.0)	2021SR0469994	PRC
44.	Kingsoft Cloud API Gateway Service Platform Software V3.0 (金山雲API網關服務平台軟件V3.0)	2021SR0469938	PRC
45.	Kingsoft Cloud Database KingSQL System V1.0 (金山雲雲數據庫KingSQL系統V1.0)	2021SR0538853	PRC
46.	Kingsoft Cloud Medical Big Data Statistics Software V1.0 (金山雲醫療大數據統計軟件V1.0)	2021SR0723708	PRC
47.	Kingsoft Cloud Smart Community Integrated Business Platform System V1.00 (金山雲智慧社區綜合業務平台系統V1.00)	2021SR1066706	PRC
48.	Kingsoft Cloud Medical Imaging Cloud Platform System V1.0 (金山雲醫學影像雲平台系統V1.0)	2021SR1167039	PRC
49.	Kingsoft Cloud Knowledge Graph Engine Software V1.0 (金山雲知識圖譜引擎軟件V1.0)	2021SR2182282	PRC
50.	Kingsoft Cloud Distributed Object Storage Software V5.0 (金山雲分佈式對象存儲軟件V5.0)	2022SR0085944	PRC

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(d) Domain Name

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registered Owner	Registration Date	Expiry Date
1.	kingcloud.cn	Kingsoft Cloud Network	September 9, 2012	September 9, 2023
2.	kingcloudad.com	Kingsoft Cloud Network	October 21, 2016	October 21, 2022
3.	kingcloudcdn.com	Kingsoft Cloud Network	March 23, 2016	March 23, 2024
4.	kingclouddns.cn	Kingsoft Cloud Network	March 23, 2016	March 23, 2024
5.	kingrebo.com	Beijing Jinxun Ruibo	March 15, 2016	March 15, 2024
6.	kingsoft-cloud.com	Kingsoft Cloud Network	May 25, 2018	May 25, 2023
7.	kingsoftcloud-inc.com	Kingsoft Cloud Network	February 18, 2020	February 18, 2023
8.	kingsoftclouds.com	Kingsoft Cloud Network	May 25, 2018	May 25, 2023
9.	ks-cdnv6.com	Kingsoft Cloud Network	August 8, 2018	August 8, 2023
10.	ks-live.com	Wuhan Kingsoft Cloud	June 6, 2016	June 6, 2023
11.	ksyun.com	Kingsoft Cloud Network	March 28, 2011	March 28, 2023
12.	ksyunad.com	Kingsoft Cloud Network	October 21, 2016	October 21, 2022
13.	ksyuncdnv6.com	Kingsoft Cloud Network	August 8, 2018	August 8, 2023
14.	ksyuncs.com	Kingsoft Cloud Network	November 26, 2019	November 26, 2022
15.	ksyundns.com	Kingsoft Cloud Network	November 20, 2014	November 20, 2023
16.	ksyungslb.com	Kingsoft Cloud Network	July 5, 2017	July 5, 2023
17.	ksyungslb2.com	Kingsoft Cloud Network	October 17, 2019	October 17, 2022
18.	ksyunwaf.com	Kingsoft Cloud Network	June 22, 2016	June 22, 2023
19.	oversea-ks-cdn.com	Kingsoft Cloud Network	June 9, 2020	June 9, 2023
20.	qianyivideo.com	Nanjing Qianyi	April 14, 2020	April 14, 2023

APPENDIX IV

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Particulars of Directors' service agreements

(a) *Executive Director*

Our executive Director [has entered] into a director agreement with our Company. The term of appointment shall be for an initial term of three years or until the third annual general meeting of our Company after the [REDACTED] (whichever is earlier). Either party may terminate the agreement by giving not less than 30 days' written notice. Our executive Director does not receive any director's fees under the current arrangement.

(b) *Non-executive Directors and independent non-executive Directors*

Each of the non-executive Directors [has entered] into a director agreement with our Company. The term of appointment shall be for an initial term of three years or until the third annual general meeting of our Company after the [REDACTED] (whichever is earlier). Either party may terminate the agreement by giving not less than 30 days' written notice. The non-executive Directors do not receive any director's fees under the current arrangement.

Each of the independent non-executive Directors [has entered] into a director agreement with our Company. The term of appointment shall be three years from the [REDACTED] or until the third annual general meeting of our Company after the [REDACTED] (whichever is earlier) (subject always to re-election and rotation as and when required under the Articles of Association). Either party may terminate the appointment by giving not less than 30 days' written notice. Each of our independent non-executive Directors shall receive an annual director's fee of US\$50,000 per annum under the current arrangement.

2. Remuneration of Directors

- (a) Remuneration (including salaries, housing fund, allowances and benefits in kind, contributions to the retirement benefit scheme, equity-settled share-based payment, discretionary bonus, as applicable) of approximately RMB5.5 million, RMB115.8 million, RMB29.1 million and RMB0.8 million in aggregate were incurred by our Group to our Directors in respect of the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration (including salaries, housing fund, allowances and benefits in kind, and contributions to the retirement benefit scheme, as applicable) which, for the year ending December 31, 2022, is expected to be approximately RMB29.1 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

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3. Disclosure of interests

(a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the [REDACTED]

Immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), the interests and/or short positions (as applicable) of our Directors and chief executives in the Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interest in Shares and Underlying Shares of our Company

Name	Position	Nature of Interest	Number of Shares held	Approximate percentage of shareholding of our Company immediately after the [REDACTED] ⁽¹⁾ (%)
Mr. Lei Jun	Chairman and Non-executive Director	Interest in controlled corporation	449,701,000 ⁽²⁾	[REDACTED]
Mr. Wang Yulin	Chief Executive Officer and Executive Director	Beneficial owner, Interest in controlled corporation, founder of a discretionary trust, beneficiary of a trust	89,529,425 ⁽³⁾	[REDACTED]

Notes:

- (1) The table above assumes (i) the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED] and (ii) the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans.
- (2) Mr. Lei has the majority voting power in Xiaomi and is deemed to beneficially own our shares held by Xiaomi under the SFO.
- (3) This includes (i) 38,729,425 Shares held by Autogold Limited, a BVI company wholly-owned by Prosper River Group Limited and ultimately controlled by The YTCM Trust. The YTCM Trust is a trust established under the laws of the Republic of Singapore and managed by Vistra Trust (Singapore) Pte. Limited as the trustee. Mr. Wang Yulin is the settlor of The YTCM Trust, and Mr. Wang Yulin and his family members are the beneficiaries of The YTCM Trust; (ii) 9,600,000 Shares held by River Jade Holdings Limited, a BVI company ultimately controlled by Mr. Wang Yulin; and (iii) 6,000,000 Shares underlying the share awards granted to and vested in Mr. Wang Yulin pursuant to the 2013 Share Award Scheme, which were held by TMF Trust (HK) Limited, and (iv) 35,200,000 Shares underlying the share awards granted to Mr. Wang Yulin under the 2013 Share Award Scheme which is subject to vesting.

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Interest in associated corporations

Name	Nature of Interest	Associated corporations	Amount of registered capital (RMB)	Approximate percentage of interest in the associated corporation (%)
Mr. Wang Yulin	Beneficial owner	Kingsoft Cloud Information	2,000,000	20

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), have or be deemed or taken to have beneficial interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company, please see the section headed “Substantial Shareholders.”

So far as the Directors are aware, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), apart from our Company, the following persons (not being a Director or a chief executive) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Member of our Group	Amount of Registered Capital (RMB)	Approximate percentage of interest in the member of our Group (%)
Beijing Kingsoft Digital Entertainment Technology Co., Ltd.	Kingsoft Cloud Information	8,820,000	79.60
Qiu Weiqin	Zhuhai Kingsoft Cloud Kingsoft Cloud Information	2,260,000 8,000,000	20.40 80
Independent Third Party (apart from being the substantial shareholder of Camelot Technology)	Camelot Technology	39,155,000	15.66

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Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

4. Disclaimers

Save as disclosed in this Document:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (b) none of the Directors or the experts named in the paragraph headed “E. Other Information – 4. Consents of Experts” in this section below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this Document;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the [REDACTED] and allotted and issued pursuant to the Equity Incentive Plans, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the [REDACTED], have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and

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- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are [REDACTED] thereon.

D. EQUITY INCENTIVE PLANS

1. 2013 Share Option Scheme

We adopted the 2013 Share Option Scheme on February 27, 2013, as amended on June 27, 2013, May 20, 2015 and December 26, 2016.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix IA to the Listing Rules; and (ii) an exemption under section 342 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, in relation to the 2013 Share Option Scheme. Please see the paragraph headed "Waivers and Exemptions – Waiver and Exemption in relation to the 2013 Share Option Scheme" for more information.

(a) Purpose

The purpose of the 2013 Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any invested entity.

(b) Eligible Participants

Employees, whether full time or part time, of our Company, its subsidiaries or any invested entity, being an entity in which the Group directly or indirectly holds 20% or more equity interest, are eligible to participate in the 2013 Share Option Scheme.

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(c) Maximum Number of Shares Available under the 2013 Share Option Scheme

The total number of Shares which may be issued upon exercise of all share options to be granted under the 2013 Share Option Scheme shall not in aggregate exceed 209,750,000 Shares. [As of the Latest Practicable Date, the Company has granted options pursuant to the 2013 Share Option Scheme representing a total of 202,556,350 Shares (including those that have been exercised). The Company will not issue any further share options pursuant to the 2013 Share Option Scheme between the Latest Practicable Date (for the purpose of the final document) and the [REDACTED]. The Board has determined not to grant any further share options under the 2013 Share Option Scheme upon the [REDACTED].]

(d) Administration and Duration

The 2013 Share Option Scheme shall be administered by the Board and Kingsoft Corporation whose decision shall be final and binding on all parties. Unless terminated earlier in accordance with its terms, the 2013 Share Option Scheme shall be valid and effective for a term of ten years.

(e) Grant of Options

On and subject to the terms of the 2013 Share Option Scheme, the Board shall be entitled at any time and from time to time within the life of the scheme (which shall commence on February 27, 2013 and end on the tenth anniversary of February 27, 2013) to offer to grant to any participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, share options to subscribe for such number of Shares as the Board may determine at the subscription price.

(f) Subscription Price

The subscription price in respect of any particular share option shall be such price as determined by the Board in its absolute discretion at the time of making of the offer (which shall be stated in the offer letter) but in any case the subscription price of the share options granted after our Company or Kingsoft Group has resolved to seek a separate [REDACTED] and up to the date of our Company's [REDACTED] must not be lower than the new issue price in the [REDACTED]. In particular, any share options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of our Company's [REDACTED] are subject to this requirement. The subscription price of the share options granted during such period shall be subject to adjustment to a price not lower than the new issue price in our [REDACTED].

(g) Vesting Schedule

The Board shall determine the schedule for the vesting of Shares comprised in the share option on the offer date.

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(h) Exercise of Options

Subject to the terms of the 2013 Share Option Scheme, a share option may be exercised in whole or in part in accordance with the terms and conditions upon which such share option is granted. Share options complying with the provisions of the Listing Rules which are granted during the duration of the scheme and remain unexercised immediately prior to the end of the ten-year period shall continue to be exercisable in accordance with their terms of grant within the validity period for which such share options are granted, notwithstanding the expiry of the scheme.

(i) Lapse of Options

A share option issued under the 2013 Share Option Scheme shall lapse automatically under certain circumstances, including, but not limited to, the expiry of the validity period of the options, ceasing to be a participant and commencement of the winding-up of our Company.

(j) Transfer Restrictions

A share option shall be personal to the grantee and not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any share option.

(k) Termination

We may by resolution in general meeting at any time terminate the operation of the 2013 Share Option Scheme. Share Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the 2013 Share Option Scheme.

For the detailed information regarding outstanding share options granted under the 2013 Share Option Scheme, please see the paragraph headed "– Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans" below.

2. 2013 Share Award Scheme

We adopted the 2013 Share Award Scheme on February 22, 2013, as amended on January 9, 2015, March 3, 2016, June 8, 2016, December 7, 2018 and November 6, 2019.

(a) Purpose

The purpose of the 2013 Share Award Scheme is to provide incentives or rewards to selected employees for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any invested entity.

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(b) Eligible Participants

Employees, whether full time or part time, of our Company, subsidiaries or any entity in which the Company and its subsidiaries hold any equity interest are eligible to participate in the 2013 Share Award Scheme.

(c) Administration and Duration

The 2013 Share Award Scheme shall be administered by the Board. Unless terminated earlier in accordance with its terms, the 2013 Share Award Scheme shall be valid and effective for a term of ten years.

(d) Type of Awards

The 2013 Share Award Scheme provides for the award of our Shares by the Board subject to certain terms and conditions as it may think fit to selected employees.

(e) Maximum Number of Shares Available under the 2013 Share Award Scheme

Under the 2013 Share Award Scheme, the maximum aggregate number of Shares which may be issued upon vesting of all share awards to be granted thereunder is 215,376,304 Shares. [As of the Latest Practicable Date, the Company has granted awards pursuant to the 2013 Share Award Scheme representing a total of 190,201,168 Shares. The Company will not grant any further share awards pursuant to the 2013 Share Award Scheme between the Latest Practicable Date (for the purpose of the final document) until the [REDACTED]. The Board has determined not to grant any further share awards under the 2013 Share Award Scheme upon the [REDACTED].]

(f) Grant of Awards

The Board may, from time to time, in its absolute discretion and subject to such terms and conditions as it may think fit, select an eligible participants for participation in this scheme as a selected employee and determine the number of awarded Shares. The Board may impose any conditions, restrictions or limitations or waive any such conditions, restrictions or limitations from time to time in relation to the award as it may at its absolute discretion think fit.

Our company shall inform the selected employees by written notice in such form as our Company may from time to time determine requiring the selected employees to undertake to hold the award on the terms on which it is to be granted and to be bound by the rules of the 2013 Share Award Scheme.

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(g) Lapse of the Awards

An award will automatically lapse if (i) a selected employee ceases to be an eligible employee, (ii) a selected employee is found to be an excluded employee under the scheme, or (iii) a selected employee has breached the 2013 Share Award Scheme or any exhibit hereof in any material respect, or (iv) the company by which a selected employee is employed ceases to be a member of the Group or any entity in which the Group holds any equity interest, or (v) an order for the winding-up of our Company is made or a resolution is passed for the voluntary winding-up of our Company.

(h) Transfer restrictions

Any award made under the 2013 Share Award Scheme shall be personal to the selected employee to whom it is made and shall not be assignable and no selected employee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interests in favor of any other third party over or in relation to either the award referable to him pursuant to such award (regardless of whether it has been vested) or any beneficial interest therein.

(i) Termination

The 2013 Share Award Scheme will terminate on the earliest of (i) the end of February 21, 2023, being the day before the tenth anniversary of the adoption date, (ii) the date when an order for the winding up of our Company is made or a resolution is passed for the voluntary winding-up of our Company (otherwise than for the purposes of an amalgamation, reconstruction or scheme of arrangement), and (iii) such date of early termination as determined by the Board, unless terminated at an earlier date by our Board.

For the information regarding the outstanding share awards granted under the 2013 Share Award Scheme, please see the paragraph headed “– Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans” below.

3. 2021 Share Incentive Plan

Summary

We adopted the 2021 Share Incentive Plan on November 15, 2021.

The Board or the Compensation Committee is permitted to make the necessary amendments to the 2021 Share Incentive Plan under the terms of such plan to comply with Chapter 17 of the Listing Rules. Pursuant to written resolutions of the Board passed on [●], 2022 and the written resolutions of the Compensation Committee passed on [●], 2022, the Board has approved that such amendments will take effect immediately upon the [REDACTED]. The principal terms of the 2021 Share Incentive Plan, as amended, are as described below.

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We have applied to the Stock Exchange for a waiver from strict compliance with Note (1) to Rule 17.03(9) of the Listing Rules, so that the Company may, after the [REDACTED], continue to grant share options with exercise prices based on the market price of its ADSs as traded on the Nasdaq instead of the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet. Please see the paragraph headed “Waivers and Exemption – Exercise Price of Options to be Granted Pursuant to the 2021 Share Incentive Plan after the [REDACTED]” for more information.

(a) Purpose

The purpose of the 2021 Share Incentive Plan is to promote the success and enhance the value of the Company by linking the personal interests of the directors and employees of the Group, and the consultants of the Group to those of the Shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Shareholders. The 2021 Share Incentive Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of the directors and employees of the Group, and the consultants of the Group upon whose judgment, interest and special effort the successful conduct of the Company’s operation is largely dependent.

(b) Eligibility

Persons eligible for the grant of Awards (as defined below) includes directors and employees of the Group, consultants of the Group or trusts or entities established in connection with any employee benefit plan of the Company (including the 2021 Share Incentive Plan) for the benefit of a participant, as determined by the Compensation Committee. Under the 2021 Share Incentive Plan, consultant refers to any person (other than directors and employees of the Group) who is engaged by the Group to render consulting or advisory services to the Group.

(c) Maximum Number of Shares

Under the existing rules of the 2021 Share Incentive Plan, the current maximum aggregate number of Shares that we are authorized to issue pursuant to the Awards granted thereunder is 209,216,310 Shares. [As of the Latest Practicable Date, the Company has only granted Awards in the form of restricted share units (“RSUs”) pursuant to the 2021 Share Incentive Plan representing a total of 89,994,963 Shares and no other forms of Awards (including share options) have been granted. The Company will not issue any further Awards pursuant to the 2021 Share Incentive Plan between the Latest Practicable Date (for the purpose of the final document) until the [REDACTED].]

Upon the [REDACTED], (a) the total number of Shares which may be issued upon the exercise of all share options that may be granted pursuant to the 2021 Share Incentive Plan and any other share award schemes of the Company in aggregate shall not exceed ten percent (10%) of the total number of Shares in issue immediately upon the [REDACTED] (the “Share Option Limit”), being [REDACTED] Shares. Any Awards

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in the form of share options that were previously granted under the 2021 Share Incentive Plan (including those lapsed in accordance with the 2021 Share Incentive Plan or exercised share options) will not be counted for the purpose of the Share Option Limit; (b) the total number of Shares to be issued upon the exercise of all outstanding share options which have been granted and have yet to be exercised under the 2021 Share Incentive Plan and any share options granted under any other share option schemes of the Company shall not exceed 30% of all the Shares in issue from time to time; and (c) the total number of Shares which may be issued upon the vesting of the Awards (other than share options) to be granted under the 2021 Share Incentive Plan in any financial year would not exceed three per cent. (3%) of the total number of Shares in issue immediately upon the [REDACTED].

(d) Plan Administration

The 2021 Share Incentive Plan shall be administered by the Compensation Committee or one or more executive officers of the Company to whom the Board or the Compensation Committee may delegate the authority (the “**Administrator**”) to grant the Awards under the 2021 Share Incentive Plan to eligible participants. The Compensation Committee or delegated director as administrator determines, among other things, the participants eligible to receive the Awards, the number of Shares underlying the Awards to be granted to each eligible participant and the terms and conditions of each Award granted.

The Company may establish a trust and appoint a trustee to assist with the administration, exercise and vesting of the Awards granted under the 2021 Share Incentive Plan. The Company may, to the extent permitted by the applicable laws, (a) allot and issue Shares to the trustee and/or (b) direct and procure the trustee to make on-market purchases of Shares, in either case to satisfy the Awards upon vesting or exercise. The Company shall, to the extent permitted by the applicable laws, provide sufficient funds to the trustee by whatever means as the Board may in its absolute discretion determine to enable the trustee to satisfy its obligations in connection with the administration, vesting and exercise of Awards. If a trustee is appointed, the terms of the trust deed shall provide that the trustee shall not exercise the voting rights attached to the Shares allotted and issued to the trustee and/or acquired by the trustee through on-market purchases for the purpose of the 2021 Share Incentive Plan before such Shares are transferred to the participants upon vesting or exercise of the Awards.

(e) Awards

The Administrator is authorized under the 2021 Share Incentive Plan to award any type of arrangement to an eligible person that is not inconsistent with the provisions of the 2021 Share Incentive Plan and applicable laws and that by its terms involve or might involve the issuance of (i) RSUs, (ii) share options with an exercise price of no less than the fair market value of the Shares, which, only with respect to the Awards granted prior

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to the [REDACTED], may be amended or adjusted in the absolute discretion of the Administrator, or (iii) other types of shares or other types of awards or benefits authorized to be granted under the 2021 Share Incentive Plan (the “Award(s)”).

Each Award shall be designated in an award agreement between the participant and the Company (the “Award Agreement”). Each Award shall be subject to all applicable terms and conditions of the 2021 Share Incentive Plan and set forth the terms, conditions and limitations for each Award, which may include the term of the Award, and the provisions applicable in the event of termination of services of the grantee.

(f) Terms and Conditions of the 2021 Share Incentive Plan

Unless terminated earlier, the 2021 Share Incentive Plan has a term of ten years. In general, the Administrator determines the vesting schedule, which is specified in the relevant Award Agreement. The Award Agreement shall set forth the provisions, terms, and conditions of each Award including, but not limited to, the types of Awards, Award vesting schedule, number of Awards to be granted and the number of Shares to be covered by the Awards, the exercise price, any restrictions or limitations on the Award and the term of each Award. Unless otherwise determined by the Compensation Committee, the participant shall have achieved applicable performance targets as a condition to the issuance of Shares underlying an Award.

The Awards to be issued to any participant under the 2021 Share Incentive Plan shall be subject to the vesting schedule as specified in the Award Agreement.

Subject to all applicable laws, the Board may (i) at any time with the consent of and on such terms as may be agreed with the relevant participant or (ii) in the event of serious misconduct of the participant, any material misstatement in the Company’s financial statements or other special circumstances as the Company deems appropriate, cancel the Awards granted.

Unless otherwise determined by the Administrator and provided in the Award Agreement, an Award shall not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner (whether by operation of law or otherwise) prior to the [REDACTED]. However, upon the [REDACTED], any share options granted under the 2021 Share Incentive Plan must be personal and no share options may be transferred or assigned.

(g) Terms and Conditions of Share Options

The share options may not be exercised until vested pursuant to the applicable Award Agreement. The Administrator shall determine the time or times at which a share option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any share option granted under the 2021 Share Incentive Plan shall not exceed ten (10) years. A share option shall lapse automatically (to the extent not already exercised or lapsed) on the expiry of such term. The Administrator shall also determine

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any conditions, if any, that must be satisfied before all or part of a share option may be exercised. Once vested, the vested portion of the share option may be exercised in whole or in any part, at any time, subject to the terms of the 2021 Share Incentive Plan and the Award Agreement.

The Board or the Administrator determines the exercise price for each share option. In any event, the exercise price of the share option shall not be lower than the fair market value per share on the date of grant, which upon the [REDACTED], shall not be less than the highest of (a) the [REDACTED] of the Shares or the per-Share closing price of ADSs on the date of grant as stated in the daily quotations sheet of the Stock Exchange or Nasdaq (as the case may be); or (b) the average [REDACTED] of the Shares or per-Share closing price of the ADSs as stated in the daily quotations sheet of the Stock Exchange or Nasdaq (as the case may be) for the five (5) business days immediately preceding the date of grant.

(h) Terms and Conditions of RSUs

The Shares underlying any RSUs granted may not be issued until vested pursuant to the applicable Award Agreement. The Administrator shall determine the time or times at which an RSU may vest in whole or in part. The Administrator shall also determine any conditions, if any, that must be satisfied before all or part of an RSU shall vest.

Once vested, the Shares underlying the vested portion of the RSUs shall be issued to the participant and the issued Shares shall become unrestricted and freely transferable by the participant, subject to applicable legal and agreed restrictions, any lock-up agreement between the Company and any [REDACTED] or depository bank in connection with an [REDACTED] and the provisions of the Award Agreement.

Except as otherwise determined by the Administrator at the time of the grant of the Award or thereafter, upon termination of the participant's continuous service, any unvested portion of the RSUs shall automatically lapse.

(i) Awards granted to connected persons

The grant of any Awards after the [REDACTED] to connected persons shall be subject to all applicable rules and requirements under Chapter 14A and Chapter 17 of the Listing Rules.

In particular, the grant of any share options after the [REDACTED] to a Director, Chief Executive Officer or Substantial Shareholder, or any of their respective associates shall be approved by the independent non-executive Directors (excluding any director who is the participant of the Awards in any event) in accordance with Chapter 17 of the Listing Rules.

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(j) Voting and dividend rights

Until the Shares are issued pursuant to the Awards, no right to vote or receive dividends or any other rights as a Shareholder shall exist with respect to the Shares.

(k) Amendment and termination

Prior to the [REDACTED], the Administrator may at any time amend, suspend or terminate the 2021 Share Incentive Plan (including without limitation, amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the 2021 Share Incentive Plan, which are not provided for in Chapter 17 of the Listing Rules), subject to any requirement of the applicable law. Upon the [REDACTED], (i) any alternations made to the terms and conditions of the 2021 Share Incentive Plan relating to share options which are of a material nature, or made to the provisions of the 2021 Share Incentive Plan relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the participants, (ii) any change to the terms of the options granted or (iii) any change to the authority of the Board or the Administrator in relation to any alteration of the terms of the 2021 Share Incentive Plan relating to share options, shall not be made, in either case, without the prior approval of the Shareholders in general meeting.

(l) Inside Information

We will not grant any Awards after inside information has come to our knowledge until (and including) the trading day after it has announced the information.

In addition, we will not grant any Award during the period commencing one month immediately before the earlier of (i) the date of the Board meeting (or such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); or (ii) the deadline for our Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No Awards will be granted by our Company during any period of delay in publishing a results announcement.

Furthermore, no Awards shall be granted (i) during the period of 60 days immediately preceding the publication date of the annual results of our Company or if shorter, the period from the end of the relevant financial year up to the publication date of such results; and (ii) during the period of 30 days immediately preceding the publication date of the half-year results of our Company or if shorter, the period from the end of the relevant half-year period up to the publication date of such results.

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For the information regarding outstanding RSUs granted under the 2021 Share Incentive Plan, please see the paragraph headed “– Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans” below.

4. Outstanding share options, share awards and RSUs granted under the Equity Incentive Plans

As of the Latest Practicable Date, (i) the number of underlying Shares pursuant to the outstanding share options granted under the 2013 Share Option Scheme amounted to 49,728,765 Shares; (ii) the number of underlying Shares pursuant to the outstanding share awards granted under the 2013 Share Award Scheme amounted to 79,246,706 Shares; and (iii) the number of underlying Shares pursuant to the outstanding RSUs granted under the 2021 Share Incentive Plan amounted to 84,621,476 Shares, representing approximately [REDACTED]%, [REDACTED]% and [REDACTED]%, respectively of the issued Shares immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans). No share option has been granted under the 2021 Share Incentive Plan as of the Latest Practicable Date.

As of the Latest Practicable Date, among the 49,728,765 outstanding share options granted under the 2013 Share Option Scheme, 32,328,728 had vested and 17,400,037 remained unvested.

As of the Latest Practicable Date, we had conditionally granted (i) share options to 1,217 participants under the 2013 Share Option Scheme; (ii) share awards to 642 participants under the 2013 Share Award Scheme; and (iii) RSUs to 458 participants, respectively, under the 2021 Share Incentive Plan.

Assuming full vesting and exercise of all outstanding share options granted under the 2013 Share Option Scheme, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), will be diluted by approximately [REDACTED]%. The dilution effect on our earnings per Share would be approximately [REDACTED]%.

Assuming full vesting and exercise of all outstanding share awards granted under the 2013 Share Award Scheme, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), will be diluted by approximately [REDACTED]%. The dilution effect on our earnings per Share would be approximately [REDACTED]%.

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Assuming full vesting and exercise of all outstanding RSUs granted under the 2021 Share Incentive Plan, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans), will be diluted by approximately [REDACTED]%. The dilution effect on our earnings per Share would be approximately [REDACTED]%.

Upon the [REDACTED], the Company may grant Awards representing a total of [REDACTED] Shares pursuant to the 2021 Share Incentive Plan. Assuming the Company grants Awards representing all such Shares and assuming full vesting and exercise of all such Awards, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised) will be diluted by approximately [REDACTED]%. The dilution effect on our earnings per Share would be approximately [REDACTED]%. In compliance with Note (1) to Rule 17.03(3) of the Listing Rules, among the [REDACTED] Shares, only up to [REDACTED] Shares, representing approximately 10% of the total Shares in issue upon the [REDACTED], may be issued pursuant to the Awards granted in the form of share options.

Below is a list of the grantees of the outstanding share options under the 2013 Share Option Scheme. Other than Mr. Wang Yulin, our executive Director and Chief Executive Officer (where the share options granted to him under the 2013 Share Option Scheme had been fully vested and exercised as of the Latest Practicable Date), none of the grantees under the 2013 Share Option Scheme is a connected person of the Company.

Name	Address	Date of grant ⁽¹⁾	Expiry date	Vesting period ⁽²⁾	Exercise price per Share (US\$)	Number of Shares underlying the outstanding options	Approximate % of issued shares immediately after completion of the [REDACTED] ⁽³⁾
Senior management							
He Haijian	Flat 5B, Crescent II, The Hillgrove, 9 Tsing Fat Lane, Siu Lam, Hong Kong	March 5, 2021	March 5, 2031	Vested upon grant	0.07422	15,482	[REDACTED]%
Liang Shouxing	Room 709, Block 6, Jiahui Garden, No. 18, Nanyuan Road, Taijiang District, Fuzhou City, Fujian Province, PRC	February 15, 2016	February 15, 2026	5 years	0.07422	840,000	[REDACTED]%
Liu Tao	No. 19, Funan Road, Luyang District, Hefei City, Anhui Province, PRC	February 15, 2016	February 15, 2026	5 years	0.07422	1,800,000	[REDACTED]%

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Name	Address	Date of grant ⁽¹⁾	Expiry date	Vesting period ⁽²⁾	Exercise price per Share (US\$)	Number of Shares underlying the outstanding options	Approximate % of issued shares immediately after completion of the [REDACTED] ⁽³⁾
Tian Kaiyan	Room 2001, Building 1, Jiutai 2000 Jiayuan, No. 56, Anli Road, Chaoyang District, Beijing, PRC	April 15, 2018	April 15, 2028	5 years	0.07422	1,200,000	[REDACTED]%
Qian Yifeng	Room 1802, Unit 2, 18th Floor, Building 1, District 3, Xuefushujiayuan, Haidian District, Beijing, PRC	April 16, 2015	April 16, 2025	5 years	0.07422	2,000,000	[REDACTED]%
Subtotal						<u>5,855,482</u>	<u>[REDACTED]%</u>
Other employees							
603 grantees	N/A	From March 20, 2013 to March 11, 2022	From March 20, 2023 to March 11, 2032	Vested upon grant to 5 years	0.02-0.07422	43,873,283	[REDACTED]%
Total						<u><u>49,728,765</u></u>	<u><u>[REDACTED]%</u></u>

Notes:

- (1) No consideration has been paid for the grant of share options under the 2013 Share Option Scheme.
- (2) The exercise period of the share options granted shall commence from the date on which the relevant share options become vested and end on the expiry date, subject to the terms of the relevant 2013 Share Option Scheme and the share option award agreement signed by the grantee.
- (3) The calculation is made assuming the [REDACTED] is not exercised and no further Shares are issued under the Equity Incentive Plans.

An application has been made to the Listing Committee of the Stock Exchange for [REDACTED] of and permission to [REDACTED] the Shares which may be issued pursuant to the Equity Incentive Plans.

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E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this Document and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED], (i) the Shares in issue and to be issued pursuant to the [REDACTED] (including the additional Shares which may be issued pursuant to the exercise of the [REDACTED]) and (ii) the Shares which may be issued pursuant to the Equity Incentive Plans.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Each Joint Sponsor will receive a fee of US\$500,000 for acting as the sponsor for the [REDACTED].

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this Document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

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Name	Qualification
J.P. Morgan Securities (Far East) Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
Fangda Partners	Legal advisers to our Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal advisers to our Company as to Cayman Islands law
Ernst & Young	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Frost & Sullivan	Industry Consultant

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries and Consolidated Affiliated Entity or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Binding Effect

This Document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual Document

The English language and Chinese language versions of this Document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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7. Preliminary Expenses

The Company did not incur any material preliminary expenses.

8. Other Disclaimers

(a) Save as disclosed in this Document, within the two years immediately preceding the date of this Document:

- (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or shares as fully or partly paid otherwise than in cash;
- (ii) no commissions, discounts, brokerages or other special terms have been granted, have been paid or are payable in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries; and
- (iii) taking no account of any Shares which may be taken up under the [REDACTED] and allotted and issued pursuant to the Equity Incentive Plans, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the [REDACTED] (without taking into account any Shares to be issued pursuant to the exercise of the [REDACTED] and outstanding options under the Equity Incentive Plans), have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(b) Save as disclosed in this Document:

- (i) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this Document within the two years immediately preceding the date of this Document;
- (ii) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;

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- (iii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) none of the Directors or the experts named in the paragraph headed "– E. Other Information – 4. Consents of Experts" in this section above has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (v) there is no arrangement under which future dividends are waived or agreed to be waived;
- (vi) our Company has no outstanding convertible debt securities or debentures;
- (vii) we do not have any issued and outstanding, authorized or otherwise created but unissued debt securities or term loans;
- (viii) there are no contracts for hire or purchase of plant to or by us for a period of over one year which are substantial in relation to our business; and
- (ix) none of the Directors are materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of the Group.

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE ON DISPLAY**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this Document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 4. Consents of Experts” in Appendix IV; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix IV.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at ir.ksyun.com during a period of 14 days from the date of this Document:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report, the texts of which are set out in Appendix IA;
- (c) the report on review of interim condensed consolidated financial information of our Group for the three months ended March 31, 2022, prepared by Ernst & Young, the texts of which are set out in Appendix IB;
- (d) the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which are set out in Appendix II;
- (e) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2019, 2020 and 2021;
- (f) the PRC legal opinions issued by Fangda Partners, our PRC Legal Adviser, in respect of certain general corporate matters and the property interests of our Group in the PRC;
- (g) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser as to the laws of the Cayman Islands, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III;
- (h) the Cayman Companies Act;

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OF COMPANIES AND AVAILABLE ON DISPLAY**

- (i) the industry report prepared by Frost & Sullivan, the summary of which is set forth in the section headed “Industry Overview”;
- (j) the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix IV;
- (k) the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 4. Consents of Experts” in Appendix IV;
- (l) the service contracts with our Directors referred to in the paragraph headed “Statutory and General Information – C. Further Information about Our Directors, Senior Management and Substantial Shareholders – 1. Particulars of Directors’ service agreements” in Appendix IV; and
- (m) the terms of the Equity Incentive Plans.

DOCUMENT AVAILABLE FOR INSPECTION

A copy of a list of grantees under the Equity Incentive Plans, containing all details as required under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this Document.