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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 6-K**

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**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of December 2022

Commission file number: 001-39278

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**Kingsoft Cloud Holdings Limited**

(Exact Name of Registrant as Specified in Its Charter)

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**Building E, Xiaomi Science and Technology Park, No. 33 Xierqi Middle Road,  
Haidian District  
Beijing, 100085, the People's Republic of China**  
(Address of Principal Executive Offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

This Report on Form 6-K shall be deemed to be incorporated by reference into the registration statement on Form F-3 (File No. 333-260181) filed by Kingsoft Cloud Holdings Limited with the Securities and Exchange Commission on October 12, 2021 and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">99.1</a>	<a href="#">Kingsoft Cloud Holdings Limited Unaudited Interim Condensed Consolidated Financial Statements</a>
<a href="#">99.2</a>	<a href="#">Kingsoft Cloud Holdings Limited Unaudited Interim Condensed Consolidated Financial Statements</a>
<a href="#">99.3</a>	<a href="#">Camelot Employee Scheme INC. Audited Consolidated Financial Statements</a>

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kingsoft Cloud Holdings Limited

Date: December 23, 2022

By: /s/ Haijian He

Name: Haijian He

Title: Chief Financial Officer

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KINGSOFT CLOUD HOLDINGS LIMITED

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**KINGSOFT CLOUD HOLDINGS LIMITED**

**AUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2021 AND UNAUDITED INTERIM  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2022**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

	Notes	As at		
		December 31, 2021 RMB	June 30, 2022 RMB (unaudited)	June 30, 2022 US\$ (unaudited)
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents		4,217,528	2,732,331	407,926
Restricted cash		239,093	44,439	6,635
Accounts receivable, net of allowance for credit losses of RMB32,265 and RMB42,056 (US\$6,279) as of December 31, 2021 and June 30, 2022, respectively	5	3,570,975	2,872,904	428,913
Short-term investments		2,491,056	2,619,701	391,111
Prepayments and other assets	6	1,687,021	1,694,048	252,914
Amounts due from related parties	18	207,143	357,853	53,426
<b>Total current assets</b>		<b>12,412,816</b>	<b>10,321,276</b>	<b>1,540,925</b>
<b>Non-current assets:</b>				
Property and equipment, net	7	2,364,103	2,449,659	365,724
Intangible assets, net	8	1,169,767	1,086,514	162,212
Goodwill	9	4,625,115	4,605,724	687,616
Prepayments and other assets	6	29,066	22,437	3,350
Equity investments	2	207,166	271,146	40,481
Amounts due from related parties	18	5,758	4,889	730
Deferred tax assets, net	13	7,798	13,464	2,010
Operating lease right-of-use assets	2,10	256,451	225,225	33,625
<b>Total non-current assets</b>		<b>8,665,224</b>	<b>8,679,058</b>	<b>1,295,748</b>
<b>Total assets</b>		<b>21,078,040</b>	<b>19,000,334</b>	<b>2,836,673</b>
<b>LIABILITIES, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Accounts payable (including accounts payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB2,733,487 and RMB2,223,417 (US\$331,947) as of December 31, 2021 and June 30, 2022, respectively)		2,938,632	2,409,134	359,674
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 RMB703,730 (US\$105,064) as of December 31, 2021 and June 30, 2022, respectively)	11	2,223,840	2,748,407	410,326
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 RMB1,246,126 (US\$186,042) as of December 31, 2021 and June 30, 2022, respectively)	12	1,348,166	1,266,270	189,049

## KINGSOFT CLOUD HOLDINGS LIMITED

AUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2021 AND UNAUDITED INTERIM  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2022 (continued)(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

	Notes	As at		
		December 31, 2021 RMB	June 30, 2022 RMB (unaudited)	June 30, 2022 US\$ (unaudited)
Income tax payable (including income tax payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB1,026 and RMB2,217 (US\$331) as of December 31, 2021 and June 30, 2022, respectively)	13	60,217	43,163	6,444
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 RMB791,908 (US\$118,229) as of December 31, 2021 and June 30, 2022, respectively)	18	836,435	826,042	123,325
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 RMB59,432 (US\$8,873) as of December 31, 2021 and June 30, 2022, respectively)	2,10	108,590	100,620	15,022
<b>Total current liabilities</b>		<b>7,515,880</b>	<b>7,393,636</b>	<b>1,103,840</b>
<b>Non-current liabilities:</b>				
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 RMB354,392 (US\$52,909) as of December 31, 2021 and June 30, 2022, respectively)	18	472,882	354,392	52,909
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 (US\$ nil) as of December 31, 2021 and June 30, 2022, respectively)	13	205,889	192,004	28,665
Other liabilities (including other liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB6,975 and RMB141,819 (US\$21,173) as of December 31, 2021 and June 30, 2022, respectively)	11	1,232,677	206,611	30,846
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 RMB97,927 (US\$14,620) as of December 31, 2021 and June 30, 2022, respectively)	2,10	158,289	138,433	20,668
<b>Total non-current liabilities</b>		<b>2,069,737</b>	<b>891,440</b>	<b>133,088</b>
<b>Total liabilities</b>		<b>9,585,617</b>	<b>8,285,076</b>	<b>1,236,928</b>

**KINGSOFT CLOUD HOLDINGS LIMITED****AUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2021 AND UNAUDITED INTERIM  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2022 (continued)**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

Notes	As at		
	December 31, 2021 RMB	June 30, 2022 RMB (unaudited)	June 30, 2022 US\$ (unaudited)
<b>Shareholders’ equity:</b>			
Ordinary shares (par value of US\$0.001 per share; 40,000,000,000 shares authorized as of December 31, 2021 and June 30, 2022; 3,805,284,810 and 3,805,284,801 shares issued, 3,646,381,840 and 3,663,417,840 shares outstanding as of December 31, 2021 and June 30, 2022, respectively)	24,782	24,892	3,716
Additional paid-in capital	18,245,801	18,458,178	2,755,733
Accumulated deficit	(7,458,752)	(8,814,998)	(1,316,045)
Accumulated other comprehensive (loss) income	20 (207,882)	175,099	26,142
<b>Total Kingsoft Cloud Holdings Limited shareholders’ equity</b>	<b>10,603,949</b>	<b>9,843,171</b>	<b>1,469,546</b>
Non-controlling interests	888,474	872,087	130,199
<b>Total equity</b>	<b>11,492,423</b>	<b>10,715,258</b>	<b>1,599,745</b>
<b>Total liabilities, non-controlling interests and shareholders’ equity</b>	<b>21,078,040</b>	<b>19,000,334</b>	<b>2,836,673</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

**KINGSOFT CLOUD HOLDINGS LIMITED**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2022**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Notes	For the six months ended June 30		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Revenues:</b>	4, 18			
Public cloud services (including related party amounts of RMB453,024 and RMB563,177 (US\$84,080) for the six months ended June 30, 2021 and 2022, respectively)		2,942,610	2,669,951	398,613
Enterprise cloud services (including related party amounts of RMB nil and RMB34,707 (US\$5,182) for the six months ended June 30, 2021 and 2022, respectively)		1,042,177	1,409,083	210,371
Others		2,432	1,273	190
<b>Total revenues</b>		<b>3,987,219</b>	<b>4,080,307</b>	<b>609,174</b>
Cost of revenues (including related party amounts of RMB62 and RMB nil (US\$ nil) for the six months ended June 30, 2021 and 2022, respectively)	18	(3,752,234)	(3,935,145)	(587,502)
<b>Gross profit</b>		<b>234,985</b>	<b>145,162</b>	<b>21,672</b>
<b>Operating expenses:</b>				
Selling and marketing expenses		(208,884)	(290,615)	(43,388)
General and administrative expenses		(201,814)	(471,836)	(70,443)
Research and development expenses		(496,888)	(467,579)	(69,808)
<b>Total operating expenses</b>		<b>(907,586)</b>	<b>(1,230,030)</b>	<b>(183,639)</b>
<b>Operating loss</b>		<b>(672,601)</b>	<b>(1,084,868)</b>	<b>(161,967)</b>
Interest income		36,673	38,647	5,770
Interest expense		(10,555)	(68,273)	(10,193)
Foreign exchange gain (loss)		22,902	(247,978)	(37,022)
Other gain (loss), net	4	21,139	(27,966)	(4,175)
Other income, net	4	6,390	20,001	2,986
<b>Loss before income taxes</b>		<b>(596,052)</b>	<b>(1,370,437)</b>	<b>(204,601)</b>
Income tax (expense) benefit	13	(6,755)	5,153	769
<b>Net loss</b>		<b>(602,807)</b>	<b>(1,365,284)</b>	<b>(203,832)</b>
Less: net income (loss) attributable to non-controlling interests		11	(9,038)	(1,349)
<b>Net loss attributable to Kingsoft Cloud Holdings Limited</b>		<b>(602,818)</b>	<b>(1,356,246)</b>	<b>(202,483)</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*



**KINGSOFT CLOUD HOLDINGS LIMITED****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2022 (continued)**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Notes	For the six months ended June 30		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Net loss per share:</b>				
Basic and diluted	16	(0.18)	(0.37)	(0.06)
<b>Shares used in the net loss per share computation:</b>				
Basic and diluted	16	3,347,286,795	3,651,473,415	3,651,473,415
<b>Other comprehensive income (loss), net of tax of nil:</b>				
Foreign currency translation adjustments		(62,115)	382,625	57,124
<b>Comprehensive loss</b>		<b>(664,922)</b>	<b>(982,659)</b>	<b>(146,708)</b>
Less: Comprehensive income (loss) attributable to non-controlling interests		11	(9,394)	(1,402)
<b>Comprehensive loss attributable to Kingsoft Cloud Holdings Limited shareholders</b>		<b>(664,933)</b>	<b>(973,265)</b>	<b>(145,306)</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

**KINGSOFT CLOUD HOLDINGS LIMITED**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2022**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares)

	Ordinary shares		Additional paid-in capital RMB	Accumulated other comprehensive (loss) income RMB	Accumulated deficit RMB	Total Kingsoft Cloud Holdings Limited shareholders' equity	Non-controlling interests RMB	Total shareholders' equity
	Number of shares*	Amount RMB				RMB		RMB
Balance as of December 31, 2020	3,339,618,633	22,801	14,149,984	(68,440)	(5,864,356)	8,239,989	61	8,240,050
Adoption of ASC 326	—	—	—	—	(5,684)	(5,684)	—	(5,684)
Net loss for the period	—	—	—	—	(602,818)	(602,818)	11	(602,807)
Business acquisition	—	—	—	—	—	—	27,258	27,258
Other comprehensive loss	—	—	—	(62,115)	—	(62,115)	—	(62,115)
Share-based compensation	—	—	199,205	—	—	199,205	—	199,205
Exercise and vesting of share-based awards	16,242,630	106	6,928	—	—	7,034	—	7,034
<b>Balance as of June 30, 2021 (unaudited)</b>	<b>3,355,861,263</b>	<b>22,907</b>	<b>14,356,117</b>	<b>(130,555)</b>	<b>(6,472,858)</b>	<b>7,775,611</b>	<b>27,330</b>	<b>7,802,941</b>
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
Net loss for the period	—	—	—	—	(1,356,246)	(1,356,246)	(9,038)	(1,365,284)
Disposal of a subsidiary	—	—	—	—	—	—	(9,136)	(9,136)
Other comprehensive income (loss)	—	—	—	382,981	—	382,981	(356)	382,625
Capital contribution from non-controlling interests	—	—	—	—	—	—	2,143	2,143
Share-based compensation	—	—	206,739	—	—	206,739	—	206,739
Exercise and vesting of share-based awards	17,036,000	110	5,638	—	—	5,748	—	5,748
<b>Balance as of June 30, 2022 (unaudited)</b>	<b>3,663,417,840</b>	<b>24,892</b>	<b>18,458,178</b>	<b>175,099</b>	<b>(8,814,998)</b>	<b>9,843,171</b>	<b>872,087</b>	<b>10,715,258</b>
<b>Balance as of June 30, 2022, in US\$ (unaudited)</b>	<b>3,663,417,840</b>	<b>3,716</b>	<b>2,755,733</b>	<b>26,142</b>	<b>(1,316,045)</b>	<b>1,469,546</b>	<b>130,199</b>	<b>1,599,745</b>

\* As of June 30, 2021 and 2022, 190,263,692 and 141,866,961 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 statements.*

## KINGSOFT CLOUD HOLDINGS LIMITED

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS  
ENDED  
JUNE 30, 2021 AND 2022**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	Notes	For the six months ended June 30		
		2021	2022	2022
		RMB	RMB	US\$
		(unaudited)	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss		(602,807)	(1,365,284)	(203,832)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>				
Depreciation and amortization	7,8	369,589	578,237	86,329
Share-based compensation	14	199,205	206,739	30,865
Provision for credit losses		17,677	141,331	21,100
Gain on disposal of equity investments		(5,651)	—	—
Changes in fair value of financial instruments	2,4	(15,488)	8,825	1,318
Impairment of equity investment	2,4	—	5,000	746
Changes in fair value of purchase consideration of a business acquisition		—	14,018	2,093
Impairment of contract costs		—	5,336	797
Foreign exchange loss (gain)		(22,902)	247,978	37,022
Deferred income tax	13	—	(22,584)	(3,372)
Non-cash operating lease expenses	10	26,385	36,261	5,414
Gain on disposal of property and equipment		(14)	(3,276)	(489)
Loss on disposal of a subsidiary		—	123	18
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable		(1,033,742)	564,547	84,286
Prepayment and other assets		70,650	14,289	2,133
Amounts due from related parties		9,310	(154,167)	(23,017)
Accounts payable		467,824	(504,843)	(75,371)
Accrued expenses and other liabilities		(249,439)	10,629	1,587
Operating lease liabilities		(3,007)	(32,861)	(4,906)
Amounts due to related parties		7,495	(17,584)	(2,625)
Income tax payable		4,114	(15,115)	(2,257)
<b>Net cash used in operating activities</b>		<b>(760,801)</b>	<b>(282,401)</b>	<b>(42,161)</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

## KINGSOFT CLOUD HOLDINGS LIMITED

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS  
ENDED  
JUNE 30, 2021 AND 2022 (continued)**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	Notes	For the six months ended June 30		
		2021	2022	2022
		RMB	RMB	US\$
		(unaudited)	(unaudited)	(unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of property and equipment		(430,784)	(1,062,070)	(158,563)
Disposals of property and equipment		91	5,215	779
Purchases of intangible assets		(4,388)	(11,177)	(1,669)
Purchases of short-term investments		(1,977,236)	(2,222,919)	(331,873)
Acquisition of equity investments		—	(63,356)	(9,459)
Proceeds from maturities of short-term investments		2,131,310	2,218,877	331,270
Acquisition of business, net of cash acquired		(72,615)	(130,813)	(19,530)
Proceeds from disposal of equity investments		58,476	—	—
Disposal of a subsidiary		—	(2,577)	(385)
Asset-related government grants received		600	11,250	1,680
<b>Net cash used in investing activities</b>		<b>(294,546)</b>	<b>(1,257,570)</b>	<b>(187,750)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of short-term bank loans		(183,598)	(573,225)	(85,580)
Proceeds from short-term bank loans		490,018	491,329	73,353
Payments of offering costs		—	(1,458)	(218)
Payment of written put options on share repurchases	17	—	(33,557)	(5,010)
Capital contribution from non-controlling interests		—	2,143	320
Proceeds from loans due to related parties		287,850	—	—
Repayment of loans due to a related party		—	(110,536)	(16,503)
Proceeds from exercise of options		7,032	10,508	1,569
<b>Net cash generated from (used in) financing activities</b>		<b>601,302</b>	<b>(214,796)</b>	<b>(32,069)</b>
Effect of exchange rate changes on cash and cash equivalents, and restricted cash		(16,010)	74,916	11,185
Net decrease in cash and cash equivalents, and restricted cash		(454,045)	(1,754,767)	(261,980)
Cash and cash equivalents, and restricted cash at beginning of period		3,424,674	4,456,621	665,356
Cash and cash equivalents, and restricted cash at end of period		<b>2,954,619</b>	<b>2,776,770</b>	<b>414,561</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

**KINGSOFT CLOUD HOLDINGS LIMITED****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS  
ENDED  
JUNE 30, 2021 AND 2022 (continued)**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	Notes	For the six months ended June 30		
		2021	2022	2022
		RMB	RMB	US\$
		(unaudited)	(unaudited)	(unaudited)
<b>Supplemental disclosures of cash flow information:</b>				
Restricted cash		—	44,439	6,635
Income taxes paid		2,642	32,547	4,859
Interest expense paid		9,777	69,686	10,404
<b>Non-cash investing and financing activities:</b>				
Purchases of property and equipment included in accrued expenses and other liabilities	11	70,179	264,385	39,472
Purchase consideration included in accrued expenses and other liabilities	11	—	1,219,591	182,080
Offering costs included in accrued expenses and other liabilities		—	26,551	3,964

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)****1. ORGANIZATION AND BASIS OF PRESENTATION**

Kingsoft Cloud Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on January 3, 2012. The Company, its 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”), Japan and the United States (the “U.S.”).

The Company’s principal subsidiaries, variable interest entities, and subsidiaries of its variable interest entities, are as follows:

<u>Name</u>	<u>Place of establishment</u>	<u>Date of establishment/ acquisition</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
<b>Subsidiaries:</b>				
Kingsoft Cloud Corporation Limited	HK	February 1, 2012	100 %	Cloud services
Beijing Kingsoft Cloud Technology Co., Ltd. (“Beijing Kingsoft Cloud”)*	PRC	April 9, 2012	100 %	Research and development
Beijing Yunxiang Zhisheng Technology Co., Ltd. (“Yunxiang Zhisheng”)*	PRC	December 15, 2015	100 %	Research and development
Camelot Technology Co., Ltd. (“Beijing Camelot”)	PRC	September 3, 2021	82.15 %	Enterprise digital solutions and related services
<b>Variable interest entities:</b>				
Zhuhai Kingsoft Cloud Technology Co., Ltd. (“Zhuhai Kingsoft Cloud”)	PRC	November 9, 2012	Nil	Investment holding
Kingsoft Cloud (Beijing) Information Technology Co., Ltd. (“Kingsoft Cloud Information”)	PRC	April 13, 2018	Nil	Investment holding
<b>Variable interest entities’ subsidiaries:</b>				
Kingsoft Cloud (Tianjin) Technology Development Co., Ltd.	PRC	May 30, 2019	Nil	Cloud services
Wuhan Kingsoft Cloud Information Technology Co., Ltd.	PRC	December 26, 2017	Nil	Cloud services
Beijing Kingsoft Cloud Network Technology Co., Ltd. (“Beijing Kingsoft Cloud Network Technology”)	PRC	November 9, 2012	Nil	Cloud services
Beijing Jinxun Ruibo Network Technology Co., Ltd. (“Beijing Jinxun Ruibo”)	PRC	December 17, 2015	Nil	Cloud services
Nanjing Qianyi Shixun Information Technology Co., Ltd.	PRC	March 31, 2016	Nil	Cloud services

\* Collectively, the “WFOE”

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)**

**1. ORGANIZATION AND BASIS OF PRESENTATION (continued)**

These unaudited interim consolidated financial statements 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 statements for the year ended December 31, 2021.

In the opinion of management, the accompanying unaudited interim consolidated financial statements 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 six months ended June 30, 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 statements at that date but does not include all of the disclosures required by U.S. GAAP for annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements 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 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 the WFOE has effective control of the VIEs through a series of contractual arrangements (the “Contractual Agreements”). 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”).

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

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, interim consolidated statements of comprehensive loss and interim consolidated statements of cash flows:

	As at		
	December 31, 2021 RMB	June 30, 2022 RMB (unaudited)	June 30, 2022 US\$ (unaudited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	2,209,647	783,302	116,944
Restricted cash	89,704	18,271	2,729
Accounts receivable, net of allowance for credit losses of RMB30,082 and RMB39,635 (US\$5,917) as of December 31, 2021 and June 30, 2022, respectively	3,170,860	2,419,642	361,243
Prepayments and other assets	907,350	914,962	136,600
Amounts due from related parties	184,137	337,212	50,344
Amounts due from subsidiaries of the Group	2,157,428	2,051,669	306,306
<b>Total current assets</b>	<b>8,719,126</b>	<b>6,525,058</b>	<b>974,166</b>
<b>Non-current assets:</b>			
Property and equipment, net	2,157,093	2,246,421	335,382
Intangible assets, net	93,662	86,198	12,869
Prepayments and other assets	27,036	22,039	3,290
Goodwill	64,082	48,814	7,288
Equity investments	162,244	167,185	24,960
Amounts due from related parties	4,712	4,712	703
Operating lease right-of-use assets	184,908	145,496	21,722
<b>Total non-current assets</b>	<b>2,693,737</b>	<b>2,720,865</b>	<b>406,214</b>
<b>Total assets</b>	<b>11,412,863</b>	<b>9,245,923</b>	<b>1,380,380</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	2,733,487	2,223,417	331,947
Accrued expenses and other liabilities	1,208,868	703,730	105,064
Short-term bank loans	1,348,166	1,246,126	186,042
Income tax payable	1,026	2,217	331
Amounts due to related parties	797,731	791,908	118,229
Current operating lease liabilities	70,672	59,432	8,873
Amounts due to subsidiaries of the Group	1,597,946	3,794,858	566,557
<b>Total current liabilities</b>	<b>7,757,896</b>	<b>8,821,688</b>	<b>1,317,043</b>
<b>Non-current liabilities:</b>			
Other liabilities	6,975	141,819	21,173
Non-current operating lease liabilities	121,057	97,927	14,620
Amounts due to related parties	472,882	354,392	52,909
Amounts due to subsidiaries of the Group	7,486,525	5,425,481	810,003
<b>Total non-current liabilities</b>	<b>8,087,439</b>	<b>6,019,619</b>	<b>898,705</b>
<b>Total liabilities</b>	<b>15,845,335</b>	<b>14,841,307</b>	<b>2,215,748</b>



**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**1. ORGANIZATION AND BASIS OF PRESENTATION (continued)**

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Revenues	3,767,516	2,630,443	392,715
Net loss	(675,966)	(1,309,784)	(195,546)
Net cash used in operating activities	(937,775)	(202,932)	(30,297)
Net cash used in investing activities	(415,827)	(968,429)	(144,583)
Net cash generated from (used in) financing activities	1,167,581	(212,577)	(31,737)

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 94.5% and 64.5% of the Group’s consolidated revenue for the six months ended June 30, 2021 and 2022, respectively, after elimination of inter-entity transactions.

As of December 31, 2021 and June 30, 2022, except for RMB702,424 and RMB514,963 (US\$76,882) of VIEs’ subsidiaries’ electronic equipment that was secured for the loans borrowed from Xiaomi Group (Note 18), and RMB89,704 and RMB18,271 (US\$2,728) of a VIE’s subsidiary’s restricted cash that was secured for certain payables to suppliers and to guarantee certain revenue contracts, respectively, 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 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 interim consolidated financial statements include, but are not limited to, allowance for credit losses for accounts receivable, contract assets and amounts due from related parties, measurement of operating and finance 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.

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Convenience translation*

Amounts in U.S. dollars are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.6981 per US\$1.00 on June 30, 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.

*Equity investments*

*Equity investments with readily determinable fair value*

Equity investments with readily determinable fair value, except for those accounted for under the equity method and those that result in consolidation of the investee, are measured at fair value, and any changes in fair value are recognized in the consolidated statements of comprehensive loss.

In 2022, the Group purchased equity interest of a company listed on the HK Stock Exchange for a cash consideration of RMB63,356 (US\$9,459). RMB8,825 (US\$1,318) of unrealized losses resulting from the change in fair value of the equity investments were recorded in “Other gain (loss), net” on the interim condensed consolidated statement of comprehensive loss for the six months ended June 30, 2022.

*Equity investments without readily determinable fair value*

The Group’s equity investments without readily determinable fair value 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. 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.

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Equity investments (continued)*

*Equity investments without readily determinable fair value (continued).*

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.

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 statements 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.

The total carrying value of equity investments held as of December 31, 2021 and June 30, 2022 were as follows:

	As at December 31, 2021	As at June 30, 2022	
	RMB	RMB (unaudited)	US(\$) (unaudited)
<b>Equity investments without readily determinable fair value:</b>			
Initial cost basis	114,256	124,196	18,542
Cumulative unrealized gains	96,793	96,793	14,451
Cumulative unrealized losses (including impairment)	—	(5,000)	(746)
Foreign currency translation	(3,883)	(1,820)	(272)
Total carrying value	<u>207,166</u>	<u>214,169</u>	<u>31,975</u>
<b>Equity investments with readily determinable fair value:</b>			
Initial cost basis	—	63,356	9,459
Cumulative unrealized losses	—	(8,825)	(1,318)
Foreign currency translation	—	2,446	365
Total carrying value	<u>—</u>	<u>56,977</u>	<u>8,506</u>
	<u>207,166</u>	<u>271,146</u>	<u>40,481</u>

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*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 without readily determinable fair value, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Group, with the assistance of an independent third-party valuation firm, determined the estimated fair value of its equity investments using the alternative measurement. The Group measures equity investments with readily determinable fair value using the market approach based on the quoted prices in an active market. 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. 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.

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.

*Assets and liabilities measured at fair value on a recurring basis*

	Total Fair Value RMB	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total losses RMB
<b>As of December 31, 2021</b>					
Purchase consideration payable	(1,328,508)	—	(1,328,508)	—	(9,249)
<b>As of June 30, 2022 (unaudited)</b>					
Purchase consideration payable	(1,219,591)	—	(1,219,591)	—	(14,018)
Equity investments with readily determinable fair value	56,977	56,977	—	—	(8,825)

## KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Assets and liabilities measured at fair value on a non-recurring basis*

	Total Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total gains (losses)
	RMB	RMB	RMB	RMB	RMB
<b>As of December 31, 2021</b>					
Equity investments accounted for using measurement alternative	207,166	—	—	207,166	82,492
<b>As of June 30, 2022 (unaudited)</b>					
Equity investments accounted for using measurement alternative	214,169	—	—	214,169	(5,000)

The non-recurring fair value measurements to the carrying amount of equity investments accounted for using measurement alternative usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Group. These non-recurring fair value measurements were measured by using the observable transaction price and other unobservable inputs (level 3) as of the observable transaction dates, which were expected not significantly differ from the ones measured as of the end of respective year/period.

*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 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.

**KINGSOFT CLOUD HOLDINGS LIMITED**

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**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Leases*

The Group determines if an arrangement is a lease or contains a lease at lease inception. For leases with lease and non-lease components, the Group has elected to apply the practical expedient to not separate the lease component and its associated non-lease component. 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. Variable lease payments that do not depend on an index or a rate are not included in the lease payments and are recognized in earnings in the period in which the event or condition that triggers the payment occurs. The Group has also elected the practical expedient the short-term lease exemption for contracts with lease terms of 12 months or less.

Operating lease expense is recorded on a straight-line basis over the lease term. Finance lease right-of-use assets are depreciated on a straight-line basis over the lesser of the useful life of the leased assets or the lease term. Interests on finance lease liabilities are determined as the amount that results in a constant periodic discount rate on the remaining balance of the liability. Finance lease assets are included in “Property and equipment, net” in the consolidated balance sheets. Current and non-current portions of finance lease liabilities are included in “Accrued expenses and other liabilities” and “Other liabilities”, respectively, in the consolidated balance sheets.

As most of the Company’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.

*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.

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Share-based compensation (continued)*

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.

*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 RMB113,658 and RMB213,183 (US\$31,827) for the six months ended June 30, 2021 and 2022, respectively.

*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, 2021, the Group had two customers, with accounts receivable balances exceeding 10% of the total accounts receivable balances. As of June 30, 2022, the Group had one customer accounted for more than 10% of the total accounts receivable balance. As of December 31, 2021 and June 30, 2022, the Group had one customer, with 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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Impact of COVID-19*

For the six months ended June 30, 2021, COVID-19 has had immaterial impact on the Group’s operations. For the six months ended June 30, 2022, the Group’s operations were negatively impacted by the resurgence of COVID-19. 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 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 adopted this guidance on January 1, 2022 and does not expect any material impact on the Group’s consolidated financial statements 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 statements since April 2021.

The total cash purchase price consideration was RMB126,400 (US\$18,871). The Group recognized RMB586 (US\$87) of net assets acquired excluding intangible assets, RMB77,000 (US\$11,496) of intangible assets which comprised of technology, trademark and domain name, and RMB48,814 (US\$7,288) 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.



**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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except for number of shares and per share data)****3. BUSINESS COMBINATION (continued)***Acquisition of Camelot*

In September 2021, the Group completed the acquisition of 100% equity interests in Camelot Employee Scheme INC. (“CES”), which legally held 79.53% equity interests in Beijing Camelot 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 statements of the Group since September 2021.

The total purchase consideration was RMB5,290,553 (US\$789,859), which consisted of cash consideration of RMB751,974 (US\$112,267) and equity consideration of RMB4,538,579 (US\$677,592). Goodwill recognized represents the expected synergies from integrating Camelot with the Group’s existing enterprise cloud business and is not tax deductible.

During the second quarter of 2022, the Group completed the allocation of the purchase price to the individual assets acquired and liabilities assumed. The table below summarizes the final determination of the estimated fair values of the assets acquired and liabilities assumed from Camelot as of the acquisition date:

	<u>Camelot</u>	
	<u>RMB</u>	<u>US\$</u>
Total fair value of purchase consideration	5,290,553	789,859
Less:		
Cash and cash equivalents	618,439	92,331
Restricted cash	1,126	168
Accounts receivable and other assets	940,511	140,415
Property and equipment, net	13,792	2,059
Intangible assets:		
Customer relationship	620,100	92,578
Trademarks	474,000	70,766
Copyrights	34,100	5,091
Deferred tax assets	54,419	8,125
Deferred tax liabilities	(268,490)	(40,085)
Accounts payable and other liabilities	(871,903)	(130,172)
Non-controlling interests	(882,451)	(131,746)
Goodwill	<u>4,556,910</u>	<u>680,329</u>

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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**4. REVENUES, OTHER GAIN (LOSS), NET AND OTHER INCOME, NET**

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

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Public cloud services recognized over time	2,942,610	2,669,951	398,613
Enterprise cloud services:			
Recognized at a point in time	1,037,555	351,374	52,459
Recognized over time	4,622	1,057,709	157,912
	1,042,177	1,409,083	210,371
Others:			
Recognized at a point in time	1,171	—	—
Recognized over time	1,261	1,273	190
	2,432	1,273	190
	3,987,219	4,080,307	609,174

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at June 30, 2022 are primarily related to enterprise cloud services, which are as follows:

	RMB	US\$
	(unaudited)	(unaudited)
Within one year	30,361	4,533
More than one year	21,034	3,140
Total	51,395	7,673

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## 4. REVENUES, OTHER GAIN (LOSS), NET AND OTHER INCOME, NET (continued)

*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 six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Revenue recognized from amounts included in contract liabilities at the beginning of the period	46,123	139,661	20,851

The following table presents the Group’s other gain (loss), net:

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Gross unrealized gain on equity investments held	15,488	—	—
Gross unrealized loss (including impairment) on equity investments held	—	(13,825)	(2,064)
Net realized gain (loss) on equity investments sold	5,651	(123)	(18)
Changes in fair value of purchase consideration in a business acquisition	—	(14,018)	(2,093)
	21,139	(27,966)	(4,175)

The following table presents the Group’s other income (expense), net:

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Government grants	8,612	23,895	3,567
Income from ADS Reimbursement (Note 11)	5,016	5,056	755
Value added tax transferred out	(6,223)	(6,291)	(939)
Gain on disposal of property and equipment	14	3,276	489
Others	(1,029)	(5,935)	(886)
	6,390	20,001	2,986

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## 5. ACCOUNTS RECEIVABLE, NET

	As at		
	December 31, 2021	June 30, 2022	June 30, 2022
	RMB	RMB	US\$
Accounts receivable	3,603,240	2,914,960	435,192
Allowance for credit losses	(32,265)	(42,056)	(6,279)
Accounts receivable, net	<u>3,570,975</u>	<u>2,872,904</u>	<u>428,913</u>

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

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
Balance at beginning of the period	15,770	32,265	4,817
Adoption of ASC 326*	5,684	—	—
Provision for expected credit losses	23,060	140,926	21,040
Write-offs charged against the allowance	(26,757)	(117,645)	(17,564)
Recoveries during the period	(5,383)	(13,490)	(2,014)
Balance at end of the period	<u>12,374</u>	<u>42,056</u>	<u>6,279</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 of RMB5,684.

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## 6. PREPAYMENTS AND OTHER ASSETS

	December 31,	As at	
	2021	June 30,	June 30,
	RMB	RMB	US\$
		(unaudited)	(unaudited)
<b>Current portion:</b>			
Prepayments to suppliers	162,528	162,998	24,335
Contract costs*	145,628	202,629	30,252
Contract assets, net**	550,068	542,967	81,063
VAT prepayments	619,391	582,751	87,002
Interest receivable	21,463	14,931	2,229
Deferred offering costs	—	24,815	3,705
Individual income tax receivable*** (Note 11)	48,949	7,051	1,053
Others	138,994	155,906	23,275
	<u>1,687,021</u>	<u>1,694,048</u>	<u>252,914</u>
<b>Non-current portion:</b>			
Prepayments for electronic equipment	25,388	20,372	3,042
Others	3,678	2,065	308
	<u>29,066</u>	<u>22,437</u>	<u>3,350</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 periods. The allowance for credit losses on contract assets were RMB1,591 and RMB11,100 (US\$1,657) as of December 31, 2021 and June 30, 2022, respectively. The amounts charged to expenses for credit losses on contract assets were RMB nil and RMB9,509 (US\$1,420), and write-offs charged against the allowance were RMB nil and RMB nil (US\$ nil), respectively, for the six months ended June 30, 2021 and 2022.

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

Except disclosed separately, the expected credit loss rate and the loss allowance for the remaining financial assets included in prepayments and other assets were immaterial as of December 31, 2021 and June 30, 2022.

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## 7. PROPERTY AND EQUIPMENT, NET

	As at		
	December 31, 2021	June 30, 2022	June 30, 2022
	RMB	RMB (unaudited)	US\$ (unaudited)
Electronic equipment	5,123,149	5,545,846	827,973
Office equipment and fixtures	15,462	15,680	2,341
Data center machinery and equipment	144,328	269,082	40,173
Building	15,768	160,857	24,015
Construction in progress	147,817	3,667	547
	5,446,524	5,995,132	895,049
Less: accumulated depreciation	(3,082,421)	(3,545,473)	(529,325)
Property and equipment, net	<u>2,364,103</u>	<u>2,449,659</u>	<u>365,724</u>

Depreciation expense of the property and equipment for the six months ended June 30, 2021 and 2022 were RMB361,901 and RMB492,579 (US\$73,541), respectively.

## 8. INTANGIBLE ASSETS, NET

	As at		
	December 31, 2021	June 30, 2022	June 30, 2022
	RMB	RMB (unaudited)	US\$ (unaudited)
Customer relationships	620,100	620,500	92,638
Patents and technologies	67,900	60,900	9,092
Trademarks and domain names	497,098	497,150	74,223
Software and copyrights	71,752	79,726	11,903
Others	3,637	3,707	553
	1,260,487	1,261,983	188,409
Less: accumulated amortization			
Customer relationships	(32,637)	(81,605)	(12,183)
Patents and technologies	(8,138)	(12,688)	(1,895)
Trademarks and domain names	(20,722)	(45,589)	(6,806)
Software and copyrights	(26,692)	(32,679)	(4,879)
Others	(2,531)	(2,908)	(434)
	(90,720)	(175,469)	(26,197)
Intangible assets, net	<u>1,169,767</u>	<u>1,086,514</u>	<u>162,212</u>

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**8. INTANGIBLE ASSETS, NET (continued)**

Amortization expense of intangible assets for the six months ended June 30, 2021 and 2022 were RMB7,688 and RMB85,658 (US\$12,788), respectively. As of June 30, 2022, estimated amortization expense of the existing intangible assets for each of the next five years is as follows:

	<u>RMB</u> <u>(unaudited)</u>	<u>US\$</u> <u>(unaudited)</u>
Remaining six months of 2022	86,328	12,888
2023	171,535	25,610
2024	170,012	25,382
2025	166,302	24,828
2026 and thereafter	492,337	73,504
Total	<u>1,086,514</u>	<u>162,212</u>

**9. GOODWILL**

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

	<u>Cloud service and solutions RMB</u>	<u>Cloud-based digital solutions and services RMB</u>	<u>Total RMB</u>
Balance as of December 31, 2021	3,669,031	956,084	4,625,115
Disposal of a subsidiary	(15,268)	—	(15,268)
Purchase price adjustments	(3,259)	(864)	(4,123)
Balance as of June 30, 2022 (unaudited)	<u>3,650,504</u>	<u>955,220</u>	<u>4,605,724</u>
Balance as of June 30, 2022, in US\$ (unaudited)	<u>545,006</u>	<u>142,610</u>	<u>687,616</u>

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**10. LEASES**

The Group’s operating leases are mainly related to office space and buildings and its finance lease is related to data center machinery and equipment. The finance lease includes a bargain purchase option, contains variable lease payments based on the actual usage of the machinery and equipment, and has no fixed or in-substance fixed lease payments for the first two years of the lease term. 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 operating 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, 2021, the Group had no finance leases.

The components of lease costs were as follows:

	For the six months ended June 30		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
Operating lease costs	26,385	36,261	5,414
Short-term lease costs	8,457	8,260	1,233
Finance lease costs:			
Depreciation of finance lease assets	—	2,079	310
Interest on finance lease liabilities	—	1,230	184
Variable lease payments	—	814	122
Total finance lease costs	—	4,123	616



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**10. LEASES (continued)**

Other information related to leases where the Group is the lessee is as follows:

	<u>As at</u> <u>December 31, 2021</u>	<u>As at</u> <u>June 30, 2022</u>
Weighted-average remaining lease term:		
Operating leases	8.3 years	8.5 years
Finance leases	—	9.8 years
Weighted-average discount rate:		
Operating leases	6.18 %	5.93 %
Finance leases	—	5.90 %

Cash paid for amounts included in the measurement of lease liabilities:

	<u>For the six months ended</u>		
	<u>June 30,</u> <u>2021</u> <u>RMB</u> <u>(unaudited)</u>	<u>June 30,</u> <u>2022</u> <u>RMB</u> <u>(unaudited)</u>	<u>June 30,</u> <u>2022</u> <u>US\$</u> <u>(unaudited)</u>
Operating cash payments for operating leases	3,204	34,691	5,179
Operating cash payments for finance leases	—	—	—
Financing cash payments for finance leases	—	—	—

Lease assets obtained in exchange for lease obligations:

	<u>For the six months ended</u>		
	<u>June 30,</u> <u>2021</u> <u>RMB</u> <u>(unaudited)</u>	<u>June 30,</u> <u>2022</u> <u>RMB</u> <u>(unaudited)</u>	<u>June 30,</u> <u>2022</u> <u>US\$</u> <u>(unaudited)</u>
Operating leases	—	24,918	3,720
Finance leases	—	124,754	18,625

The undiscounted future minimum payments under the Group’s operating and finance lease liabilities and reconciliation to the operating and finance lease liabilities recognized on the consolidated balance sheet as of June 30, 2022 were as below:

	<u>Operating lease</u>		<u>Finance lease</u>	
	<u>RMB</u> <u>(unaudited)</u>	<u>US\$</u> <u>(unaudited)</u>	<u>RMB</u> <u>(unaudited)</u>	<u>US\$</u> <u>(unaudited)</u>
Remaining six months of 2022	78,040	11,651	—	—
2023	56,374	8,416	—	—
2024	47,003	7,017	14,699	2,195
2025	29,852	4,457	22,049	3,292
2026 and thereafter	75,599	11,287	139,644	20,848
Total future lease payments	286,868	42,828	176,392	26,335
Less: imputed interest	(47,815)	(7,138)	(50,408)	(7,526)
Total lease liability balance	<u>239,053</u>	<u>35,690</u>	<u>125,984</u>	<u>18,809</u>

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11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As at		
	December 31, 2021	June 30, 2022	June 30, 2022
	RMB	RMB (unaudited)	US\$ (unaudited)
<b>Current portion:</b>			
Customer advances*	378,957	376,016	56,138
Salary and welfare payable	600,775	573,403	85,607
Purchase of property and equipment	759,391	264,385	39,472
Accrued expenses	116,021	119,826	17,890
Other tax and surcharges payable	91,287	100,617	15,022
Deferred government grants	8,488	12,257	1,830
Purchase consideration payable**	148,038	1,219,591	182,080
Individual income tax payable*** (Note 6)	48,949	3,801	567
Others	71,934	78,511	11,720
	<u>2,223,840</u>	<u>2,748,407</u>	<u>410,326</u>
<b>Non-current portion:</b>			
Deferred government grants	6,975	15,835	2,364
Purchase consideration payable**	1,180,470	—	—
Finance lease liability (Note 10)	—	125,984	18,809
Others****	45,232	64,792	9,673
	<u>1,232,677</u>	<u>206,611</u>	<u>30,846</u>

\* The amount represents contract liabilities for the rendering of services. The decrease in customer advances as of June 30, 2022 is a result of less customer advances received in 2022.

\*\* The amount represents the remaining purchase consideration to acquire Camelot. As of June 30, 2022, RMB279,790 (US\$41,772) and RMB939,801 (US\$140,308) will be settled by cash and ordinary shares of the Company by June 30, 2023, respectively.

\*\*\* 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 RMB50,028) from the depository for the establishment and maintenance of the ADS program (“ADS Reimbursement”). As of December 31, 2021 and June 30, 2022, RMB9,836 and RMB10,314 (US\$1,540) were included in the current portion, and RMB22,989 and RMB19,013 (US\$2,839) 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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## 12. BANK LOANS

	December 31,	As at	
	2021	June 30,	June 30,
	RMB	RMB	US\$
Short-term bank loans	1,348,166	1,266,270	189,049

The weighted average interest rate for the outstanding short-term bank loans as of December 31, 2021 and June 30, 2022 were 4.59% and 4.44%, respectively.

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

## 13. TAXATION

*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.

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 six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
PRC	(739,763)	(1,424,355)	(212,651)
Non-PRC	143,711	53,918	8,050
	(596,052)	(1,370,437)	(204,601)

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## 13. TAXATION (continued)

*Enterprise income tax (continued)*

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

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Current income tax expense	6,784	17,431	2,603
Deferred income tax benefit	(29)	(22,584)	(3,372)
	<u>6,755</u>	<u>(5,153)</u>	<u>(769)</u>

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

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Loss before income tax	(596,052)	(1,370,437)	(204,601)
Income tax computed at the PRC statutory tax rate of 25%	(149,013)	(342,609)	(51,150)
Effect of tax holiday and preferential tax rates	(9,558)	69,208	10,332
Effect of different tax rates in different jurisdictions	(7,862)	4,874	728
Other non-taxable income	(14,936)	(12,417)	(1,854)
Non-deductible expenses	4,106	5,376	804
Share-based compensation costs	49,801	51,663	7,713
Research and development super deduction	(68,815)	(72,497)	(10,824)
Withholding tax and others	5,234	4,898	731
Change in valuation allowance	203,296	309,602	46,222
True-up adjustments in respect of prior year’s annual tax filing	(3,474)	11,700	1,747
Expiration of tax loss forward	—	60,271	8,998
Tax rate change on deferred items	(2,024)	(95,222)	(14,216)
Income tax expense (benefit)	<u>6,755</u>	<u>(5,153)</u>	<u>(769)</u>

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## 13. TAXATION (continued)

*Deferred tax*

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

	As at		
	December 31, 2021	June 30, 2022	June 30, 2022
	RMB	RMB	US\$
		(unaudited)	(unaudited)
<b>Deferred tax assets:</b>			
Tax loss carried forward	1,841,192	2,297,553	343,016
Accrued expenses	235,737	78,644	11,741
Depreciation	7,082	6,253	934
Allowance for credit loss	53,436	20,272	3,027
Government grant	4,266	5,423	810
Operating lease liabilities	63,781	58,380	8,716
Finance lease liabilities	—	31,496	4,702
Accrued interest	170,337	211,214	31,533
Others	2,737	4,886	729
Less: valuation allowance	(1,881,873)	(2,186,332)	(326,411)
	<u>496,695</u>	<u>527,789</u>	<u>78,797</u>
<b>Deferred tax liabilities:</b>			
Operating lease right-of-use assets	57,300	50,728	7,573
Finance lease right-of-use assets	—	30,669	4,579
One-time deduction for fixed asset purchases	337,564	344,802	51,477
Long-lived assets arising from acquisitions	277,267	261,873	39,097
Others	22,655	18,257	2,726
	<u>694,786</u>	<u>706,329</u>	<u>105,452</u>

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except for number of shares and per share data)****13. TAXATION (continued)**

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, 2021 and June 30, 2022, the Group’s total deferred tax assets before valuation allowances were RMB2,378,568 and RMB2,714,121 (US\$405,208), respectively. As of December 31, 2021 and June 30, 2022, the Group recorded valuation allowances of RMB1,881,873 and RMB2,186,332 (US\$326,411), 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.

As of December 31, 2021 and June 30, 2022, the Group had net losses of RMB7,485,149 and RMB9,231,385 (US\$1,378,209), respectively, 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 2023 and 2027 and the tax losses of entities in the PRC that qualify as HNTE will expire between 2023 and 2032, if not utilized. The tax losses in Hong Kong can be carried forward without an expiration date.

***Unrecognized tax benefits***

As of December 31, 2021 and June 30, 2022, the Group had unrecognized tax benefits of RMB59,049 and RMB43,867 (US\$6,549), of which RMB43,095 and RMB22,759 (US\$3,398), respectively, were deducted against the deferred tax assets on tax losses carried forward, and the remaining amounts of RMB15,954 and RMB21,108 (US\$3,151), respectively, were presented in other liabilities in the consolidated balance sheets. The Group’s unrecognized tax benefits for the periods presented 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 June 30, 2022, there are RMB15,954 and RMB21,108 (US\$3,151) 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 at	
	June 30, 2022	June 30, 2022
	RMB (unaudited)	US\$ (unaudited)
Balance at beginning of the period	59,049	8,816
Additions based on tax position related to current year	25,854	3,860
Reductions for tax positions related to prior years	(41,036)	(6,127)
Balance at end of the period	<u>43,867</u>	<u>6,549</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.

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)****(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)****14. SHARE-BASED PAYMENTS**

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

***Share Option Scheme***

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

	Number of options	Weighted- average exercise price US\$	Weighted- average grant-date fair value US\$	Weighted- average remaining contractual term Years	Aggregate intrinsic value US\$
Outstanding, December 31, 2021	61,760,202	0.07	0.87	6.61	0.98
Granted	8,417,040	0.07	0.18		
Forfeited	(8,985,112)	0.07	0.99		
Exercised	(11,643,164)	0.07	0.54		
Outstanding, June 30, 2022 (unaudited)	<u>49,548,966</u>	0.07	0.84	6.37	0.22
Vested and expected to vest at June 30, 2022 (unaudited)	<u>49,548,966</u>	0.07	0.84	6.37	0.22
Exercisable at June 30, 2022 (unaudited)	<u>29,571,662</u>	0.07	0.50	5.60	0.22

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share at the end of periods presented and the option’s respective exercise price. Total intrinsic values of options exercised for the six months ended June 30, 2021 and 2022 were RMB179,681 and RMB17,348 (US\$2,590), respectively.

The total weighted average grant-date fair value of the share-based awards granted during the six months ended June 30, 2021 and 2022 were US\$3.15 and US\$0.18 per option, respectively. The aggregate fair value of the share-based awards vested during the six months ended June 30, 2021 and 2022 were RMB32,944 and RMB53,103 (US\$7,928), respectively.

As of June 30, 2022, there were RMB71,228 (US\$10,634) 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 1.27 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

**14. SHARE-BASED PAYMENTS (continued)**

*2013 Share Award Scheme*

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

	<u>Number of shares</u>	<u>Weighted-average grant date fair value US\$</u>
Outstanding, December 31, 2021	57,987,266	1.32
Granted	10,309,125	0.73
Cancelled	(4,136,945)	2.09
Vested	(3,656,739)	1.34
Forfeited	(5,176,536)	1.73
Outstanding, June 30, 2022 (unaudited)	<u>55,326,171</u>	<u>1.11</u>
Expected to vest at June 30, 2022 (unaudited)	<u>55,326,171</u>	<u>1.11</u>

The total weighted average grant-date fair value of the share-based awards granted during six months ended June 30, 2022 were US\$0.73 per share. No restricted share was granted during the six months ended June 30, 2021. The aggregate fair value of the share-based awards vested during the six months ended June 30, 2021 and 2022 were RMB13,417 and RMB32,894 (US\$4,911), respectively.

As of June 30, 2022, there were RMB224,534 (US\$33,522) 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 1.50 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 based on the price of the Company’s publicly traded shares. 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:

	<u>Number of options</u>	<u>Weighted- average exercise price US\$</u>	<u>Weighted- average grant-date fair value US\$</u>	<u>Weighted- average remaining contractual term Years</u>	<u>Aggregate intrinsic value US\$</u>
Outstanding, December 31, 2021	27,868,420	0.83	0.31	7.99	0.22
Forfeited	(478,400)	0.87	0.30	—	—
Outstanding, June 30, 2022 (unaudited)	<u>27,390,020</u>	0.83	0.31	7.50	—
Vested and expected to vest at June 30, 2022 (unaudited)	<u>27,390,020</u>	0.83	0.31	7.50	—
Exercisable at June 30, 2022 (unaudited)	<u>9,908,740</u>	0.83	0.31	7.50	—

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share at the end of periods presented and the option’s respective exercise price. Total intrinsic value of options exercised for the six months ended June 30, 2021 were RMB1,614. Total intrinsic value of options exercised for the six months ended June 30, 2022 was RMB nil (US\$ nil) as no option was exercised.

No options were granted during the the six months ended June 30, 2022. The aggregate fair value of the share-based awards vested during the six months ended June 30, 2021 and 2022 were RMB7,307 and RMB1,421 (US\$212), respectively.



## KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

## 14. SHARE-BASED PAYMENTS (continued)

*2013 Share Award Scheme (Continued)*

As of June 30, 2022, there were RMB8,862 (US\$1,323) 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 1.01 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. A summary of the activity for the options issued under the 2021 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, December 31, 2021	—	—	—	—	—
Granted	85,590,755	0.01	0.38		
Exercised	(1,736,106)	0.01	0.32		
Forfeited	(10,342,579)	0.01	0.40		
Outstanding, June 30, 2022 (unaudited)	<u>73,512,070</u>	0.01	0.38	9.69	0.29
Vested and expected to vest at June 30, 2022 (unaudited)	<u>73,512,070</u>	0.01	0.38	9.69	0.29
Exercisable at June 30, 2022 (unaudited)	<u>3,594,126</u>	0.01	0.32	9.70	0.29

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share at the end of periods presented and the option’s respective exercise price. Total intrinsic value of options exercised for the six months ended June 30, 2022 were RMB3,336 (US\$498).

The total weighted-average grant date fair value of the share-based awards granted during the six months ended June 30, 2022 were US\$0.38 per option. The aggregate fair value of the share-based awards vested during the six months ended June 30, 2022 were RMB11,415 (US\$1,704).

As of June 30, 2022, there were RMB121,256 (US\$18,103) 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 2.58 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

**14. SHARE-BASED PAYMENTS (continued)***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 and June 30, 2022, 2,278,360 of restricted shares were vested. As of June 30, 2022, there were RMB68,849 (US\$10,279) of total unrecognized share-based compensation expenses related to these unvested share-based awards that will be recognized over approximately 1 year.

*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.

The assumptions used to estimate the fair value of the share options granted are as follows:

	For the six months ended June 30	
	2021	2022
	(unaudited)	(unaudited)
Risk-free rate	1.13%-1.62%	1.75%-2.00%
Expected volatility range	36.47%-38.03%	35.62%-42.06%
Exercise multiple	2.20-2.80	2.20-2.80
Fair market value per ordinary share as at valuation dates	US\$3.04-US\$3.49	US\$0.33-US\$0.73

*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 relating to the acquisition-date fair-value-based measure of the Camelot Award that was attributable to precombination service was recognized as noncontrolling interest and the portion relating to any remaining postcombination service was recognized as share-based compensation expenses in the Group’s consolidated financial statements. The Group did not grant any share-based awards under the Camelot Award after its acquisition of Camelot.

As of June 30, 2022, there were RMB66,193 (US\$9,882) of total unrecognized share-based compensation expenses related to these unvested share-based awards that will be recognized over approximately 1.17 years.

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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14. SHARE-BASED PAYMENTS (continued)

The acquisition date fair value of each share-based 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 dates	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 six months ended June 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
Cost of revenues	8,460	6,828	1,019
Selling and marketing expenses	38,844	42,956	6,413
General and administrative expenses	70,600	101,833	15,204
Research and development expenses	81,301	55,122	8,229
	<u>199,205</u>	<u>206,739</u>	<u>30,865</u>

15. 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 RMB3,542,822 (US\$528,929) as of June 30, 2022.

16. LOSS PER SHARE

Basic and diluted loss per share for the periods presented are calculated as follows:

	For the six months ended June 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Numerator:</b>			
Net loss attributable to ordinary shareholders—basic and diluted	(602,818)	(1,356,246)	(202,483)
<b>Denominator:</b>			
Weighted average number of ordinary shares outstanding—basic and diluted	3,347,286,795	3,651,473,415	3,651,473,415
Basic and diluted loss per share	<u>(0.18)</u>	<u>(0.37)</u>	<u>(0.06)</u>

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)**

**16. LOSS PER SHARE (continued)**

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.

**17. TREASURY STOCK**

On March 31, 2022, the Company’s shareholders and Board of Directors authorized a share repurchase program (“2022 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. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management. Under the 2022 Share Repurchase Program, the Company entered into a cash enhanced share repurchase agreement with a financial institution in June 2022, and prepaid US\$5,000 to such financial institution for written put options to repurchase the Company’s ordinary shares on certain pre-determined dates. The transactions were completed in September 2022, and the Company repurchased a total of 26,509,680 ordinary shares through the aforesaid arrangement with such financial institution.

**18. RELATED PARTY TRANSACTIONS**

*a) Related Parties*

<b>Name of related parties</b>	<b>Relationship with the Group</b>
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

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

**18. RELATED PARTY TRANSACTIONS (continued)**

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

	For the six months ended June 30		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Revenues:			
Public cloud services provided to Xiaomi Group	385,207	435,114	64,961
Public cloud services provided to Kingsoft Group	67,817	93,801	14,004
Enterprise cloud services provided to Xiaomi Group	—	30,241	4,515
Enterprise cloud services provided to Kingsoft Group	—	4,466	667
	<u>453,024</u>	<u>563,622</u>	<u>84,147</u>
Purchase of devices from Xiaomi Group	185	58	9
Interest expense on loan due to Xiaomi Group	—	38,423	5,736
Interest expense on loan due to Kingsoft Group	—	11,690	1,745
Rental of building from Xiaomi Group*	28,639	23,603	3,524
Rental of office space, and administrative services from Kingsoft Group	6,702	7,955	1,188
	<u>35,526</u>	<u>81,729</u>	<u>12,202</u>

\* The Group entered into agreements to lease building and office space from Xiaomi Group. As of June 30, 2022, the related operating lease right-of-use assets amounted to RMB167,255 (US\$24,971) and operating lease liabilities amounted to RMB199,650 (US\$29,807), respectively.

Other than the transactions disclosed above, the Group also provides public cloud services to an equity investee. Revenue generated from the investee represented less than 1% of the Group’s total revenues for the six months ended June 30, 2022.

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

18. RELATED PARTY TRANSACTIONS (continued)

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

	December 31,	As at	
	2021	June 30,	June 30,
	RMB	RMB	US\$
		(unaudited)	(unaudited)
<b>Amounts due from related parties:</b>			
Trade related:			
Xiaomi Group	175,170	280,042	41,809
Kingsoft Group	26,868	49,498	7,390
Others	—	22,334	3,335
Non-trade related:			
Kingsoft Group	10,863	10,868	1,622
	<u>212,901</u>	<u>362,742</u>	<u>54,156</u>
<b>Amounts due to related parties:</b>			
Trade related:			
Kingsoft Group	15,092	13,272	1,981
Xiaomi Group	55,853	41,794	6,240
Non-trade related:			
Kingsoft Group*	529,284	529,284	79,020
Xiaomi Group**	709,088	596,084	88,993
	<u>1,309,317</u>	<u>1,180,434</u>	<u>176,234</u>

\* During 2021, the Group entered into a loan agreement with Kingsoft Group for an aggregate principal amount of RMB500,000 (US\$78,873) bearing a fixed annual interest rate of 4.65%. The Group has fully repaid the loan 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 June 30, 2022, the fixed interest rate for these loans was 4.36%. As of December 31, 2021 and June 30, 2022, the current portion of the loans were RMB236,206 and RMB241,691 (US\$36,084), and the non-current portion of the loans were RMB472,882 and RMB354,392 (US\$52,909), respectively. Under the terms of the agreements, the Group will repay in fixed quarterly installments over 3 years according to the following schedule:

	As at June 30, 2022	
	RMB	US\$
	(unaudited)	(unaudited)
Remaining six months of 2022	123,202	18,394
2023	241,168	36,005
2024	231,714	34,594
	<u>596,084</u>	<u>88,993</u>

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 effect of adopting ASC 326 on amounts due from related parties was immaterial.

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**19. COMMITMENTS AND CONTINGENCIES***Capital expenditure commitments*

The Group has commitments for the construction of a data center of RMB34,312 (US\$5,123) at June 30, 2022, which are scheduled to be paid within one year.

*Other commitments*

On May 23, and June 9, 2022, the Group entered into two non-cancelable one-year internet data center service agreements pursuant to which the Group has total contractual minimum purchase commitments amounting to RMB1,250,000 (US\$186,620). As of June 30, 2022, the remaining purchase commitment is RMB1,052,228 (US\$157,094).

*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.

**20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	<b>RMB</b>
Balance as of January 1, 2021	(68,440)
Foreign currency translation adjustments, net of tax of nil	(62,115)
Balance as of June 30, 2021 (unaudited)	<u>(130,555)</u>
Balance as of January 1, 2022	(207,882)
Foreign currency translation adjustments, net of tax of nil	382,981
Balance as of June 30, 2022 (unaudited)	<u>175,099</u>
Balance as of June 30, 2022, in US\$ (unaudited)	<u>26,142</u>

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

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)**

**21. SUBSEQUENT EVENT**

In October 2022, the Company entered into share purchase agreements with the noncontrolling shareholders of Beijing Camelot to acquire an aggregate of 9.50% of equity interests in Beijing Camelot for a total cash consideration of RMB456,000, which will be settled in five installments by the end of 2024.

In October 2022, the Company’s shareholders and Board of Directors authorized to amend the 2021 Share Award Scheme, and increased the maximum aggregate numbers of ordinary shares that are authorized to be issued under the 2021 Share Award Scheme from 209,216,310 to 236,717,025 ordinary shares.

In November 2022, the Company and three employee incentive platforms entered into certain agreements in relation to the acquisition of 3.19% of the equity interests in Beijing Camelot, pursuant to which (i) the Company shall grant a total of 27,500,715 restricted share units under the 2021 Share Award Scheme to current and former employees of Camelot in recognition of their contribution to Camelot, and (ii) the three employee incentive platforms shall transfer the 3.19% equity interests in Beijing Camelot to the Group for RMB43,981 which shall be settled by cash.



**KINGSOFT CLOUD HOLDINGS LIMITED**

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KINGSOFT CLOUD HOLDINGS LIMITED

AUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2021 AND UNAUDITED INTERIM  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2022

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

	Notes	December 31, 2021 RMB	As at September 30, 2022 RMB (unaudited)	September 30, 2022 US\$ (unaudited)
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents		4,217,528	3,163,210	444,677
Restricted cash		239,093	43,144	6,065
Accounts receivable, net of allowance for credit losses of RMB32,265 and RMB93,904 (US\$13,201) as of December 31, 2021 and September 30, 2022, respectively	5	3,570,975	2,566,969	360,859
Short-term investments		2,491,056	2,165,674	304,446
Prepayments and other assets	6	1,687,021	1,734,108	243,779
Amounts due from related parties	18	207,143	365,853	51,431
<b>Total current assets</b>		<b>12,412,816</b>	<b>10,038,958</b>	<b>1,411,257</b>
<b>Non-current assets:</b>				
Property and equipment, net	7	2,364,103	2,350,671	330,452
Intangible assets, net	8	1,169,767	1,045,399	146,960
Goodwill	9	4,625,115	4,605,724	647,462
Prepayments and other assets	6	29,066	39,899	5,609
Equity investments	2	207,166	241,094	33,892
Amounts due from related parties	18	5,758	4,889	687
Deferred tax assets, net		7,798	—	—
Operating lease right-of-use assets	10	256,451	218,615	30,732
<b>Total non-current assets</b>		<b>8,665,224</b>	<b>8,506,291</b>	<b>1,195,794</b>
<b>Total assets</b>		<b>21,078,040</b>	<b>18,545,249</b>	<b>2,607,051</b>
<b>LIABILITIES, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Accounts payable (including accounts payable of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB2,733,487 and RMB2,278,371 (US\$320,288) as of December 31, 2021 and September 30, 2022, respectively)		2,938,632	2,454,610	345,064
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 RMB594,513 (US\$83,575) as of December 31, 2021 and September 30, 2022, respectively)	11	2,223,840	2,708,447	380,748
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 RMB1,017,045 (US\$142,974) as of December 31, 2021 and September 30, 2022, respectively)	12	1,348,166	1,041,045	146,348
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 September 30, 2022, respectively)	13	60,217	40,926	5,753
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 RMB814,079 (US\$114,441) as of December 31, 2021 and September 30, 2022, respectively)	18	836,435	851,851	119,751
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 RMB61,386 (US\$8,630) as of December 31, 2021 and September 30, 2022, respectively)	10	108,590	104,528	14,694
<b>Total current liabilities</b>		<b>7,515,880</b>	<b>7,201,407</b>	<b>1,012,358</b>

KINGSOFT CLOUD HOLDINGS LIMITED

AUDITED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2021 AND UNAUDITED INTERIM  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2022 (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

		As at		
	Notes	December 31, 2021 RMB	September 30, 2022 RMB (unaudited)	September 30, 2022 US\$ (unaudited)
<b>Non-current liabilities:</b>				
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 RMB488,020 (US\$68,605) as of December 31, 2021 and September 30, 2022, respectively)	18	472,882	488,020	68,605
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 September 30, 2022, respectively)		205,889	185,856	26,127
Other liabilities (including other liabilities of the consolidated VIEs and their subsidiaries without recourse to the primary beneficiary of RMB6,975 and RMB143,686 (US\$20,199) as of December 31, 2021 and September 30, 2022, respectively)	11	1,232,677	219,244	30,821
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 RMB101,080 (US\$14,210) as of December 31, 2021 and September 30, 2022, respectively)	10	158,289	139,594	19,624
<b>Total non-current liabilities</b>		<b>2,069,737</b>	<b>1,032,714</b>	<b>145,177</b>
<b>Total liabilities</b>		<b>9,585,617</b>	<b>8,234,121</b>	<b>1,157,535</b>
<b>Shareholders' equity:</b>				
Ordinary shares (par value of US\$0.001 per share; 40,000,000,000 shares authorized as of December 31, 2021 and September 30, 2022; 3,805,284,810 and 3,805,284,801 shares issued, 3,646,381,840 and 3,608,380,825 shares outstanding as of December 31, 2021 and September 30, 2022, respectively)		24,782	24,958	3,509
Treasury shares	17	—	(71,508)	(10,053)
Additional paid-in capital		18,245,801	18,512,795	2,602,488
Accumulated deficit		(7,458,752)	(9,608,058)	(1,350,679)
Accumulated other comprehensive (loss) income	20	(207,882)	589,241	82,834
<b>Total Kingsoft Cloud Holdings Limited shareholders' equity</b>		<b>10,603,949</b>	<b>9,447,428</b>	<b>1,328,099</b>
Non-controlling interests		888,474	863,700	121,417
<b>Total equity</b>		<b>11,492,423</b>	<b>10,311,128</b>	<b>1,449,516</b>
<b>Total liabilities, non-controlling interests and shareholders' equity</b>		<b>21,078,040</b>	<b>18,545,249</b>	<b>2,607,051</b>

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

KINGSOFT CLOUD HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2022

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares and per share data)

	Notes	For the nine months ended September 30,		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Revenues:</b>	4, 18			
Public cloud services (including related party amounts of RMB670,944 and RMB822,001 (US\$115,555) for the nine months ended September 30, 2021 and 2022, respectively)		4,628,609	4,015,989	564,559
Enterprise cloud services (including related party amounts of RMB6,178 and RMB53,530 (US\$7,525) for the nine months ended September 30, 2021 and 2022, respectively)		1,769,042	2,031,058	285,522
Others		3,403	2,047	288
<b>Total revenues</b>		<b>6,401,054</b>	<b>6,049,094</b>	<b>850,369</b>
Cost of revenues (including related party amounts of RMB62 and RMB nil for the nine months ended September 30, 2021 and 2022, respectively)	18	(6,077,657)	(5,781,513)	(812,752)
<b>Gross profit</b>		<b>323,397</b>	<b>267,581</b>	<b>37,617</b>
<b>Operating expenses:</b>				
Selling and marketing expenses		(341,086)	(433,978)	(61,008)
General and administrative expenses		(358,387)	(706,913)	(99,376)
Research and development expenses		(765,609)	(715,728)	(100,615)
<b>Total operating expenses</b>		<b>(1,465,082)</b>	<b>(1,856,619)</b>	<b>(260,999)</b>
<b>Operating loss</b>		<b>(1,141,685)</b>	<b>(1,589,038)</b>	<b>(223,382)</b>
Interest income		51,341	59,055	8,302
Interest expense		(24,832)	(106,118)	(14,918)
Foreign exchange loss		(9,541)	(466,919)	(65,638)
Other gain (loss), net	4	21,139	(70,209)	(9,870)
Other income, net	4	5,794	18,922	2,660
<b>Loss before income taxes</b>		<b>(1,097,784)</b>	<b>(2,154,307)</b>	<b>(302,846)</b>
Income tax expense	13	(11,759)	(12,424)	(1,747)
<b>Net loss</b>		<b>(1,109,543)</b>	<b>(2,166,731)</b>	<b>(304,593)</b>
Less: net income (loss) attributable to non-controlling interests		1,243	(17,425)	(2,450)
<b>Net loss attributable to Kingsoft Cloud Holdings Limited</b>		<b>(1,110,786)</b>	<b>(2,149,306)</b>	<b>(302,143)</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

## KINGSOFT CLOUD HOLDINGS LIMITED

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2022 (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except for number of shares and per share data)

	Notes	For the nine months ended September 30,		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Net loss per share:</b>				
Basic and diluted	16	(0.33)	(0.59)	(0.08)
<b>Shares used in the net loss per share computation:</b>				
Basic and diluted	16	3,377,952,450	3,654,601,335	3,654,601,335
<b>Other comprehensive (loss) income, net of tax of nil:</b>				
Foreign currency translation adjustments		(20,442)	796,767	112,008
<b>Comprehensive loss</b>		<u>(1,129,985)</u>	<u>(1,369,964)</u>	<u>(192,585)</u>
Less: Comprehensive income (loss) attributable to non-controlling interests		1,243	(17,781)	(2,500)
<b>Comprehensive loss attributable to Kingsoft Cloud Holdings Limited shareholders</b>		<u><b>(1,131,228)</b></u>	<u><b>(1,352,183)</b></u>	<u><b>(190,085)</b></u>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

KINGSOFT CLOUD HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2022

(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"), except for number of shares)

	Ordinary shares		Treasury shares	Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Total Kingsoft Cloud Holdings Limited shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number of shares*	Amount 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 ASC 326	—	—	—	—	—	(5,684)	(5,684)	—	(5,684)
Business acquisition	247,475,446	1,598	—	3,615,485	—	—	3,617,083	992,537	4,609,620
Net loss	—	—	—	—	—	(1,110,786)	(1,110,786)	1,243	(1,109,543)
Other comprehensive loss	—	—	—	—	(20,442)	—	(20,442)	—	(20,442)
Share-based compensation	—	—	—	309,211	—	—	309,211	—	309,211
Exercise and vesting of share-based awards	37,942,921	246	—	37,502	—	—	37,748	—	37,748
<b>Balance as of September 30, 2021 (unaudited)</b>	<b>3,625,037,000</b>	<b>24,645</b>	<b>—</b>	<b>18,112,182</b>	<b>(88,882)</b>	<b>(6,980,826)</b>	<b>11,067,119</b>	<b>993,841</b>	<b>12,060,960</b>
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
Net loss	—	—	—	—	—	(2,149,306)	(2,149,306)	(17,425)	(2,166,731)
Other comprehensive income (loss)	—	—	—	—	797,123	—	797,123	(356)	796,767
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	2,143	2,143
Disposal of a subsidiary	—	—	—	—	—	—	—	(9,136)	(9,136)
Share-based compensation	—	—	—	258,565	—	—	258,565	—	258,565
Exercise and vesting of share-based awards	26,626,965	176	—	8,429	—	—	8,605	—	8,605
Repurchase of ordinary shares	(64,627,980)	—	(71,508)	—	—	—	(71,508)	—	(71,508)
<b>Balance as of September 30, 2022 (unaudited)</b>	<b>3,608,380,825</b>	<b>24,958</b>	<b>(71,508)</b>	<b>18,512,795</b>	<b>589,241</b>	<b>(9,608,058)</b>	<b>9,447,428</b>	<b>863,700</b>	<b>10,311,128</b>
<b>Balance as of September 30, 2022, in US\$ (unaudited)</b>	<b>3,608,380,825</b>	<b>3,509</b>	<b>(10,053)</b>	<b>2,602,488</b>	<b>82,834</b>	<b>(1,350,679)</b>	<b>1,328,099</b>	<b>121,417</b>	<b>1,449,516</b>

\* As of September 30, 2021 and 2022, 168,563,401 and 132,275,996 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.*

**KINGSOFT CLOUD HOLDINGS LIMITED****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 2021 AND 2022**

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	For the nine months ended September 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net loss</b>	(1,109,543)	(2,166,731)	(304,593)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	588,039	871,909	122,571
Share-based compensation	309,211	258,565	36,348
Provision for credit losses	46,019	238,529	33,532
Changes in fair value of equity investments	(21,139)	34,024	4,783
Impairment of equity investments	—	14,940	2,100
Changes in fair value of purchase consideration of a business acquisition	—	21,245	2,987
Impairment of contract costs	—	5,710	803
Foreign exchange loss	9,541	466,919	65,638
Deferred income tax	(1,123)	(23,036)	(3,239)
Non-cash operating lease expenses	39,474	52,903	7,437
Gain on disposal of property and equipment	(65)	(3,286)	(462)
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	(1,206,039)	774,920	108,937
Prepayments and other assets	(67,989)	(10,292)	(1,447)
Amounts due from related parties	(29,652)	(167,205)	(23,505)
Accounts payable	853,675	(497,331)	(69,914)
Accrued expenses and other liabilities	(110,943)	14,091	1,981
Operating lease liabilities	(25,779)	(37,823)	(5,317)
Amounts due to related parties	(25,870)	(19,941)	(2,803)
Income tax payable	5,308	(9,582)	(1,348)
<b>Net cash used in operating activities</b>	<b>(746,875)</b>	<b>(181,472)</b>	<b>(25,511)</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

## KINGSOFT CLOUD HOLDINGS LIMITED

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2022 (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	For the nine months ended September 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(550,800)	(1,314,826)	(184,835)
Disposals of property and equipment	1,384	5,224	734
Purchases of intangible assets	(6,980)	(11,693)	(1,644)
Purchases of short-term investments	(2,568,325)	(2,549,508)	(358,404)
Proceeds from maturities of short-term investments	2,698,186	3,122,483	438,952
Proceeds from disposal of equity investments	58,476	—	—
Acquisition of equity investments	—	(63,356)	(8,906)
Acquisition of business, net of cash acquired	169,860	(130,813)	(18,389)
Disposal of a subsidiary	—	(2,577)	(362)
Asset-related government grants received	3,095	11,250	1,581
<b>Net cash used in investing activities</b>	<b>(195,104)</b>	<b>(933,816)</b>	<b>(131,273)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of short-term bank loans	(476,869)	(907,599)	(127,588)
Proceeds from short-term bank loans	997,455	600,477	84,414
Payments of offering cost	—	(25,338)	(3,562)
Capital contribution from non-controlling interests	—	2,143	301
Repurchase of ordinary shares	—	(80,428)	(11,306)
Proceeds from loans due to related parties	587,850	300,000	42,173
Repayment of loans due to related parties	—	(248,698)	(34,961)
Proceeds from exercise of options	19,030	13,953	1,961
<b>Net cash generated from (used in) financing activities</b>	<b>1,127,466</b>	<b>(345,490)</b>	<b>(48,568)</b>
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	(15,394)	210,511	29,592
Net increase (decrease) in cash and cash equivalents, and restricted cash	185,487	(1,460,778)	(205,352)
Cash and cash equivalents, and restricted cash at beginning of period	3,424,674	4,456,621	626,502
Cash and cash equivalents, and restricted cash at end of period	<b>3,594,767</b>	<b>3,206,354</b>	<b>450,742</b>

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*



## KINGSOFT CLOUD HOLDINGS LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 2021 AND 2022 (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))

	Notes	For the nine months ended September 30,		
		2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
<b>Supplemental disclosures of cash flow information:</b>				
Restricted cash		150,593	43,144	6,065
Income taxes paid		7,574	45,045	6,332
Interest expense paid		16,051	101,963	14,334
<b>Non-cash investing and financing activities:</b>				
Purchases of property and equipment included in accrued expenses and other liabilities	11	411,778	181,975	25,582
Non-cash acquisition of business	3	3,617,083	—	—
Purchase consideration included in accrued expenses and other liabilities		1,374,012	1,228,271	172,668
Offering costs included in accrued expenses and other liabilities		—	23,528	3,308
Right-of use assets obtained in exchange of operating lease liabilities		45,003	28,496	4,006
Right-of use assets obtained in exchange of finance lease liabilities		—	124,754	17,538

*The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.*

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)****1. ORGANIZATION AND BASIS OF PRESENTATION**

Kingsoft Cloud Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on January 3, 2012. The Company its 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”), Japan and the United States (the “U.S.”).

The Company’s principal subsidiaries, variable interest entities, and subsidiaries of its variable interest entities, are as follows:

<u>Name</u>	<u>Place of establishment</u>	<u>Date of establishment/ acquisition</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
<b>Subsidiaries:</b>				
Kingsoft Cloud Corporation Limited	HK	February 1, 2012	100 %	Cloud services
Beijing Kingsoft Cloud Technology Co., Ltd. (“Beijing Kingsoft Cloud”)*	PRC	April 9, 2012	100 %	Research and development
Beijing Yunxiang Zhisheng Technology Co., Ltd. (“Yunxiang Zhisheng”)*	PRC	December 15, 2015	100 %	Research and development
Camelot Technology Co., Ltd. (“Beijing Camelot”)	PRC	September 3, 2021	82.15 %	Enterprise digital solutions and related services
<b>Variable interest entities:</b>				
Zhuhai Kingsoft Cloud Technology Co., Ltd. (“Zhuhai Kingsoft Cloud”)	PRC	November 9, 2012	Nil	Investment holding
Kingsoft Cloud (Beijing) Information Technology Co., Ltd. (“Kingsoft Cloud Information”)	PRC	April 13, 2018	Nil	Investment holding
<b>Variable interest entities’ subsidiaries:</b>				
Kingsoft Cloud(Tianjin) Technology Development Co., Ltd.	PRC	May 30, 2019	Nil	Cloud services
Wuhan Kingsoft Cloud Information Technology Co., Ltd.	PRC	December 26, 2017	Nil	Cloud services
Beijing Kingsoft Cloud Network Technology Co., Ltd. (“Beijing Kingsoft Cloud Network Technology”)	PRC	November 9, 2012	Nil	Cloud services
Beijing Jinxun Ruibo Network Technology Co., Ltd. (“Beijing Jinxun Ruibo”)	PRC	December 17, 2015	Nil	Cloud services
Nanjing Qianyi Shixun Information Technology Co., Ltd.	PRC	March 31, 2016	Nil	Cloud services

\* Collectively, the “WFOE”

**KINGSOFT CLOUD HOLDINGS LIMITED**

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)**

**1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

These unaudited interim condensed consolidated financial statements 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 statements for the year ended December 31, 2021.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements 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 nine months ended September 30, 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 statements at that date but does not include all of the disclosures required by U.S. GAAP for annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements 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 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 the WFOE has effective control of the VIEs through a series of contractual arrangements (the “Contractual Agreements”). 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”).

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

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	September 30, 2022	September 30, 2022
	RMB	RMB (unaudited)	US\$ (unaudited)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	2,209,647	497,173	69,891
Restricted cash	89,704	16,170	2,273
Accounts receivable, net of allowance for credit losses of RMB30,082 and RMB61,140 (US\$8,595) as of December 31, 2021 and September 30, 2022, respectively	3,170,860	2,144,817	301,514
Prepayments and other assets	907,350	948,865	133,389
Amounts due from related parties	184,137	345,406	48,556
Amounts due from subsidiaries of the Group	2,157,428	2,091,616	294,036
<b>Total current assets</b>	<b>8,719,126</b>	<b>6,044,047</b>	<b>849,659</b>
<b>Non-current assets:</b>			
Property and equipment, net	2,157,093	2,169,005	304,915
Intangible assets, net	93,662	82,449	11,590
Prepayments and other assets	27,036	22,469	3,159
Goodwill	64,082	48,814	6,862
Equity investments	162,244	157,244	22,105
Amounts due from related parties	4,712	4,712	662
Operating lease right-of-use assets	184,908	143,069	20,112
<b>Total non-current assets</b>	<b>2,693,737</b>	<b>2,627,762</b>	<b>369,405</b>
<b>Total assets</b>	<b>11,412,863</b>	<b>8,671,809</b>	<b>1,219,064</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	2,733,487	2,278,371	320,288
Accrued expenses and other liabilities	1,208,868	594,513	83,575
Short-term bank loans	1,348,166	1,017,045	142,974
Income tax payable	1,026	—	—
Amounts due to related parties	797,731	814,079	114,441
Current operating lease liabilities	70,672	61,386	8,630
Amounts due to subsidiaries of the Group	1,597,946	1,195,853	168,111
<b>Total current liabilities</b>	<b>7,757,896</b>	<b>5,961,247</b>	<b>838,019</b>
<b>Non-current liabilities:</b>			
Other liabilities	6,975	143,686	20,199
Non-current operating lease liabilities	121,057	101,080	14,210
Amounts due to related parties	472,882	488,020	68,605
Amounts due to subsidiaries of the Group	7,486,525	8,255,554	1,160,547
<b>Total non-current liabilities</b>	<b>8,087,439</b>	<b>8,988,340</b>	<b>1,263,561</b>
<b>Total liabilities</b>	<b>15,845,335</b>	<b>14,949,587</b>	<b>2,101,580</b>

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**1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

	For the nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Revenues	5,834,129	3,878,645	545,251
Net loss	(1,250,943)	(2,016,156)	(283,427)
Net cash used in operating activities	(1,083,760)	(293,061)	(41,198)
Net cash used in investing activities	(532,270)	(967,933)	(136,070)
Net cash generated from (used in) financing activities	1,762,747	(279,819)	(39,336)

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 91.14% and 64.12% of the Group’s consolidated revenue for the nine months ended September 30, 2021 and 2022, respectively, after elimination of inter-entity transactions.

As of December 31, 2021 and September 30, 2022, except for RMB702,424 and RMB735,550 (US\$103,402) of VIEs’ subsidiaries’ electronic equipment that was secured for the loans borrowed from Xiaomi Group (Note 18), and RMB89,704 and RMB16,170 (US\$2,273) of a VIE’s subsidiary’s restricted cash that was secured for certain payables to suppliers and to guarantee certain revenue contracts, respectively, 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***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 interim condensed consolidated financial statements include, but are not limited to, allowance for credit losses for accounts receivable, contract assets and amounts due from related parties, measurement of operating and finance 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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Convenience translation*

Amounts in U.S. dollars are presented for the convenience of the reader and are translated at the noon buying rate of RMB7.1135 per US\$1.00 on September 30, 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.

*Equity investments*

Equity investments with readily determinable fair value

Equity investments with readily determinable fair value, except for those accounted for under the equity method and 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 the consolidated statements of comprehensive loss.

In 2022, the Group purchased equity interests of a company listed on the HK Stock Exchange for a cash consideration of RMB63,356 (US\$8,906). RMB33,901 (US\$4,766) of unrealized losses resulting from the change in fair value of the equity investments were recognized in “Other gain (loss), net” on the interim condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2022.

Equity investments without readily determinable fair value

The Group’s equity investments without readily determinable fair value 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. 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. The Group recognized an impairment loss of RMB nil and RMB14,940 (US\$2,100) related to equity investments for the nine-month ended September 30, 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 statements 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Equity investments (Continued)*

Equity investments without readily determinable fair value (Continued)

The total carrying value of equity investments held as December 31, 2021 and September 30, 2022 were as follows:

	As at December 31, 2021	As at September 30, 2022	
	RMB	RMB (unaudited)	US(\$) (unaudited)
<b>Equity investments without readily determinable fair value:</b>			
Initial cost basis	114,256	124,196	17,459
Cumulative unrealized gains	96,793	96,793	13,607
Cumulative unrealized losses (including impairment)	—	(14,940)	(2,100)
Foreign currency translation	(3,883)	880	124
Total carrying value	<u>207,166</u>	<u>206,929</u>	<u>29,090</u>
<b>Equity investments with readily determinable fair value:</b>			
Initial cost basis	—	63,356	8,906
Cumulative unrealized losses	—	(33,901)	(4,766)
Foreign currency translation	—	4,710	662
Total carrying value	<u>—</u>	<u>34,165</u>	<u>4,802</u>
	<u>207,166</u>	<u>241,094</u>	<u>33,892</u>

*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 without readily determinable fair value, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Group, with the assistance of an independent third-party valuation firm, determined the estimated fair value of its equity investments using the alternative measurement. The Group measures equity investments with readily determinable fair value using the market approach based on the quoted prices in an active market. 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. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Fair value measurements (Continued)*

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.

*Assets and liabilities measured at fair value on a recurring basis*

	Total Fair Value RMB	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total losses RMB
<b>As of December 31, 2021</b>					
Purchase consideration payable	(1,328,508)	—	(1,328,508)	—	(9,249)
<b>As of September 30, 2022 (unaudited)</b>					
Purchase consideration payable	(1,228,271)	—	(1,228,271)	—	(21,245)
Equity investments with readily determinable fair value	34,165	34,165	—	—	(33,901)

*Assets and liabilities measured at fair value on a non-recurring basis*

	Total Fair Value RMB	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total gains (losses) RMB
<b>As of December 31, 2021</b>					
Equity investments accounted for using measurement alternative	207,166	—	—	207,166	82,492
<b>As of September 30, 2022 (unaudited)</b>					
Equity investments accounted for using measurement alternative	206,929	—	—	206,929	(14,940)

The non-recurring fair value measurements to the carrying amount of equity investments accounted for using measurement alternative usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Group. These non-recurring fair value measurements were measured as of the observable transaction dates, which expect not to significantly differ from the ones measured as of the end of respective periods.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

*Treasury shares*

Treasury shares represent ordinary shares repurchased by the Company that are no longer outstanding and are held by the Company. Treasury shares are accounted for under the cost method. Under this method, repurchase of ordinary shares was recorded as treasury shares at historical purchase price.

*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.

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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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Leases*

The Group determines if an arrangement is a lease or contains a lease at lease inception. For leases with lease and non-lease components, the Group has elected to apply the practical expedient to not separate the lease component and its associated non-lease component. 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. Variable lease payments that do not depend on an index or a rate are not included in the lease payments and are recognized in earnings in the period in which the event or condition that triggers the payment occurs. The Group has also elected the practical expedient the short-term lease exemption for contracts with lease terms of 12 months or less.

Operating lease expense is recorded on a straight-line basis over the lease term. Finance lease right-of-use assets are depreciated on a straight-line basis over the lesser of the useful life of the leased assets or the lease term. Interests on finance lease liabilities are determined as the amount that results in a constant periodic discount rate on the remaining balance of the liability. Finance lease assets are included in “Property and equipment, net” in the consolidated balance sheets. Current and non-current portions of finance lease liabilities are included in “Accrued expenses and other liabilities” and “Other liabilities”, respectively, in the consolidated balance sheets.

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.

*Concentration of credit risk*

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, the Group had two customers, with accounts receivable balances exceeding 10% of the total accounts receivable balances. As of September 30, 2022, the Group had one customer, with accounts receivable balance exceeding 10% of the total accounts receivable balance. As of December 31, 2021 and September 30, 2022, the Group had one customer, with contract asset balance exceeding 10% of the total contract asset 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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Impact of COVID-19*

For the nine months ended September 30, 2021, COVID-19 has had immaterial impact on the Group’s operations. For the nine months ended September 30, 2022, the Group’s operations were negatively impacted by the resurgence of COVID-19. 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 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 adopted this guidance on January 1, 2022 and does not expect any material impact on the Group’s consolidated financial statements 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 statements since April 2021.

The total cash purchase price consideration was RMB126,400 (US\$17,769). The Group recognized RMB586 (US\$82) of net assets acquired excluding intangible assets, RMB77,000 (US\$10,824) of intangible assets which comprised of technology, trademark and domain name, and RMB48,814 (US\$6,862) 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.

*Acquisition of Camelot*

In September 2021, the Group completed the acquisition of 100% equity interests in Camelot Employee Scheme INC. (“CES”), which legally held 79.53% equity interests in Camelot Technology Co., Ltd. (“Beijing Camelot”) 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 statements of the Group since September 2021.

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## 3. BUSINESS COMBINATION (Continued)

*Acquisition of Camelot (Continued)*

The total purchase consideration was RMB5,290,553 (US\$743,734), which consisted of cash consideration of RMB751,974 (US\$105,711) and equity consideration of RMB4,538,579 (US\$638,023). Goodwill recognized represents the expected synergies from integrating Camelot with the Group’s existing enterprise cloud business and is not tax deductible. During the second quarter of 2022, the Group completed the allocation of the purchase price to the individual assets acquired and liabilities assumed. The table below summarizes the final determination of the estimated fair values of the assets acquired and liabilities assumed from Camelot as of the acquisition date:

	Camelot	
	RMB	US\$
Total fair value of purchase consideration	5,290,553	743,734
Less:		
Cash and cash equivalents	618,439	86,939
Restricted cash	1,126	158
Accounts receivable and other assets	940,511	132,215
Property and equipment, net	13,792	1,939
Intangible assets:		
Customer relationship	620,100	87,172
Trademarks	474,000	66,634
Copyrights	34,100	4,794
Deferred tax assets	54,419	7,650
Deferred tax liabilities	(268,490)	(37,744)
Accounts payable and other liabilities	(871,903)	(122,570)
Non-controlling interests	(882,451)	(124,053)
Goodwill	<u>4,556,910</u>	<u>640,600</u>

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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## 4. REVENUES, OTHER GAIN (LOSS), NET AND OTHER INCOME, NET

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

	For the nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Public cloud services recognized over time	4,628,609	4,015,989	564,559
Enterprise cloud services:			
Recognized at a point in time	1,579,876	440,821	61,970
Recognized over time	189,166	1,590,237	223,552
	1,769,042	2,031,058	285,522
Others:			
Recognized at a point in time	1,134	—	—
Recognized over time	2,269	2,047	288
	3,403	2,047	288
	6,401,054	6,049,094	850,369

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as of September 30, 2022 are primarily related to enterprise cloud services, which are as follows:

	RMB	US\$
	(unaudited)	(unaudited)
Within one year	38,698	5,440
More than one year	41,530	5,838
Total	80,228	11,278

**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 nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Revenue recognized from amounts included in contract liabilities at the beginning of the period	78,808	160,377	22,545

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**4. REVENUES, OTHER GAIN (LOSS), NET AND OTHER INCOME, NET (Continued)**

The following table presents the Group’s other gain (loss), net:

	For the nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Gross unrealized gain on equity investments held	15,488	—	—
Gross unrealized loss (including impairment) on equity investments held	—	(48,841)	(6,866)
Net realized gain (loss) on equity investments sold	5,651	(123)	(17)
Changes in fair value of purchase consideration in a business acquisition	—	(21,245)	(2,987)
	<u>21,139</u>	<u>(70,209)</u>	<u>(9,870)</u>

The following table presents the Group’s other income (expense), net:

	For the nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
Government grants	11,386	27,165	3,819
Income from ADS Reimbursement (Note 11)	7,498	7,646	1,075
Value added tax transferred out	(9,419)	(9,488)	(1,334)
Gain on disposal of property and equipment	65	3,286	462
Others	(3,736)	(9,687)	(1,362)
	<u>5,794</u>	<u>18,922</u>	<u>2,660</u>

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## 5. ACCOUNTS RECEIVABLE, NET

	December 31, 2021 RMB	As at	
		September 30, 2022 RMB (unaudited)	September 30, 2022 US\$ (unaudited)
Accounts receivable	3,603,240	2,660,873	374,060
Allowance for credit losses	(32,265)	(93,904)	(13,201)
Accounts receivable, net	<u>3,570,975</u>	<u>2,566,969</u>	<u>360,859</u>

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

	For the nine months ended September 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
Balance at beginning of the period	15,770	32,265	4,536
Adoption of ASC 326*	5,684	—	—
Provision for expected credit losses	53,741	249,293	35,045
Write-offs charged against the allowance	(52,279)	(160,359)	(22,543)
Recoveries during the period	(7,722)	(27,295)	(3,837)
Balance at end of the period	<u>15,194</u>	<u>93,904</u>	<u>13,201</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 of RMB5,684.

KINGSOFT CLOUD HOLDINGS LIMITED

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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6. PREPAYMENTS AND OTHER ASSETS

	As at		
	December 31, 2021 RMB	September 30, 2022 RMB (unaudited)	September 30, 2022 US\$ (unaudited)
<b>Current portion:</b>			
Prepayments to suppliers	162,528	177,578	24,964
Contract costs*	145,628	214,477	30,151
Contract assets, net**	550,068	541,640	76,143
VAT prepayments	619,391	604,081	84,920
Interest receivable	21,463	20,641	2,902
Deferred offering costs	—	38,872	5,465
Individual income tax receivable*** (Note 11)	48,949	2,135	300
Others	138,994	134,684	18,934
	<u>1,687,021</u>	<u>1,734,108</u>	<u>243,779</u>
<b>Non-current portion:</b>			
Prepayments for electronic equipment	25,388	39,421	5,542
Others	3,678	478	67
	<u>29,066</u>	<u>39,899</u>	<u>5,609</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 periods. The allowance for credit losses on contract assets was RMB1,591 and RMB13,150 (US\$1,849) as of December 31, 2021 and September 30, 2022, respectively. The amounts charged to expenses for credit losses on contract assets were RMB nil and RMB11,559 (US\$1,625), and write-offs charged against the allowance were RMB nil and RMB nil (US\$ nil) for the nine months ended September 30, 2021 and 2022, respectively.

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



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7. PROPERTY AND EQUIPMENT, NET

	As at		
	December 31, 2021	September 30, 2022	September 30, 2022
	RMB	RMB	US\$
		(unaudited)	(unaudited)
Electronic equipment	5,123,149	5,652,799	794,658
Office equipment and fixtures	15,462	15,633	2,198
Data center machinery and equipment	144,328	269,082	37,827
Building	15,768	161,007	22,634
Construction in progress	147,817	3,691	518
	5,446,524	6,102,212	857,835
Less: accumulated depreciation	(3,082,421)	(3,751,541)	(527,383)
Property and equipment, net	2,364,103	2,350,671	330,452

Depreciation expense of the property and equipment for the nine months ended September 30, 2021 and 2022 were RMB558,546 and RMB742,632 (US\$104,398), respectively.

8. INTANGIBLE ASSETS, NET

	As at		
	December 31, 2021	September 30, 2022	September 30, 2022
	RMB	RMB	US\$
		(unaudited)	(unaudited)
Customer relationships	620,100	620,500	87,229
Patents and technologies	67,900	60,900	8,561
Trademarks and domain names	497,098	497,969	70,003
Software and copyrights	71,752	81,411	11,445
Others	3,637	3,707	521
	1,260,487	1,264,487	177,759
Less: accumulated amortization			
Customer relationships	(32,637)	(106,083)	(14,913)
Patents and technologies	(8,138)	(15,225)	(2,140)
Trademarks and domain names	(20,722)	(58,058)	(8,162)
Software and copyrights	(26,692)	(36,625)	(5,149)
Others	(2,531)	(3,097)	(435)
	(90,720)	(219,088)	(30,799)
Intangible assets, net	1,169,767	1,045,399	146,960

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**8. INTANGIBLE ASSETS, NET (Continued)**

Amortization expense of intangible assets for the nine months ended September 30, 2021 and 2022 were RMB29,493 and RMB129,277 (US\$18,173), respectively. As of September 30, 2022, estimated amortization expense of the existing intangible assets for each of the next five years is as follows:

	<u>RMB</u> <u>(unaudited)</u>	<u>US\$</u> <u>(unaudited)</u>
Remaining three months of 2022	43,296	6,086
2023	172,259	24,216
2024	170,654	23,990
2025	166,443	23,398
2026 and thereafter	492,747	69,270
Total	<u>1,045,399</u>	<u>146,960</u>

**9. GOODWILL**

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

	<u>Cloud service and solutions RMB</u>	<u>Cloud- based digital solutions and services RMB</u>	<u>Total RMB</u>
Balance as of December 31, 2021	3,669,031	956,084	4,625,115
Disposal of a subsidiary	(15,268)	—	(15,268)
Purchase price adjustments	(3,259)	(864)	(4,123)
Balance as of September 30, 2022 (unaudited)	<u>3,650,504</u>	<u>955,220</u>	<u>4,605,724</u>
Balance as of September 30, 2022, in US\$ (unaudited)	<u>513,180</u>	<u>134,282</u>	<u>647,462</u>

KINGSOFT CLOUD HOLDINGS LIMITED

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10. LEASES

As of September 30, 2022, the undiscounted future minimum payments under the Group’s operating and financing lease liabilities and reconciliation to the operating and financing lease liabilities recognized on the interim condensed consolidated balance sheet were as below:

	Operating lease		Financing lease	
	RMB (unaudited)	US\$ (unaudited)	RMB (unaudited)	US\$ (unaudited)
Remaining three months of 2022	74,850	10,522	—	—
2023	58,789	8,264	—	—
2024	48,573	6,828	14,699	2,066
2025	29,852	4,197	22,049	3,100
2026 and thereafter	75,599	10,628	139,644	19,631
Total future lease payments	287,663	40,439	176,392	24,797
Less: imputed interest	(43,541)	(6,121)	(48,541)	(6,824)
Total lease liability balance	244,122	34,318	127,851	17,973

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As at		
	December 31, 2021 RMB	September 30, 2022 RMB (unaudited)	September 30, 2022 US\$ (unaudited)
<b>Current portion:</b>			
Customer advances	378,957	412,080	57,929
Salary and welfare payable	600,775	550,168	77,341
Purchase of property and equipment	759,391	181,975	25,582
Accrued expenses	116,021	115,953	16,300
Other tax and surcharges payable	91,287	115,770	16,275
Deferred government grants	8,488	12,257	1,723
Purchase consideration payable*	148,038	1,228,271	172,668
Individual income tax payable** (Note 6)	48,949	2,135	300
Others***	71,934	89,838	12,630
	2,223,840	2,708,447	380,748
<b>Non-current portion:</b>			
Deferred government grants	6,975	15,835	2,226
Purchase consideration payable*	1,180,470	—	—
Finance lease liabilities (Note 10)	—	127,851	17,973
Others***	45,232	75,558	10,622
	1,232,677	219,244	30,821

\* The amount represents the remaining purchase consideration to acquire Camelot. As of September 30, 2022, RMB282,783 (US\$39,753) and RMB945,488 (US\$132,915) will be settled by cash and ordinary shares of the Company by June 30, 2023, respectively.

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

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES (Continued)**

\*\*\* In July 2020, the Company received a reimbursement of US\$7,469 (equivalent to RMB53,531) from the depository for the establishment and maintenance of the ADS program (“ADS Reimbursement”). As of September 30, 2022, RMB10,983 (US\$1,544) was included in the current portion, and RMB17,371 (US\$2,442) was included in the non-current portion of accrued expenses and other liabilities. The ADS Reimbursement will be released to the consolidated statements of comprehensive loss in equal amounts over the ADS program term.

**12. BANK LOANS**

	As at		
	December 31, 2021	September 30, 2022	September 30, 2022
	RMB	RMB	US\$
		(unaudited)	(unaudited)
Short-term bank loans	1,348,166	1,041,045	146,348
	<u>1,348,166</u>	<u>1,041,045</u>	<u>146,348</u>

The weighted average interest rates for the outstanding short-term bank loans as of December 31, 2021 and September 30, 2022 were 4.59% and 4.39%, respectively.

**13. 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 all of its consolidated entities because the Group was in a cumulative loss position as of September 30, 2022.

As of December 31, 2021 and September 30, 2022, the Group had unrecognized tax benefits of RMB59,049 and RMB49,591 (US\$6,971), of which RMB43,095 and RMB22,585 (US\$3,175), respectively, were deducted against the deferred tax assets on tax losses carried forward, and the remaining amounts of RMB15,954 and RMB27,006 (US\$3,796), respectively, were presented in other liabilities in the condensed consolidated balance sheets. The Group’s unrecognized tax benefits for the years ended December 31, 2021 and September 30, 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 September 30, 2022, there are RMB15,954 and RMB27,006 (US\$3,796) 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 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.

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**14. SHARE-BASED PAYMENTS**

During the nine months ended September 30, 2022, the Board of Directors approved the grants of 116,581,517 awards and 8,667,040 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 and 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.

The assumptions used to estimate the fair value of the share options granted are as follows:

	For the nine months ended September 30,	
	2021	2022
	(unaudited)	(unaudited)
Risk-free rate	1.13%-1.62%	1.75%-2.93%
Expected volatility range	36.28%-38.03%	35.62%-46.22%
Exercise multiple	2.20-2.80	2.20-2.80
Fair market value per ordinary share as at valuation dates	US\$1.97-US\$3.49	US\$0.24-US\$0.73

Share based compensation expense for the nine months ended September 30, 2021 and 2022 were RMB309,211 and RMB258,565 (US\$36,348), respectively.

**15. 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 RMB3,466,060 (US\$487,251) as of September 30, 2022.

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## 16. LOSS PER SHARE

Basic and diluted loss per share for the periods presented are calculated as follows:

	For the nine months ended September 30,		
	2021	2022	2022
	RMB	RMB	US\$
	(unaudited)	(unaudited)	(unaudited)
<b>Numerator:</b>			
Net loss attributable to ordinary shareholders—basic and diluted	(1,110,786)	(2,149,306)	(302,143)
<b>Denominator:</b>			
Weighted average number of ordinary shares outstanding—basic and diluted	3,377,952,450	3,654,601,335	3,654,601,335
Basic and diluted loss per share	(0.33)	(0.59)	(0.08)

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.

## 17. TREASURY SHARES

On March 31, 2022, the Company’s shareholders and Board of Directors authorized a share repurchase program (“2022 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. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management. Under the 2022 Share Repurchase Program, the Company has repurchased 64,627,980 ordinary shares for a total consideration of US\$10,179 for the nine months ended September 30, 2022.

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## 18. 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 nine months ended September 30,		
	2021 RMB (unaudited)	2022 RMB (unaudited)	2022 US\$ (unaudited)
Revenues:			
Public cloud services provided to Xiaomi Group	560,955	631,170	88,728
Public cloud services provided to Kingsoft Group	109,989	142,598	20,047
Enterprise cloud services provided to Xiaomi Group	6,178	46,280	6,506
Enterprise cloud services provided to Kingsoft Group	—	7,250	1,019
	<u>677,122</u>	<u>827,298</u>	<u>116,300</u>
Purchase of devices from Xiaomi Group	314	87	12
Interest expense on loan due to Xiaomi Group	5,879	52,505	7,381
Interest expense on loan due to Kingsoft Group	—	17,631	2,479
Rental of building from Xiaomi Group*	40,614	33,499	4,709
Rental of office space, and administrative services from Kingsoft Group	11,123	10,578	1,487
	<u>57,930</u>	<u>114,300</u>	<u>16,068</u>

\* The Group entered into agreements to lease a building and office space from Xiaomi Group. As of December 31, 2021 and September 30, 2022, the related operating lease right-of-use assets amounted to RMB210,551 and RMB160,000 (US\$22,492) and operating lease liabilities amounted to RMB238,180 and RMB 202,291 (US\$28,438), respectively.

Other than the transactions disclosed above, the Group also provides public cloud services to an equity investee. Revenue generated from the investee represented less than 1% of the Group’s total revenues for the nine months ended September 30, 2022.

## KINGSOFT CLOUD HOLDINGS LIMITED

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## 18. RELATED PARTY TRANSACTIONS (Continued)

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

	December 31, 2021	As at	
	RMB	September 30, 2022	September 30, 2022
		RMB	US\$
		(unaudited)	(unaudited)
<b>Amounts due from related parties:</b>			
Trade related:			
Xiaomi Group	175,170	283,752	39,889
Kingsoft Group	26,868	52,336	7,357
Others	—	23,786	3,344
Non-trade related:			
Kingsoft Group	10,863	10,868	1,528
	<u>212,901</u>	<u>370,742</u>	<u>52,118</u>
<b>Amounts due to related parties:</b>			
Trade related:			
Kingsoft Group	15,092	13,985	1,966
Xiaomi Group	55,853	42,441	5,966
Non-trade related:			
Kingsoft Group*	529,284	529,284	74,406
Xiaomi Group**	709,088	754,161	106,018
	<u>1,309,317</u>	<u>1,339,871</u>	<u>188,356</u>

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

\*\* During 2021 and 2022, the Group entered into several loan agreements with a fixed interest rate of 4.36% and 3.98% with Xiaomi Group which are secured by the Group’s electronic equipment. The carrying amount of the electronic equipment pledged was RMB 702,424 and RMB735,550 (US\$103,402) as of December 31, 2021 and September 30, 2022, respectively. As of December 31, 2021 and September 30, 2022, the current portion of the loans were RMB 236,206 and RMB 325,950 (US\$ 45,821), and the non-current portion of the loans were RMB 472,882 and RMB 428,211 (US\$ 60,197), respectively.



**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**18. RELATED PARTY TRANSACTIONS (Continued)**

Under the terms of the agreements, the Group will repay in fixed quarterly installments over 4 years according to the following schedule:

	As at	
	September 30, 2022	
	RMB	US\$
	(unaudited)	(unaudited)
Remaining three months of 2022	11,496	1,616
2023	306,978	43,154
2024	301,908	42,442
2025	74,590	10,486
2026	59,189	8,321
Total	754,161	106,019

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.

**19. COMMITMENTS AND CONTINGENCIES***Capital expenditure commitments*

The Group has commitments for the construction of a data center of RMB34,287 (US\$4,820) at September 30, 2022, which are scheduled to be paid within one year.

*Other commitments*

On May 23, 2022 and June 9, 2022, the Group entered into two non-cancelable one-year internet data center service agreements pursuant to which the Group has total contractual minimum purchase commitments amounting to RMB1,250,000(US\$175,722). As of September 30, 2022, the remaining purchase commitment is RMB643,012 (US\$90,393).

*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.

**KINGSOFT CLOUD HOLDINGS LIMITED****NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED  
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**20. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

	<b>RMB</b>
Balance as of January 1, 2021	(68,440)
Foreign currency translation adjustments, net of tax of nil	(20,442)
Balance as of September 30, 2021 (unaudited)	<u>(88,882)</u>
Balance as of January 1, 2022	(207,882)
Foreign currency translation adjustments, net of tax of nil	797,123
Balance as of September 30, 2022 (unaudited)	589,241
Balance as of September 30, 2022, in US\$ (unaudited)	<u>82,834</u>

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

**21. SUBSEQUENT EVENT**

In October 2022, the Company entered into share purchase agreements with the noncontrolling shareholders of Beijing Camelot to acquire an aggregate of 9.50% of equity interests in Beijing Camelot for a total cash consideration of RMB456,000, which will be settled in five installments by the end of 2024.

In October 2022, the Company’s shareholders and Board of Directors authorized to amend the 2021 Share Award Scheme, and increased the maximum aggregate numbers of ordinary shares that are authorized to be issued under the 2021 Share Award Scheme from 209,216,310 to 236,717,025 ordinary shares.

In November 2022, the Company and three employee incentive platforms entered into certain agreements in relation to the acquisition of 3.19% of the equity interests in Beijing Camelot, pursuant to which (i) the Company shall grant a total of 27,500,715 restricted share units under the 2021 Share Award Scheme to current and former employees of Camelot in recognition of their contribution to Camelot, and (ii) the three employee incentive platforms shall transfer the 3.19% equity interests in Beijing Camelot to the Group for RMB43,981 which shall be settled by cash.

**CAMELOT EMPLOYEE SCHEME INC.**  
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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Camelot Employee Scheme INC.

We have audited the accompanying consolidated financial statements of Camelot Employee Scheme INC. which comprise the consolidated balance sheets as of December 31, 2019 and 2020 and September 3, 2021, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2019 and 2020 and the period from January 1, 2021 through September 3, 2021, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Camelot Employee Scheme INC. at December 31, 2019 and 2020 and September 3, 2021, and the consolidated results of its operations and its cash flows for the years ended December 31, 2019 and 2020 and for the period from January 1, 2021 through September 3, 2021 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young Hua Ming LLP  
Beijing, The People's Republic of China  
December 23, 2022

CAMELOT EMPLOYEE SCHEME INC.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2020,  
AND SEPTEMBER 3, 2021

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

	Notes	As at December 31		As at September 3
		2019	2020	2021
		RMB	RMB	RMB
<b>ASSETS</b>				
<b>Current assets</b>				
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 and 2020 and September 3, 2021, respectively	5	289,241	233,734	260,877
Prepayments and other assets	6	538,848	551,843	652,609
<b>Total current assets</b>		<b>1,302,485</b>	<b>1,464,498</b>	<b>1,533,051</b>
<b>Non-current assets</b>				
Property and equipment, net	7	13,225	13,155	13,792
Intangible assets, net		811	516	—
Prepayments and other assets	6	165	165	165
Deferred tax assets, net	9	36,089	42,902	54,419
Operating lease right-of-use assets	8	—	21,793	26,860
<b>Total non-current assets</b>		<b>50,290</b>	<b>78,531</b>	<b>95,236</b>
<b>Total assets</b>		<b>1,352,775</b>	<b>1,543,029</b>	<b>1,628,287</b>
<b>LIABILITIES, NON-CONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable		139,678	127,312	110,142
Accrued expenses and other liabilities	10	542,258	598,546	651,755
Short-term bank loans	11	48,930	10,000	20,000
Income tax payable		7,495	16,836	13,427
Amounts due to related parties	15	27,952	25,432	16,345
Current operating lease liabilities	8	—	9,911	12,168
<b>Total current liabilities</b>		<b>766,313</b>	<b>788,037</b>	<b>823,837</b>
<b>Non-current liabilities</b>				
Other liabilities	10	35,049	35,663	36,260
Non-current operating lease liabilities	8	—	9,460	11,803
<b>Total non-current liabilities</b>		<b>35,049</b>	<b>45,123</b>	<b>48,063</b>
<b>Total liabilities</b>		<b>801,362</b>	<b>833,160</b>	<b>871,900</b>

**CAMELOT EMPLOYEE SCHEME INC.****CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2019 AND 2020,  
AND SEPTEMBER 3, 2021 (Continued)**

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

	Notes	As at December 31		As at September 3
		2019	2020	2021
		RMB	RMB	RMB
<b>Shareholders' equity</b>				
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 and 2020 and September 3, 2021, respectively)	13	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)	14	430	(7)	733
<b>Total Camelot Employee Scheme INC. shareholders' equity</b>		<b>262,580</b>	<b>594,601</b>	<b>633,629</b>
Non-controlling interests		288,833	115,268	122,758
<b>Total equity</b>		<b>551,413</b>	<b>709,869</b>	<b>756,387</b>
<b>Total liabilities, non-controlling interests and shareholders' equity</b>		<b>1,352,775</b>	<b>1,543,029</b>	<b>1,628,287</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

## CAMELOT EMPLOYEE SCHEME INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH SEPTEMBER 3, 2021

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

	Notes	For the year ended December 31		For the period from
		2019	2020	January 1, 2021
		RMB	RMB	through September 3 2021
Revenue	4	1,647,644	1,676,022	1,288,720
Cost of revenue		(1,277,463)	(1,261,748)	(1,016,439)
<b>Gross profit</b>		<b>370,181</b>	<b>414,274</b>	<b>272,281</b>
<b>Operating expenses</b>				
Selling and marketing expenses		(43,835)	(66,275)	(37,646)
General and administrative expenses		(131,462)	(143,968)	(133,535)
Research and development expenses		(82,860)	(87,535)	(40,148)
<b>Total operating expenses</b>		<b>(258,157)</b>	<b>(297,778)</b>	<b>(211,329)</b>
<b>Operating income</b>		<b>112,024</b>	<b>116,496</b>	<b>60,952</b>
Interest income		1,434	2,034	2,105
Interest expense		(3,669)	(2,584)	(476)
Foreign exchange gain (loss)		7,530	(5,275)	(18,787)
Other income, net		10,117	12,741	6,018
<b>Profit before income taxes</b>		<b>127,436</b>	<b>123,412</b>	<b>49,812</b>
Income tax expense	9	(17,652)	(14,228)	(4,528)
<b>Net income</b>		<b>109,784</b>	<b>109,184</b>	<b>45,284</b>
Less: net income attributable to non-controlling interests		61,803	56,244	8,082
<b>Net income attributable to Camelot Employee Scheme INC.</b>		<b>47,981</b>	<b>52,940</b>	<b>37,202</b>
<b>Other comprehensive income (loss), net of tax of nil:</b>				
Foreign currency translation adjustments		1,037	(419)	557
<b>Comprehensive income</b>		<b>110,821</b>	<b>108,765</b>	<b>45,841</b>
Less: Comprehensive income attributable to non-controlling interests		61,850	56,262	7,899
<b>Comprehensive income attributable to Camelot Employee Scheme INC.</b>		<b>48,971</b>	<b>52,503</b>	<b>37,942</b>

The accompanying notes are an integral part of the consolidated financial statements.

CAMELOT EMPLOYEE SCHEME INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH  
SEPTEMBER 3, 2021

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

	Notes	Camelot Employee Scheme INC.'s shareholders							Non-controlling interests	Total equity
		Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total	RMB		
		Number of shares	Amount 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	13	(109,484,940)	(1)	(150,856)	—	—	(150,857)	150,857	—	
Other comprehensive income		—	—	—	990	—	990	47	1,037	
Share-based compensation	12	—	—	12,699	—	—	12,699	—	12,699	
<b>Balance at December 31, 2019</b>		<b>140,876,940</b>	<b>1</b>	<b>116,065</b>	<b>430</b>	<b>146,084</b>	<b>262,580</b>	<b>288,833</b>	<b>551,413</b>	



CAMELOT EMPLOYEE SCHEME INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH  
SEPTEMBER 3, 2021 (Continued)

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

	Notes	Camelot Employee Scheme INC.'s shareholders							Total equity RMB
		Ordinary shares		Additional paid-in capital RMB	Accumulated other comprehensive income (loss) RMB	Retained earnings RMB	Total RMB	Non- controlling interests RMB	
		Number of shares	Amount 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	13	109,484,940	1	229,826	—	—	229,827	(229,827)	—
Other comprehensive income (loss)		—	—	—	(437)	—	(437)	18	(419)
Share-based compensation	12	—	—	49,691	—	—	49,691	—	49,691
<b>Balance at December 31, 2020</b>		<b>250,361,880</b>	<b>2</b>	<b>395,582</b>	<b>(7)</b>	<b>199,024</b>	<b>594,601</b>	<b>115,268</b>	<b>709,869</b>

CAMELOT EMPLOYEE SCHEME INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH  
SEPTEMBER 3, 2021 (Continued)

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

	Camelot Employee Scheme INC.'s shareholders								
	Note	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non- controlling interests	Total equity
		Number of shares	Amount RMB						
Balance at January 1, 2021		250,361,880	2	395,582	(7)	199,024	594,601	115,268	709,869
Adoption of ASC 326		—	—	—	—	(1,885)	(1,885)	(409)	(2,294)
Net profit for the period		—	—	—	—	37,202	37,202	8,082	45,284
Other comprehensive income (loss)		—	—	—	740	—	740	(183)	557
Share-based compensation	12	—	—	2,971	—	—	2,971	—	2,971
<b>Balance at September 3, 2021</b>		<b>250,361,880</b>	<b>2</b>	<b>398,553</b>	<b>733</b>	<b>234,341</b>	<b>633,629</b>	<b>122,758</b>	<b>756,387</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

## CAMELOT EMPLOYEE SCHEME INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH SEPTEMBER 3, 2021**  
(All amounts in thousands, except for number of shares and per share data)

	Notes	For the year ended December 31		For the period from
		2019	2020	January 1, 2021 through
		RMB	RMB	September 3
				2021
				RMB
<b>Cash flows from operating activities</b>				
<b>Net income:</b>		<b>109,784</b>	<b>109,184</b>	<b>45,284</b>
<b>Adjustments to reconcile net income to net cash generated from (used in) operating activities:</b>				
Depreciation and amortization		2,171	2,799	2,398
Share-based compensation	12	12,699	49,691	2,971
Provision (reversal of provision) for credit losses		(1,609)	1,724	10,373
Impairment of contract costs	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	9	(6,266)	(6,813)	(11,517)
Non-cash operating lease expense	8	—	7,997	9,918
<b>Changes in operating assets and liabilities:</b>				
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)
<b>Net cash generated from (used in) operating activities</b>		<b>110,329</b>	<b>245,993</b>	<b>(47,481)</b>

CAMELOT EMPLOYEE SCHEME INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2020 AND THE PERIOD FROM JANUARY 1, 2021 THROUGH SEPTEMBER 3, 2021

(Continued)

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

	For the year ended December 31		For the period from
	2019	2020	January 1, 2021 through
	RMB	RMB	September 3
			2021
			RMB
<b>Cash flows from investing activities</b>			
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)
<b>Net cash used in investing activities</b>	<b>(5,837)</b>	<b>(2,850)</b>	<b>(3,199)</b>
<b>Cash flows from financing activities</b>			
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	—
<b>Net cash (used in) generated from financing activities</b>	<b>(25,045)</b>	<b>(31,032)</b>	<b>10,000</b>
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	<b>474,396</b>	<b>678,921</b>	<b>619,565</b>
<b>Supplemental disclosures of cash flow information:</b>			
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
<b>Non-cash investing and financing activities:</b>			
Right-of-use assets obtained in exchange for operating lease liabilities	—	19,371	23,971

*The accompanying notes are an integral part of the consolidated financial statements.*

**CAMELOT EMPLOYEE SCHEME INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(All amounts in thousands, except for number of shares and per share data)**1. Organization**

Camelot Employee Scheme INC. (the “Company”) is a limited liability company incorporated in the British Virgin Islands (“BVI”) on March 15, 2007. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in enterprise digital solutions and services in the People’s Republic of China (the “PRC”) and Japan.

As of September 3, 2021, the Company’s principal subsidiaries are as follows:

<u>Name</u>	<u>Place of establishment</u>	<u>Date of establishment/ acquisition</u>	<u>Percentage of equity interest attributable to CES</u> <u>%</u>	<u>Principal activities</u>
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

**CAMELOT EMPLOYEE SCHEME INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (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 accompanying consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

(b) Principles of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. 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 and contract assets, measurement of operating lease right-of-use assets and lease liabilities, impairment of contract costs, useful lives of long-lived assets, realization of deferred tax assets, uncertain tax positions, share-based compensation expense 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 is U.S. dollars (“US\$”). The functional currency of the Company’s subsidiaries located in the PRC is Renminbi (“RMB”). The functional currency of the Company’s subsidiary located in Japan is Japanese Yen (“Yen”).

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 income. 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’ equity.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and time deposits which have original maturities of less than three months.

(f) Restricted cash

Restricted cash mainly represents the cash advances paid by certain customers to guarantee the Group’s performance under certain revenue contracts.

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**2. Summary of significant accounting policies (continued)**

(g) 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 income on the consolidated statements of comprehensive income includes the net income 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.

(h) Fair value measurements

Financial instruments of the Group primarily include cash and cash equivalents, restricted cash, accounts receivable, contract assets, accounts payable, certain other liabilities, amounts due to related parties and bank loans. The Group applies Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("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 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.

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.

The Group did not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis as of December 31, 2019 and 2020 and September 3, 2021.

(i) Adoption of ASC 326

The Group adopted ASC 326, *Financial Instruments – Credit Loss* ("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 by RMB2,294. The comparative periods were not restated.

**CAMELOT EMPLOYEE SCHEME INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**2. Summary of significant accounting policies (continued)**

## (j) 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 income. 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.

## (k) 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. Estimated useful lives for the property and equipment are as follows:

Category	Estimated Useful Life
Electronic equipment	3-4 years
Office equipment and fixtures	5 years
Buildings	50 years
Motor vehicles	5 years

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 income.

## (l) 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. For all periods presented, there was no impairment of any of the Group's long-lived assets.



CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**2. Summary of significant accounting policies (continued)**

(m) Revenue recognition

Effective January 1, 2019, the Group elected to adopt ASC 606, *Revenue from Contracts with Customers* (“ASC 606”) using the full retrospective method. The Group applies the five-step model outlined in 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.

*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.

*Enterprise digital solutions*

The Group provides enterprise digital solutions services, which are typically completed within twelve months (“Solutions”). For certain enterprise digital solutions contracts, the Group also provides post-delivery maintenance services that are mainly technical support services. Therefore, such arrangement has two performance obligations, the Solutions and maintenance. Revenue allocated to the Solutions 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 during the periods presented was immaterial.

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**2. Summary of significant accounting policies (continued)**

(n) Cost of revenues

Cost of revenues primarily includes salaries and benefits for employees directly involved in revenue generation activities, third party service provider costs, and other expenses directly attributable to the provision of services.

(o) 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.

(p) 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" on the consolidated statements of comprehensive income when received.

(q) Leases

The Group adopted ASC 842, *Leases* ("ASC 842) on January 1, 2020 by using the modified retrospective method and did not restate the comparable periods. The Group 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. The Group 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, the Group 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. The impact of adopting ASC 842 on the Group's opening retained earnings and current year net income is not material.

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.

(r) Comprehensive income

Comprehensive income 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 income 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 income includes net income and foreign currency translation adjustments and is presented in the consolidated statements of comprehensive income.

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**2. Summary of significant accounting policies (continued)**

(s) 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 income 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 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.

(t) 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.

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.

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.

**CAMELOT EMPLOYEE SCHEME INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**2. Summary of significant accounting policies (continued)**

(u) 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 RMB151,915, RMB108,836 and RMB88,742 for the years ended December 31, 2019 and 2020 and for the period from January 1, 2021 through September 3, 2021, respectively.

(v) Impact of COVID-19

For the years ended December 31, 2019 and 2020 and the period from January 1, 2021 through September 3, 2021, COVID-19 has not had a significant 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, 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.

**3. Concentration of risks**

(a) 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.

(b) 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, accounts receivable and contract assets. The Group 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 the Company and its subsidiaries 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 and 2020 and September 3, 2021, the Group had one customer with a receivable balance exceeding 10% of the total accounts receivable balance. As of December 31, 2019, the Group 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 the Group performs on its customers and its ongoing monitoring process of outstanding balances.

**CAMELOT EMPLOYEE SCHEME INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**3. Concentration of risks (continued)**

(c) 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.

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 from January 1, 2021 through September 3, 2021, one customer accounted for 18% and 24% of total revenues, respectively.

(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 US\$, 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 from January 1, 2021 through September 3, 2021, respectively. For RMB against 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 from January 1, 2021 through 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 US\$ and the Yen in the future.

To the extent that the Group needs to convert US\$ or Yen into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against US\$ or Yen 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 US\$ or Yen for the purpose of making payments for dividends on ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of US\$ or Yen against RMB would have a negative effect on the US\$ or Yen amount available to the Group. In addition, a significant depreciation of the RMB against the US\$ or Yen may significantly reduce the US\$ or Yen equivalent of the Group's earnings or losses.

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**4. Revenue**

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

	For the year ended		The period from
	December 31		January 1, 2021
	2019	2020	through
	RMB	RMB	September 3
			2021
			RMB
Revenues:			
Enterprise digital solutions and services			
Recognized over time	1,431,324	1,487,161	1,207,664
Recognized at a point in time	216,239	188,817	81,056
Others recognized over time	81	44	—
	<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
	RMB	RMB	RMB
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>

**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		The period from
	December 31		January 1, 2021
	2019	2020	through
	RMB	RMB	September 3
			2021
			RMB
Revenue recognized from amounts included in contract liabilities at the beginning of the year/period	<u>86,291</u>	<u>81,399</u>	<u>45,664</u>

**CAMELOT EMPLOYEE SCHEME INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**5. Accounts receivable, net**

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

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

	<u>As at December 31</u>		<u>As at September 3</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Balance at beginning of the year/period	33,446	29,815	25,798
Adoption of ASC 326*	—	—	630
Provision for expected credit losses	2,613	3,483	10,314
Recoveries during the year/period	(6,244)	(3,250)	(1,561)
Write-offs charged against the allowance	—	(4,250)	—
Balance at end of the year/period	<u>29,815</u>	<u>25,798</u>	<u>35,181</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 decreasing the opening balance of retained earnings of RMB630.

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**6. Prepayments and other assets**

Prepayments and other assets consisted of the following:

	As at December 31		As at September 3
	2019 RMB	2020 RMB	2021 RMB
<b>Current portion:</b>			
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
Value-added tax prepayments	15,396	8,245	7,832
Others	15,095	7,383	13,828
	<u>538,848</u>	<u>551,843</u>	<u>652,609</u>
<b>Non-current portion:</b>			
Prepayments	165	165	165
	<u>165</u>	<u>165</u>	<u>165</u>

\* Represents the Group'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 from January 1, 2021 through September 3, 2021. The Group used a modified retrospective approach with a cumulative effect of decreasing the opening balance of retained earnings of RMB1,664.

\*\* 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 from January 1, 2021 through September 3, 2021, respectively.

**7. Property and equipment, net**

Property and equipment and related accumulated depreciation were as follows:

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

The Group recorded depreciation expenses of RMB2,085, RMB2,505 and RMB2,201 for the years ended December 31, 2019 and 2020 and the period from January 1, 2021 through September 3, 2021, respectively.



**CAMELOT EMPLOYEE SCHEME INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**8. Leases**

The Group has various lease contracts for office spaces 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. The Group 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 the Group's operating leases, respectively.

For the year ended December 31, 2020, and for the period from January 1, 2021 through 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 from January 1, 2021 through September 3, 2021, were RMB12,863 and RMB5,263, respectively. Rental expense for the year ended December 31, 2019 was RMB24,908.

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 follows:

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

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Taxation

*Enterprise income tax*

BVI

Under the current laws of the BVI, the Company 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 the Company 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, the Group did not make any provisions for Hong Kong profits tax as the Group did not generate any assessable profits arising in Hong Kong during the periods presented. 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 the Company's subsidiary incorporated in Japan is 31%.

China

The Company's PRC entities are subject to the statutory income tax at a 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 Company being qualified as High New Technology Enterprise ("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 the Company'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.

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Taxation (continued)

Profit before income taxes consists of:

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

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

	For the year ended December 31		The period from January 1, 2021 through September 3
	2019	2020	2021
	RMB	RMB	RMB
Current income tax expense	23,918	21,041	16,045
Deferred income tax benefit	(6,266)	(6,813)	(11,517)
Income tax expense	17,652	14,228	4,528

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

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## 9. Taxation (continued)

*Deferred tax*

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

	As at December 31		As at September 3
	2019 RMB	2020 RMB	2021 RMB
<b>Deferred tax assets:</b>			
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>
<b>Deferred tax liabilities:</b>			
Operating lease right-of-use assets	—	(3,621)	(4,726)
<b>Deferred tax assets, net</b>	<u>36,089</u>	<u>42,902</u>	<u>54,419</u>

The Group 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, the Group'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, the Group 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, 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, 2019 and 2020 and September 3, 2021, the Group had net tax losses of 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.

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**9. Taxation (continued)*****Deferred tax (continued)***

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

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

For the periods presented, the Group 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 the Group's PRC entities remain open for statutory examination by PRC tax authorities.

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**10. Accrued expenses and other liabilities**

	As at December 31		As at September 3
	2019	2020	2021
	RMB	RMB	RMB
<b>Current portion:</b>			
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>542,258</u>	<u>598,546</u>	<u>651,755</u>
<b>Non-current portion:</b>			
Uncertain tax position	30,183	27,941	26,647
Others	4,866	7,722	9,613
	<u>35,049</u>	<u>35,663</u>	<u>36,260</u>

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

**11. Short-term bank loans**

In July, September and October 2019, the Group 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%. The Group fully repaid the loans on April 13, 2020, July 13, 2020 and August 18, 2020, respectively.

In August and September 2020, the Group 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%. The Group fully repaid the loans on January 12, 2021, for an aggregated amount of RMB10,000.

In March 2021, the Group 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%. The Group fully repaid the loan on September 13, 2021.

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

CAMELOT EMPLOYEE SCHEME INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Share-based payments

2019 Share Incentive Plan

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

2020 Share Incentive Plan

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

A summary of the option activity is stated below:

	Number of options	Weighted- average exercise price RMB	Weighted- average grant date fair value RMB	Weighted- average remaining contractual term Years	Aggregate Intrinsic Value RMB
Outstanding, January 1, 2019	—	—	—	—	—
Granted	2,176,889	0.99	5.83		
Outstanding, December 31, 2019	<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
Outstanding, December 31, 2019	2,176,889	0.99	5.83	—	5.81
Granted	10,477,745	0.99	5.85		
Cancelled	(4,658,134)	0.99	5.83		
Outstanding, December 31, 2020	<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	(50,625)	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>				

## CAMELOT EMPLOYEE SCHEME INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**12. Share-based payments (continued)**

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 from January 1, 2021 through 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.

***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, the Group primarily considered when the grantees are expected to exercise the options and the expected post-vesting termination behaviour 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		The period from
	December 31		January 1, 2021 through September 3
	2019	2020	2021
	RMB	RMB	RMB
Cost of revenue	—	4,419	816
Selling and marketing expenses	118	16,932	7
General and administrative expenses	12,581	28,340	2,148
	<u>12,699</u>	<u>49,691</u>	<u>2,971</u>



**CAMELOT EMPLOYEE SCHEME INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**13. 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, the Company cancelled 109,484,940 ordinary shares issued to certain shareholders of the Company, in exchange of the equity interests in Camelot Innovative Technologies Inc ("CIT"), a subsidiary of the Company.

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

**14. Accumulated other comprehensive income (loss)**

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

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

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

**CAMELOT EMPLOYEE SCHEME INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**15. Related party transactions**

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

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Yiming Ma	Principal shareholder of the Company
Heidi Chou	Principal shareholder of the Company

(b) There were no related party transactions during each of the periods presented.

(c) Outstanding balances with related parties:

As at December 31, 2019 and 2020 and September 3, 2021, the Group 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.

**16. Commitments and contingencies**

(a) Capital expenditure commitments

The Group had no significant capital commitments at the end of each of the periods presented.

(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, balance sheets or results of operations.

**17. Subsequent events**

On September 3, 2021, the acquisition of the Group by Kingsoft Cloud Holding Limited was completed.