The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants' Report in Appendix I to this prospectus and in particular, "Our Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2017, 2018 and 2019 are to the fiscal years ended December 31, 2017, 2018 and 2019, respectively.

Overview

We are the largest carrier-neutral data center service provider in China with a 21.9% revenue market share of the carrier-neutral market in 2019, according to iResearch. We focus on developing and operating high-performance data centers. Our facilities are strategically located in China's primary economic hubs where demand for high-performance data center services is concentrated. Our data centers are designed and configured as high-performance data centers with large net floor area and power capacity, high power density and efficiency, and multiple redundancy across all critical systems. We are carrier and cloud-neutral, which enables our customers to access all the major PRC telecommunications networks, as well as the largest PRC and global public clouds which we host in many of our facilities. We offer colocation and managed services, including an innovative and unique managed cloud value proposition. We have a 19-year track record of service delivery, successfully fulfilling the requirements of some of the largest and most demanding customers for outsourced data center services in China. As of June 30, 2020, we had an aggregate net floor area of 266,260 sqm in service, 94.1% of which was committed by customers, and an aggregate net floor area of 133,208 sqm under construction, 62.3% of which was pre-committed by customers, in each case excluding joint venture data centers.

Our results of operations are largely determined by the degree to which our data center capacity is committed or pre-committed as well as its utilization. We had commitment rates for our area in service (excluding joint venture data centers) of 91.8%, 94.9%, 91.9% and 94.1% as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. We had utilization rates for our area in service (excluding joint venture data centers) of 60.9%, 67.6%, 69.0% and 72.5% as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The difference between commitment rate and utilization rate is primarily attributable to customers who have not yet fully utilized all of the revenue-generating services for which they have committed.

We have experienced significant growth in recent years. Our net revenue grew from RMB1,616.2 million in 2017 to RMB2,792.1 million in 2018, representing an increase of 72.8%, and increased to RMB4,122.4 million (US$583.5 million) in 2019, representing an increase of 47.6%, and grew from RMB1,877.0 million in the six months ended June 30, 2019 to RMB2,582.6 million (US$365.5 million) in the same period in 2020, representing an increase of 37.6%.

Key Factors Affecting Our Results of Operations

Our business and results of operations are generally affected by the development of China's data center services market. We have benefited from rapid growth in this market during recent years and any adverse changes in the data center services market in China may harm our business and results of operations. In addition, we believe that our results of operations are directly affected by the following key factors.

Ability to Source and Develop Data Centers

Our revenue growth depends on our ability to source and develop additional data centers. We endeavor to ensure continuous availability of data center capacity to satisfy customer demand by maintaining a supply of high-performance data centers in various stages of development – from developing a pipeline of sites, to identifying appropriate sites, to data centers under construction to available net floor areas in existing data centers. We expand our sourcing of new data center area by (i) acquiring or leasing property which we develop for use as data center facilities, whether through constructing on greenfield land, redeveloping brownfield sites, converting existing industrial buildings, or fitting out and equipping purpose-built building shells, (ii) leasing existing data center capacity from third-party wholesale providers, and (iii) acquiring high-performance data centers from other companies. Our ability to maintain a growing supply of data center assets directly affects our revenue growth potential.

If we are unable to obtain suitable land or buildings for new data centers or to do so at an acceptable cost to us or experience delays or increased costs during the data center design and construction development process which includes securing the power and relevant energy quota, our ability to grow our revenue and improve our results of operations would be negatively affected. Additionally, if demand slows unexpectedly or we source and develop data centers too rapidly, the resulting overcapacity would adversely affect our results of operations.

Ability to Secure Commitments from Our Customers

We usually commence marketing new data center facilities before we commence construction by seeking strong indications of interest from customers. We aim to convert such indications of interest into legally-binding pre-commitment agreements for a substantial part of the capacity under development as early as possible in the construction cycle. Through securing such pre-commitments, we are able to reduce investment risk and optimize resource planning. We had pre-commitment rates of 39.0%, 48.4%, 63.6%, 66.1% and 62.3% as of December 31, 2017, 2018 and 2019 and as of June 30, 2019 and 2020, respectively. Once construction is complete, and the data center enters service, we re-categorize area pre-committed as area committed. We aim to maintain high levels of long-term commitment rates.

We had commitment rates for our area in service of 91.8%, 94.9%, 91.9% and 94.1% as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Our total area committed, as a leading indicator to our results of operations, increased from 102,528 sqm as of December 31, 2017 to 183,743 sqm as of December 31, 2018, to 264,878 sqm as of December 31, 2019, and further to 333,461 sqm as of June 30, 2020.

Pricing Structure and Power Costs

Our results of operations will be affected by our ability to operate our data centers efficiently in terms of power consumption. Our data centers require significant levels of power supply to support their operations. Depending on the agreement, we agree with our customer to either charge them for actual power consumed or we factor it into a fixed price. Accordingly, the customer's actual power usage during the life of the agreement will affect its profitability to us. Optimal configuration of customers and power usage within each data center will affect our results of operations.

Utilization of Existing Capacity

Our ability to maximize profitability depends on attaining high utilization of data center facilities. A substantial majority of our cost of revenue and operating expenses are fixed in nature. Such costs increase with each new data center and entail additional power commitment costs, depreciation from new property plant and equipment, rental costs on leased facilities and land use rights, personnel costs and start-up costs. By adopting a modular development approach, we aim to optimize resource utilization and maximize capital efficiency to improve profitability.

Cost Structure Depending on Data Center Tenure and Location

We hold our data centers through a mix of those that we own or lease. The leases typically range from three years for third-party data centers to twenty years for self-developed data centers, all with different renewal periods. The tenure of the leases and the periods during which the amount are fixed or capped under the leases will affect our cost structure in the future. In addition, if many of our data centers continue to be located close to central business districts, where rental costs are generally higher, our cost structure will also be affected.

Ability to Manage Our Development Costs

Our ability to maximize our returns depends on our ability to develop data centers on an economically feasible basis. We regularly monitor and review our equipment and construction costs related to our data center development capital expenditures to ensure we can optimize our cash outlay for capital expenditure. Our ability to manage an efficient supply chain will improve our cost of development and construction time. As part of our initiatives to improve the cost efficiency of our capital expenditure, we also participate in bulk purchasing programs for certain equipment with our strategic shareholders and major customers to leverage larger volume purchases to obtain a cost advantage.

Data Center Development and Financing Costs

Our returns depend on our ability to develop data centers at commercially acceptable terms. We have historically funded data center development through additional equity or debt financing. We expect to continue to fund future developments through debt financing or through the issuance of additional equity securities if necessary and when market conditions permit. Such additional financing may not be available, may not be on commercially acceptable terms or may result in an increase to our financing costs. In addition, we may encounter development delays, excess development costs, or challenges in attracting or retaining customers to use our data center services. We also may not be able to secure suitable land or buildings for new data centers or at a cost or terms acceptable to us.

Ability to Identify and Acquire Other Business

We have grown our business through acquisitions in the past and intend to continue selectively pursuing strategic partnerships and acquisitions to expand our business. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to identify, acquire and successfully integrate other businesses and, if necessary, to obtain satisfactory debt or equity financing to fund those acquisitions.

Key Performance Indicators

Our results of operations are largely determined by the amount of data center area in service, the degree to which data center capacity is committed or pre-committed as well as its utilization. Accordingly, our management uses the following key performance indicators as measures to evaluate our performance:

Area in service: the entire net floor area of data centers (or phases of data centers) which are ready for service.

Area under construction: the entire net floor area of data centers (or phases of data centers) which are actively under construction and have not yet reached the stage of being ready for service.

Area committed: that part of our area in service which is committed to customers pursuant to customer agreements remaining in effect.

Area pre-committed: that part of our area under construction which is pre-committed to customers pursuant to customer agreements remaining in effect.

Total area committed: the sum of area committed and area pre-committed.

Commitment rate: the ratio of area committed to area in service.

Pre-commitment rate: the ratio of area pre-committed to area under construction.

Area utilized: that part of our area in service that is committed to customers and revenue generating pursuant to the terms of customer agreements remaining in effect.

Utilization rate: the ratio of area utilized to area in service.

The following table sets forth our key performance indicators for our data center portfolio (excluding joint venture data centers) as of December 31, 2017, 2018 and 2019 and as of June 30, 2019 and 2020.

	As of December 31,			As of June 30,	
(Sqm, %)	**2017**	**2018**	**2019**	**2019**	**2020**
Area in service	101,258	160,356	225,963	180,441	266,260(2)
Area under construction	24,505	65,201	89,834	78,373	133,208(2)
Area committed	92,961(1)	152,163(1)	207,716(1)	169,010(1)	250,467(1)(2)
Area pre-committed	9,567(1)	31,580(1)	57,162(1)	51,808(1)	82,994(1)(2)
Total area committed	102,528(1)	183,743(1)	264,878(1)	220,818(1)	333,461(1)(2)
Commitment rate	91.8%	94.9%	91.9%	93.7%	94.1%
Pre-commitment rate	39.0%	48.4%	63.6%	66.1%	62.3%
Area utilized	61,713	108,326	156,022	127,107	193,162
Utilization rate	60.9%	67.6%	69.0%	70.4%	72.5%

Notes:

(1) Includes data center area for which we have entered into non-binding agreements or letters of intent with, or have received other confirmations from, certain customers.

(2) Excludes approximately 11,665 sqm relating to three joint venture data centers in service, 100% of which were committed and approximately 11,665 sqm relating to three joint venture data centers which were under construction and 100% pre-committed, as of June 30, 2020.

Backlog is defined as area committed or pre-committed by customers but yet to be utilized (total area committed minus area utilized at the end of each period). The following table sets forth the movement of our backlog for our data center portfolio during the Track Record Period.

	Year ended December 31,			Six months ended June 30,
(Sqm)	**2017**	**2018**	**2019**	**2020**
Backlog beginning amount	23,961	40,815	75,417	108,856
Net additional total area committed	41,485	81,215	81,135	68,583
Less: Net additional area utilized	24,631	46,613	47,696	37,140
Backlog ending amount	40,815	75,417	108,856	140,299

Components of Results of Operations

The following describes key components of our statements of operations, for the periods indicated:

	Year ended December 31,							Six months ended June 30,				
	2017		2018		2019			2019		2020		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Net revenue												
Service revenue ...	1,591,860	98.5	2,759,490	98.8	4,094,571	579,549	99.3	1,876,040	99.9	2,567,064	363,344	99.4
IT equipment sales...............	24,306	1.5	32,587	1.2	27,834	3,940	0.7	990	0.1	15,559	2,202	0.6
Total	1,616,166	100.0	2,792,077	100.0	4,122,405	583,489	100.0	1,877,030	100.0	2,582,623	365,546	100.0
Cost of revenue ...	(1,207,694)	(74.7)	(2,169,636)	(77.7)	(3,079,679)	(435,900)	(74.7)	(1,403,252)	(74.8)	(1,871,183)	(264,849)	(72.5)
Gross profit..........	408,472	25.3	622,441	22.3	1,042,726	147,589	25.3	473,778	25.2	711,440	100,697	27.5

Net Revenue

We derive net revenue primarily from colocation services and, to a lesser extent, managed services, including managed hosting and managed cloud services. In addition, from time to time, we also sell IT equipment on a stand-alone basis or bundled in a managed service agreement to customers and provide consulting services. Substantially all of our service revenue is recognized on a recurring basis. The following table sets forth a breakdown of our net revenue by service for the periods indicated:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
	(in thousands of RMB)				
Colocation services.............	1,219,086	2,104,259	3,261,745	1,532,192	2,069,387
Managed service and others..............................	372,774	655,231	832,826	343,848	497,677
Service revenue	1,591,860	2,759,490	4,094,571	1,876,040	2,567,064
IT equipment sales	24,306	32,587	27,834	990	15,559
Total	1,616,166	2,792,077	4,122,405	1,877,030	2,582,623

Our colocation services primarily comprise the provision of space, power and cooling to our customers for housing servers and related IT equipment. Our customers have several choices for hosting their networking, server and storage equipment. They can place the equipment in a shared or private space that can be customized to their requirements. We offer power options customized to a customer's individual power requirement.

Our managed services include managed hosting and managed cloud services. Our managed hosting services comprise a broad range of value-added services, covering each layer of the data center IT value chain. Our suite of managed hosting services includes technical services, network management services, data storage services, system security services, database services and server middleware services. Our suite of managed cloud services includes direct private connection to leading public clouds, an innovative service platform for managing hybrid clouds and, where required, the resale of public cloud services.

Our customer agreements have either a variable consideration or a fixed consideration.

Sales agreements with cloud service provider and large internet customers are typically deemed to have a variable consideration for revenue recognition purposes because the total amount payable over the life of the sales agreement is not a fixed amount. Such amount varies based on the actual amount of services they use during the move-in period and their actual power consumption, which is metered and billed separately. During the move-in period, customers have the right to use all of the services for which they have committed. They are billed for the amount of services they actually use, subject to a minimum billable amount as stated in such sales agreements. Such minimum billable amount typically steps up over time. In practice, most customers' actual usage and billing is higher than the minimum. From the end of the move-in period until the end of the sales agreement, customers are charged a fixed amount for the right to use all of the capacity for which they have committed, plus a usage-based charge for the actual amount of power which they consume. Revenue under such variable consideration agreements is recognized as services are rendered during the contract term, which means that revenue is recognized based on the amount of services and power which are billable. We do not charge customers or recognize any revenue for services which are pre-committed or for services which are committed but not yet billable under the terms of sales agreements as described above.

Sales agreements with our financial institution and large enterprise customers are typically deemed to have a fixed consideration for revenue recognition purposes because the total amount payable over the life of the sales agreement is a fixed amount. Sales agreements with fixed consideration include a stated amount of space, power, and other services which customers have a right to use. No separate charge is made for power consumed, unless consumption exceeds a specified maximum amount. Revenue under such fixed consideration agreements is recognized on a straight-line basis over the contract term.

We are subject to value-added tax, or VAT, at a rate of 6% on the IDC services we provide and 13% on IT equipment sales and power charges under the unbundled agreements, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. During the periods presented, we were not subject to business tax on the services we provide. Revenue is recognized net of applicable VAT and related surcharges.

We consider our customers to be the end users of our services. We may enter into contracts directly with our customers or provide services to our customers through agreements with intermediate contracting parties. We have in the past derived, and believe that we will continue to derive, a significant portion of our total net revenue from a limited number of customers. We had one customer that generated 25.2% of our total net revenue in 2017, and two customers that generated 27.0% and 17.4% of our total net revenue, respectively, in 2018. We had three customers that generated 27.2%, 19.1% and 10.8% of our total net revenue, respectively, in 2019. We had two customers that generated 26.7% and 18.6% of our net revenue, respectively, in the six months ended June 30, 2020. No other customer accounted for 10% or more of our total net revenue during those periods. We expect our net revenue will continue to be highly dependent on a limited number of customers who account for a large percentage of our total area committed. As of June 30, 2020, we had two customers who accounted for 33.4% and 21.6%, respectively, of our total area committed (excluding joint venture data centers).

Cost of Revenue

Our cost of revenue consists primarily of utility costs, depreciation of property and equipment, rental costs related to our leased data centers, labor costs and others. Utility costs refer primarily to the cost of power needed to carry out our data center services. Depreciation of property and equipment primarily relates to depreciation of data center property and equipment, such as assets owned or acquired under finance leases, leasehold improvements to data centers and other long-lived assets. Rental costs relate to the data center capacity we lease under operating lease and use in providing services to our customers. Labor costs refer to compensation and benefit expenses for our engineering and operations personnel. These costs are largely fixed costs. For utility costs, there is a portion that is fixed and a portion that is variable. The fixed portion relates to the amount of power capacity which is activated and committed by the power supplier for use by a given data center. The variable portion of the utility cost relates to the amount of power actually consumed, which is metered and is largely a function of the data center utilization rate. When a new data center comes into service, we mainly incur a level of fixed utility costs that are not directly correlated with net revenue.

We expect that our cost of revenue will continue to increase as our business expands and we expect that utility costs, depreciation and amortization and rental costs will continue to comprise the largest portion of our cost of revenue. In addition, in any given period, the increase in our cost of revenue may also outpace the growth of our net revenue depending on the timing of the development of our data centers, our ability to secure customer agreements and the utilization rate of our data centers during the period. While we strive to both secure customer commitments to our data center services so that the most data center capacity will be utilized as possible and also to minimize the time as to when our data center area becomes operational and the customer occupies that area, these timing differences may result in fluctuation of our cost of revenue as a percentage of our net revenue between periods.

Operating Expenses

Our operating expenses consist of selling and marketing expenses, general and administrative expenses, and research and development expenses. The following sets forth our selling and marketing expenses, general and administrative expenses and research and development expenses, both in an absolute amount and as a percentage of net revenue, for the periods indicated.

	Year ended December 31,							Six months ended June 30,				
	2017		2018		2019			2019		2020		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Selling and marketing expenses	90,118	5.6	110,570	4.0	129,901	18,386	3.2	57,637	3.1	60,060	8,501	2.3
General and administrative expenses	228,864	14.2	329,601	11.8	411,418	58,232	10.0	185,003	9.8	273,722	38,743	10.6
Research and development expenses	7,261	0.4	13,915	0.5	21,627	3,061	0.5	8,839	0.5	18,987	2,687	0.7
Total operating expenses	326,243	20.2	454,086	16.3	562,946	79,679	13.7	251,479	13.4	352,769	49,931	13.6

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of compensation, including share-based compensation, and benefit expenses for our selling and marketing personnel, business development and promotion expenses and office and traveling expenses. As our business grows, we intend to increase the headcount of our selling and marketing staff and to continue to pursue aggressive branding and marketing campaigns and, as a result, our sales and marketing expenses are expected to increase.

General and Administrative Expenses

Our general and administrative expenses consist primarily of compensation, including share-based compensation, and benefit expenses for management and administrative personnel, start-up costs incurred prior to the operation of new data centers, depreciation and amortization, office and traveling expenses, professional fees and other fees. Depreciation relates primarily to our office equipment and facilities used by our management and staff in the administrative department. Start-up costs consist of costs incurred prior to commencement of operations of a new data center, including rental costs incurred pursuant to operating leases of buildings during the construction of leasehold improvements and other miscellaneous costs. Professional fees relate primarily to audit and legal expenses. We expect our general and administrative expenses to increase as we continue to increase our staff and office space as our business grows.

In addition, as a public company, we have incurred increasing legal, accounting and other expenses, including costs associated with public company reporting requirements. We have also incurred costs in order to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations implemented by the SEC and Nasdaq. We expect that such compliance, together with the growth and expansion of our business, will cause our general and administrative expenses to increase.

Research and Development Expenses

Research and development expenses consist primarily of compensation and benefit expenses for our research and development personnel. As we continue to invest in our proprietary data center operating systems and innovative technologies to further scale our operations, we expect our research and development expenses to increase as we continue to increase our staff and expand our research and development center.

Share-Based Compensation

The table below shows the effect of the share-based compensation expenses on our cost of revenue and operating expense line items, both in an absolute amount and as a percentage of net revenues, for the periods indicated.

	Year ended December 31,							Six months ended June 30,				
	2017		2018		2019			2019		2020		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Cost of revenue	9,941	0.6	18,008	0.6	46,007	6,512	1.1	14,858	0.8	34,439	4,874	1.3
Selling and marketing	18,390	1.1	25,213	0.9	39,436	5,582	0.9	14,697	0.8	26,124	3,698	1.0
General and administrative	30,866	1.9	61,707	2.2	101,949	14,430	2.5	32,509	1.7	71,527	10,124	2.8
Research and development	646	0.1	949	0.1	2,364	334	0.1	870	0.1	1,752	248	0.1
Total share-based compensation expenses	59,843	3.7	105,877	3.8	189,756	26,858	4.6	62,934	3.4	133,842	18,944	5.2

We incurred higher share-based compensation expenses in the six months ended June 30, 2020 as compared to the same period in 2019 due to grants of 14,314,160 restricted shares in August 2019 to employees, officers and directors. We expect to continue to grant share options, restricted shares and other share-based awards under our Share Incentive Plans and incur further share-based compensation expenses in future periods.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands and conduct substantially all of our business through our PRC subsidiaries in the PRC. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains. In addition, upon payment of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands, we are not subject to tax on income or capital gains. In addition, upon payments of dividends by us to our shareholders, no British Virgin Islands withholding tax will be imposed.

Hong Kong

Our Hong Kong SAR entities are subject to the Hong Kong SAR profits tax at the rate of 16.5%. A two-tiered profits tax rates regime was introduced since year 2018 where the first HK$2.0 million of assessable profits earned will be taxed at half the current tax rate (8.25%) whilst the remaining profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one entity in the group to benefit from the progressive rates.

Singapore

Our subsidiaries in Singapore are subject to enterprise income tax on their taxable income in Singapore at a rate of 17%.

PRC

Generally, our subsidiaries and consolidated VIEs in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file an application package with the relevant tax authority, and settle overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. On October 14, 2019, STA Announcement [2019] No. 35, Measures for the Administration of Non-Resident Taxpayers' Enjoyment of Treaty Benefits, was issued to simplify the procedures for claiming China tax treaty benefits by non-resident taxpayers.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income."

Effective from June 2014, all value-added telecommunication services provided in mainland China were subject to a VAT of 6% whereas basic telecommunication services were subject to a VAT of 11%. Effective from May 2018, the VAT rate on basic telecommunication services was replaced by a new rate of 10%. On March 20, 2019, the Ministry of Finance, the STA and the General Administration of Customs jointly issued the Notice of Strengthening Reform of VAT Policies, or the Announcement No. 39, which became effective on April 1, 2019. Pursuant to the Announcement No. 39, the generally applicable VAT rates were simplified to 13%, 9%, 6%, and nil, among which the VAT rate on basic telecommunication services was further replaced by the rate of 9% and the VAT rate on value-added telecommunication services remained at 6%. In addition, a general VAT taxpayer is allowed to offset its qualified input VAT paid on taxable purchases against the output VAT chargeable on the telecommunication services and modern services that it provides.

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with the Accountants' Report in Appendix I to this prospectus.

Consolidation of VIEs

We account for entities qualifying as VIEs in accordance with Financial Accounting Standards Boards, or FASB, Accounting Standards Codification Topic 810, Consolidation, or ASC 810. Our operations are primarily conducted through our VIEs, namely Management HoldCo, GDS Beijing, GDS Beijing's subsidiaries and GDS Shanghai, to comply with relevant PRC laws and regulations, which prohibit foreign investment in companies that are engaged in data center-related businesses in those regions. Individuals acting as nominee equity holders hold the legal equity interests of Management HoldCo on our behalf. The equity holders of Management HoldCo are Yilin Chen (senior vice president, product and service), Yan Liang (senior vice president, operation and delivery), Liang Chen (senior vice president, data center design), Andy Wenfeng Li (general counsel, compliance officer, and company secretary) and Qi Wang (head of cloud and network Business). Management HoldCo holds the legal equity interests of GDS Beijing and GDS Shanghai on our behalf.

A series of contractual agreements, including equity interest pledge agreements, shareholder voting rights proxy agreements, exclusive technology license and service agreements, intellectual property rights license agreements, exclusive call option agreements and loan agreements, collectively, the VIE Agreements, were entered among GDS Investment Company, GDS Beijing, GDS Shanghai and Management HoldCo, as well as among GDS Investment Company, Management HoldCo and the equity holders of Management HoldCo. Through these agreements, Management HoldCo and the equity holders of Management HoldCo have granted all their legal rights, including voting rights, dividends rights, and disposition rights, of their equity interests in Management HoldCo, GDS Beijing and GDS Shanghai to us. Accordingly, Management HoldCo and the equity holders of Management HoldCo do not have (i) rights to make decisions about the activities of Management HoldCo, GDS Beijing and GDS Shanghai or (ii) rights to receive the expected residual returns of Management HoldCo, GDS Beijing and GDS Shanghai.

Under the terms of the VIE Agreements, we have (i) the right to receive service fees on a yearly basis at an amount equivalent to all of the net profits of Management HoldCo, GDS Beijing and GDS Shanghai under the exclusive technology license and service agreements when such services are provided; (ii) the right to receive all dividends declared by Management HoldCo, GDS Beijing and GDS Shanghai and the right to all undistributed earnings of Management HoldCo, GDS Beijing and GDS Shanghai; (iii) the right to receive the residual benefits of the Management HoldCo, GDS Beijing and GDS Shanghai through its exclusive option to acquire 100% of the equity interests in Management HoldCo, GDS Beijing and GDS Shanghai, to the extent permitted under PRC law; and (iv) the right to require the shareholders of Management HoldCo, GDS Beijing, GDS Beijing's subsidiaries and GDS Shanghai to appoint the PRC citizen(s) as designated by us to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of Management HoldCo, GDS Beijing, GDS Beijing's subsidiaries and GDS Shanghai requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Management HoldCo, GDS Beijing and GDS Shanghai, and appointing directors and executive officers. During the periods presented, we provided loans to Management HoldCo, GDS Beijing and GDS Shanghai to support their working capital requirements and for capitalization purposes.

In accordance with ASC 810, we have a controlling financial interest in Management HoldCo, GDS Beijing and GDS Shanghai because we have (i) the power to direct activities of Management HoldCo, GDS Beijing and GDS Shanghai that most significantly impact their economic performance; and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of Management HoldCo, GDS Beijing and GDS Shanghai that could potentially be significant to Management HoldCo, GDS Beijing and GDS Shanghai.

The significant judgments used and assumptions made in our determination that we are the primary beneficiary of Management HoldCo, GDS Beijing and GDS Shanghai were the terms of the VIE Agreements and our financial support to Management HoldCo, GDS Beijing and GDS Shanghai. Accordingly, we have included the financial statements of Management HoldCo, GDS Beijing and GDS Shanghai in our consolidated financial statements.

Our PRC legal counsel, based on its understanding of the relevant laws and regulations, is of the opinion that each of the contracts among our wholly-owned PRC subsidiaries, our consolidated VIEs and their shareholders is valid, binding and enforceable in accordance with its terms. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations. Any changes in PRC laws and regulations that affect our ability to control our PRC VIEs may preclude us from consolidating these companies in the future.

Revenue Recognition

We adopted ASC 606 Revenue from Contracts with Customers on January 1, 2018. We applied ASC 606 using the cumulative effect method – i.e. by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of accumulated deficit at January 1, 2018. We elect to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018.

We recognize revenue as we satisfy a performance obligation by transferring control over a good or service to a customer. For each performance obligation satisfied over time, we recognize revenue over time by measuring progress toward complete satisfaction of that performance obligation. If we do not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. Revenue is measured as the amount of consideration to which we expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

For contracts with customers that contain multiple performance obligations, we account for individual performance obligations separately if they are distinct or as a series of distinct obligations if the individual performance obligations meet the series criteria. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The transaction price is allocated to the separate performance obligation on a relative standalone selling price basis. The standalone selling price is determined based on overall pricing objectives, taking into consideration market conditions, geographic locations and other factors.

We derive revenue primarily from the delivery of colocation services and managed services, including managed hosting services and managed cloud services. The remainder of our revenue is from IT equipment sales that are either sold on a stand-alone basis or bundled in a managed hosting service contract arrangement and consulting services.

Certain contracts with customers for colocation services and managed services provide for variable considerations that are primarily based on the usage of such services. Revenues on such contracts are recognized based on the agreed usage-based fees as the services are rendered throughout the contract term. Certain contracts with customers for colocation services and managed services provide for a fixed consideration over the contract service period. Revenue on such contracts are recognized on a straight-line basis over the term of the contract.

In certain colocation and managed hosting service contracts, we agree to charge customers for their actual power consumption. Relevant revenue is recognized based on actual power consumption during each period. In certain other colocation and managed hosting service contracts, we specify a fixed power consumption limit each month for customers. If a customer's actual power consumption is below the limit, no additional fee is charged, while if its actual power consumption is above the limit, we charge the customers additional power consumption fees calculated based on the portion of actual power consumption exceeding the limit, multiplied by a fixed unit price, which is determined based on market price and does not provide customers with rights to acquire additional goods or services. Accordingly, relevant revenue is recognized each month based on actual additional power consumption fees.

Our colocation service and managed service contracts with customers contain both lease and non-lease components. We elected to adopt the practical expedient which allows lessors to combine lease and non-lease components and account for them as one component if (i) they have the same timing and pattern of transfer; and (ii) the lease component, if accounted for separately, would be classified as an operating lease. We elected to apply the practical expedient on the contracts that meet the conditions. In addition, we have performed a qualitative analysis to determine that the non-lease component is the predominant component of its revenue stream as the customer would ascribe more value to the services provided rather than to the lease component. Therefore, the combined component is accounted for in accordance with the current revenue accounting guidance ("ASC 606"). For contracts that do not meet the conditions required to adopt the practical expedient, the lease component is accounted for in accordance with the current lease accounting guidance ("ASC 842"), which is immaterial for the year ended December 31, 2019 and the six months ended June 30, 2020. We have elected to apply the practical expedient on a prospective basis.

Revenue recognized for colocation or managed hosting and cloud services delivered prior to billing is recorded within accounts receivable. We generally bill the customer on a monthly or quarterly basis in arrears. Cash received in advance from customers prior to the delivery of the colocation or managed hosting and cloud services is recorded as deferred revenue.

Revenue is generally recognized on a gross basis as we are primarily responsible for fulfilling the contract, assume inventory risk and have discretion in establishing the price when selling to the customer. To the extent we do not meet the criteria for recognizing revenue on a gross basis, we record the revenue on a net basis.

Leases

We adopted ASC 842 using a modified retrospective transition method on all leases existing at January 1, 2019, the date of initial application.

We lease a number of our data centers from third-party lessors. Each time we enter into a new lease or lease amendments, we analyze each lease or lease amendment for the proper accounting, including determining if an arrangement is or contains a lease at inception and making assessment of the leased properties to determine if they are operating or finance leases.

Determination of accounting treatment, including the result of the lease classification test for each new lease or lease amendment, is dependent on a variety of judgments, such as identification of lease and non-lease components, allocation of total consideration between lease and non-lease components, determination of lease term, assessing the valuation of leased property and establishing the incremental borrowing rate to calculate the present value of the minimum lease payment for the lease test. The judgments used in the accounting for leases are inherently subjective. Different assumptions or estimates could result in different accounting treatment for a lease.

Impairment of Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the acquisition that are not individually identified and separately recognized.

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of the reporting unit, assignment of assets and liabilities to the reporting unit, assignment of goodwill to the reporting unit, and determination of the fair value of each reporting unit.

We have the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value prior to performing the goodwill impairment test. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the goodwill impairment test is not required. If the goodwill impairment test is required, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

The Group conducted qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. In assessing the qualitative factors, the Group considered the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, share price, actual revenue performance compared to previous years, and cash flow generation. While we had net losses during the Track Record Period, net loss as percentage of our total net revenue reduced. Our market capitalization quoted on Nasdaq significantly outsized the carrying amount (net assets) of our company as of December 31, 2017, 2018 and 2019, and June 30, 2019 and 2020. In addition, the Group also analyzed and concluded that there was no negative impact of other key qualitative factors, such as downturn of the economic conditions or changes in industry and competitive environment, changes in our revenue, cash flow generation or other similar factors during the Track Record Period. As a result, we concluded that there were no impairment indicators which would warrant a quantitative impairment assessment. Therefore, no impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Impairment of Long-Lived Assets

Long-lived assets (primary including property and equipment, operating lease right-of-use assets and prepaid land use rights) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. For purposes of impairment testing of long-lived assets, the Company has concluded that an individual data center is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When there were circumstances that require a long-lived asset or asset group for certain data centers be tested for possible impairment, the Company compared undiscounted cash flows generated by that asset or asset group to its carrying amount. As a result of the test, the carrying amount of the long-lived assets or asset group is recoverable on an undiscounted cash flow basis. Accordingly, no impairment losses were recorded for long-lived assets for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Share-based Compensation

We adopted an equity incentive plan in July 2014, or the 2014 share incentive plan, for the granting of share options to key employees, directors and external consultants in exchange for their services. The total number of shares that may be issued under the 2014 share incentive plan is 29,240,000 ordinary shares.

We adopted a second equity incentive plan in August 2016, or the 2016 share incentive plan, for the granting of share options and other equity awards to key employees and directors in exchange for their services. The maximum aggregate number of shares which may be subject to equity awards under the 2016 share incentive plan is 56,707,560 shares, provided; however, that such maximum aggregate number of shares shall be automatically increased on the first day of each fiscal year (i.e., January 1 of each calendar year) during which the 2016 share incentive plan remains in effect to three percent (3%) of our then total issued and outstanding shares, if and whenever the shares which may be subject to equity awards under the 2016 share incentive plan accounts for less than one and half percent (1.5%) of our then total issued and outstanding shares.

Restricted shares to directors, officers and employees

In July 2017, August 2018 and August 2019, we granted 13,475,060, 12,941,952 and 14,314,160 non-vested restricted shares, respectively, to employees, officers and directors. The restricted share awards were granted subject to service and market conditions, or service and performance conditions, which are tied to our financial performance. For restricted shares granted, the value of the restricted shares was determined by the fair value of the restricted shares on the grant date, on which all criteria for establishing the grant dates were satisfied. The value of restricted shares subject to service conditions and market conditions attached is recognized as a compensation expense using the graded-vesting method. The value of restricted shares subject to performance conditions attached is recognized as a compensation expense using the graded-vesting method only when achievement of the performance conditions becomes probable. For restricted shares with market conditions, the probability to achieve market conditions is reflected in the grant date fair value.

A summary of the restricted share activity is as follows:

	Number of Shares
Unvested at January 1, 2017	12,910,080
Granted	13,977,060
Vested	(2,123,120)
Forfeited	(238,400)
Unvested at December 31, 2017	**24,525,620**
Granted	13,202,512
Vested	(7,326,620)
Forfeited	(891,008)
Unvested at December 31, 2018	**29,510,504**
Granted	14,551,472
Vested	(9,122,432)
Forfeited	(1,582,248)
Unvested at December 31, 2019	**33,357,296**
Granted	100,136
Vested	(3,611,936)
Forfeited	(656,248)
Unvested at June 30, 2020	**29,189,248**

We recognized restricted share related share-based compensation expenses of RMB56.2 million, RMB89.8 million, RMB189.4 million and RMB133.8 million (US$18.9 million) for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. As of December 31, 2019, total unrecognized compensation expense relating to the unvested shares was RMB360.5 million (US$51.0 million). The expense is expected to be recognized over a weighted average period of 1.77 years using the graded-vesting attribution method. As of June 30, 2020, total unrecognized compensation expense relating to the unvested shares was RMB229.8 million (US$32.5 million). The expense is expected to be recognized over a weighted average period of 1.52 years using the graded-vesting attribution method. We did not capitalize any of the share-based compensation expenses as part of the cost of any asset for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

The fair value of the restricted shares granted is estimated on the date of grant using the Monte Carlo simulation model with the following assumptions used.

Grant date:	July 2017	August 2018	August 2019
Risk-free rate of return[1]	1.29~1.63%	2.047%~2.418%	1.67%-1.88%
Volatility[2]	20.43~21.48%	71.85%	63.22%
Expected dividend yield[3]	—	—	—
Share price at grant date	US$@1.191 (RMB8.0)	US$@3.125 (RMB21.3)	US$@5.02375 (RMB34.6)
Expected term	2~4 years	1~3 years	1~3 years

Notes:

(1) Risk-free rate equal to the United States Government Treasury Yield Rates for a term equal to the remaining expected term.

(2) Expected volatility is assumed based on the historical volatility of our comparable companies or our historical volatility in the period equal to the expected term of each grant.

(3) We estimated the dividend yield based on our expected dividend policy over the expected terms of the restricted shares.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets for which it is more likely than not that the related tax benefits will not be realized. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

Uncertainties exist with respect to how the current income tax law in the PRC applies to our overall operations, and more specifically, with regard to tax residency status. The Enterprise Income Tax Law includes a provision specifying that legal entities organized outside the PRC are considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the Enterprise Income Tax Law provide that non-resident legal entities are considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, we do not believe that the legal entities organized outside the PRC should be treated as residents for Enterprise Income Tax Law purposes. If the PRC tax authorities subsequently determine that we and our subsidiaries registered outside the PRC are deemed resident enterprises, we and our subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

If we were to be non-resident for PRC tax purposes, dividends paid to us from profits earned by the PRC subsidiaries after January 1, 2008 would be subject to a withholding tax. The Enterprise Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its non-PRC-resident corporate investor for earnings generated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. We have not recognized any deferred tax liability for the undistributed earnings of the PRC-resident enterprise as of December 31, 2017, 2018 and 2019 and June 30, 2020, as we plan to permanently reinvest these earnings in the PRC. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — Dividends payable to our foreign investors and gains on the sale of our Shares and/or ADSs by our foreign investors may become subject to PRC tax" and "— We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies."

Recently Issued Accounting Standards

In December 2019, the FASB issued Accounting Standards Update ("ASU") 2019-12, *Income Tax (Topic 740), Simplifying the Accounting for Income Taxes*, which simplifies accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted including adoption in any interim period for periods for which financial statements have not yet been issued. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321)*, *Investments – Equity Method and Joint Ventures (Topic 323)*, and *Derivatives and Hedging (Topic 815)*, which clarifies the interaction for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact on the adoption of this standard will have on our consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40),* which reduces the number of accounting models for convertible debt instruments and convertible preferred stock and clarifies the scope and certain requirements under Subtopic 815-40. The ASU also improves the guidance related to the disclosures and earnings-per-share (EPS) for convertible instruments and contract in entity's own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact on the adoption of this standard will have on our consolidated financial statements.

Non-GAAP Measures

In evaluating our business, we consider and use the following non-GAAP measures as supplemental measures to review and assess our operating performance:

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands, except for percentages)						
Non-GAAP Consolidated Financial Data:							
Adjusted EBITDA(1)	512,349	1,046,538	1,824,021	258,173	811,642	1,205,491	170,625
Adjusted EBITDA margin(2)	31.7%	37.5%	44.2%	44.2%	43.2%	46.7%	46.7%
Adjusted net operating income (Adjusted NOI)(3)	764,726	1,322,585	2,163,442	306,216	979,255	1,385,938	196,165
Adjusted NOI margin(4)	47.3%	47.4%	52.5%	52.5%	52.2%	53.7%	53.7%

Notes:

(1) Adjusted EBITDA is defined as net income or net loss (computed in accordance with U.S. GAAP) excluding net interest expenses, income tax expenses (benefits), depreciation and amortization, operating lease cost relating to prepaid land use rights, accretion expenses for asset retirement costs, share-based compensation expenses and gain from purchase price adjustment.

The adjustment of operating lease cost relating to prepaid land use rights is essentially the same nature as "Depreciation and amortization" for the periods prior to ASC 842 adoption, which is a non-cash item given prepaid land use rights have been paid. Therefore, such adjustments contribute to the comparability of the Adjusted EBITDA for the periods presented.

The adjustments of accretion expenses for asset retirement costs are non-cash items. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. The corresponding asset retirement costs are capitalized as part of the cost of leasehold improvements and are depreciated over the shorter of the asset or the term of the lease subsequent to the initial measurement. The Company accretes the liability in relation to the asset retirement obligations over time and the accretion expense is recorded in cost of revenue as a non-cash cost.

The share-based compensation expenses are non-cash items that does not result in cash outflow. The corresponding grant-date fair value of the share-based award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period.

The adjustment of gain from purchase price adjustment is a non-cash, non-recurring item that does not result in cash inflow, and was a result of a reduction in cash consideration pursuant to a supplemental agreement entered into with the seller related to the acquisition of a data center during the six months ended June 30, 2020.

(2) Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of net revenue.

(3) Adjusted net operating income (Adjusted NOI) is defined as net income or net loss (computed in accordance with U.S. GAAP), excluding: net interest expenses, income tax expenses (benefits), depreciation and amortization, operating lease cost relating to prepaid land use rights, accretion expenses for asset retirement costs, share-based compensation expenses, gain from purchase price adjustment, selling and marketing expenses, general and administrative expenses, research and development expenses, foreign currency exchange loss (gain), government grants and others.

(4) Adjusted NOI margin is defined as adjusted NOI as a percentage of net revenue.

Our management and board of directors use adjusted EBITDA and adjusted EBITDA margin which are non-GAAP financial measures, to evaluate our operating performance, establish budgets and develop operational goals for managing our business. In particular, we believe that the exclusion of the income and expenses eliminated in calculating adjusted EBITDA can provide a useful measure of our core operating performance. We consider that excluding non-cash items can better present the underlying business and operations for an unbiased purpose pursuant to HKEX-GL103-19 paragraph 4.1(b).

Non-GAAP adjusted NOI is commonly adopted as a metric of the financial performance of peers in the Company’s industry and is used to measure the underlying profitability of data centers. Our management and board of directors believe that the presentation of non-GAAP adjusted NOI is an important and common metric in its industry and the use of adjusted NOI as a supplemental performance measure captures the trend in the operating performance of our data centers. The Company believes that its presentation of this metric has taken into account and complied with the pertinent guidance in HKEX-GL103-19 paragraph 4.1(b). Non-cash items and the impact of capital structure are excluded in this metric, similar to adjusted EBITDA; and consistent with industry peers’ adjustments, expenses supporting to the corporate such as selling and marketing expenses, general and administrative expenses, R&D expenses, foreign currency exchange, government grants and others, net, are adjusted back given these expenses are not attributable to specific data center assets. We consider that excluding these items can better present the underlying business and operations for an unbiased purpose pursuant to HKEX-GL103-19 paragraph 4.1(b).

We also present these non-GAAP measures because we believe these non-GAAP measures are frequently used by securities analysts, investors and other interested parties as measures of the financial performance of companies in our industry.

These non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. These non-GAAP financial measures have limitations as analytical tools, and when assessing our operating performance, cash flows or our liquidity, investors should not consider them in isolation, or as a substitute for net income (loss), cash flows provided by operating activities or other consolidated statements of operations and cash flow data prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of these non-GAAP financial measures instead of their nearest U.S. GAAP equivalent. First, adjusted EBITDA, adjusted EBITDA margin, adjusted NOI, and adjusted NOI margin are not substitutes for gross profit, net income (loss), cash flows provided by operating activities or other consolidated statements of operation and cash flow data prepared in accordance with U.S. GAAP. Second, other companies may calculate these non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of these non-GAAP financial measures as tools for comparison. Finally, these non-GAAP financial measures do not reflect the impact of net interest expenses, income tax benefits, depreciation and amortization, operating lease cost relating to prepaid land use rights, accretion expenses for asset retirement costs, and share-based compensation expenses, each of which have been and may continue to be incurred in our business.

We mitigate these limitations by reconciling the non-GAAP financial measure to the most comparable U.S. GAAP performance measure, all of which should be considered when evaluating our performance.

The following table reconciles our adjusted EBITDA in the periods presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income or net loss:

	Year ended December 31,				Six months ended June 30		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Net loss	(326,900)	(430,268)	(442,083)	(62,573)	(229,779)	(193,078)	(27,328)
Net interest expenses	406,403	636,973	915,676	129,606	441,023	561,514	79,477
Income tax (benefits) expenses	(6,076)	(9,391)	15,650	2,215	12,817	42,087	5,957
Depreciation and amortization	378,130	741,507	1,142,032	161,644	523,213	709,223	100,384
Operating lease cost relating to prepaid land use rights	—	—	—	—	—	5,217	738
Accretion expenses for asset retirement costs	949	1,840	2,990	423	1,434	1,840	260
Share-based compensation expenses	59,843	105,877	189,756	26,858	62,934	133,842	18,944
Gain from purchase price adjustment	—	—	—	—	—	(55,154)	(7,807)
Adjusted EBITDA	512,349	1,046,538	1,824,021	258,173	811,642	1,205,491	170,625

The following table reconciles our adjusted NOI in the periods presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income or net loss:

	Year ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Net loss	(326,900)	(430,268)	(442,083)	(62,573)	(229,779)	(193,078)	(27,328)
Net interest expenses	406,403	636,973	915,676	129,606	441,023	561,514	79,477
Income tax (benefits) expenses	(6,076)	(9,391)	15,650	2,215	12,817	42,087	5,957
Depreciation and amortization	378,130	741,507	1,142,032	161,644	523,213	709,223	100,384
Operating lease cost relating to prepaid land use rights	—	—	—	—	—	5,217	738
Accretion expenses for asset retirement costs	949	1,840	2,990	423	1,434	1,840	260
Share-based compensation expenses	59,843	105,877	189,756	26,858	62,934	133,842	18,944
Gain from purchase price adjustment	—	—	—	—	—	(55,154)	(7,807)
Selling and marketing expenses(1)	71,728	85,357	90,465	12,804	42,940	33,936	4,803
General and administrative expenses(1)	165,785	207,255	240,433	34,031	118,988	127,505	18,047
Research and development expenses(1)	6,062	12,394	17,986	2,546	7,447	15,704	2,223
Foreign currency exchange loss (gain), net	12,299	(20,306)	6,000	849	2,758	17,206	2,435
Government grants	(3,062)	(3,217)	(9,898)	(1,401)	(1,195)	(12,578)	(1,780)
Others, net(2)	(435)	(5,436)	(5,565)	(786)	(3,325)	(1,326)	(188)
Adjusted NOI	764,726	1,322,585	2,163,442	306,216	979,255	1,385,938	196,165

Note:

(1) Selling and marketing expenses exclude share-based compensation expenses of RMB18,390 thousand, RMB25,213 thousand, RMB39,436 thousand (US$5,582 thousand), RMB14,697 thousand, RMB26,124 thousand (US$3,698 thousand) for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively.

General and administrative expenses exclude (1) share-based compensation expenses of RMB30,866 thousand, RMB61,707 thousand, RMB101,949 thousand (US$14,430 thousand), RMB32,509 thousand, RMB71,527 thousand (US$10,124 thousand), (2) Depreciation and amortization of RMB32,213 thousand, RMB60,639 thousand, RMB69,036 thousand (US$9,771 thousand), RMB33,506 thousand, RMB69,473 thousand (US$9,834 thousand), (3) Operating lease cost relating to prepaid land use rights of nil, nil, nil, nil, RMB5,217 thousand (US$738 thousand) for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively.

Research and development expenses exclude (1) share-based compensation expenses of RMB646 thousand, RMB949 thousand, RMB2,364 thousand (US$334 thousand), RMB870 thousand, RMB1,752 thousand (US$248 thousand), (2) Depreciation and amortization of RMB553 thousand, RMB572 thousand, RMB1,277 thousand (US$181 thousand), RMB522 thousand, RMB1,531 thousand (US$216 thousand) for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively.

(2) Others, net represents miscellaneous non-operating income and expenses, including the Group's proportionate share of the income or loss from its equity method investment, which are non-recurring in nature.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated both in absolute amount and as a percentage of our total net revenues. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,							Six months ended June 30,				
	2017		2018		2019			2019		2020		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Consolidated Statements of Operations Data:												
Net revenue	1,616,166	100.0	2,792,077	100.0	4,122,405	583,489	100.0	1,877,030	100.0	2,582,623	365,546	100.0
Cost of revenue	(1,207,694)	(74.7)	(2,169,636)	(77.7)	(3,079,679)	(435,900)	(74.7)	(1,403,252)	(74.8)	(1,871,183)	(264,849)	(72.5)
Gross profit	408,472	25.3	622,441	22.3	1,042,726	147,589	25.3	473,778	25.2	711,440	100,697	27.5
Operating expenses												
Selling and marketing expenses	(90,118)	(5.6)	(110,570)	(4.0)	(129,901)	(18,386)	(3.2)	(57,637)	(3.1)	(60,060)	(8,501)	(2.3)
General and administrative expenses	(228,864)	(14.2)	(329,601)	(11.8)	(411,418)	(58,232)	(10.0)	(185,003)	(9.8)	(273,722)	(38,743)	(10.6)
Research and development expenses	(7,261)	(0.4)	(13,915)	(0.5)	(21,627)	(3,061)	(0.5)	(8,839)	(0.5)	(18,987)	(2,687)	(0.7)
Income from operations	82,229	5.1	168,355	6.0	479,780	67,910	11.6	222,299	11.8	358,671	50,766	13.9
Other income (expenses)												
Net interest expense	(406,403)	(25.1)	(636,973)	(22.8)	(915,676)	(129,606)	(22.2)	(441,023)	(23.5)	(561,514)	(79,477)	(21.7)
Foreign currency exchange (loss) gain, net	(12,299)	(0.8)	20,306	0.8	(6,000)	(849)	(0.1)	(2,758)	(0.1)	(17,206)	(2,435)	(0.7)
Government grants	3,062	0.2	3,217	0.1	9,898	1,401	0.3	1,195	0.1	12,578	1,780	0.5
Gain from purchase price adjustment	—	—	—	—	—	—	—	—	—	55,154	7,807	2.1
Others, net	435	0.0	5,436	0.2	5,565	786	0.1	3,325	0.2	1,326	188	0.1
Loss before income taxes	(332,976)	(20.6)	(439,659)	(15.7)	(426,433)	(60,358)	(10.3)	(216,962)	(11.5)	(150,991)	(21,371)	(5.8)
Income tax benefits (expenses)	6,076	0.4	9,391	0.3	(15,650)	(2,215)	(0.4)	(12,817)	(0.7)	(42,087)	(5,957)	(1.7)
Net loss	**(326,900)**	**(20.2)**	**(430,268)**	**(15.4)**	**(442,083)**	**(62,573)**	**(10.7)**	**(229,779)**	**(12.2)**	**(193,078)**	**(27,328)**	**(7.5)**

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Net Revenue

Our net revenue increased by 37.6% to RMB2,582.6 million (US$365.5 million) in the six months ended June 30, 2020 from RMB1,877.0 million in the corresponding period of 2019. This increase was due to increases in service revenue and IT equipment sales of RMB691.0 million and RMB14.6 million, respectively. The increase in service revenue consisted of an increase in revenue from colocation services of RMB537.2 million and an increase in revenue from managed services and other services of RMB153.8 million. These increases in service revenue were mainly due to (i) an increase in area utilized from 127,107 sqm as of June 30, 2019 to 193,162 sqm as of June 30, 2020, as customers with commitments moved into the data center area, (ii) the signing of new service contracts by customers who commenced utilizing services during the period, (iii) the commencement of operations of new data centers, and (iv) the acquisition of a data center in Guangzhou in 2019 and three data centers in Beijing in 2020, respectively.

Cost of Revenue

Our cost of revenue increased by 33.3% to RMB1,871.2 million (US$264.8 million) in the six months ended June 30, 2020 from RMB1,403.3 million in the corresponding period of 2019. This increase was primarily due to an increase of 25.7% in utility costs to RMB543.3 million (US$76.9 million) in the six months ended June 30, 2020 from RMB432.1 million in the corresponding period of 2019, and an increase of 30.5% in depreciation and amortization costs to RMB638.2 million (US$90.3 million) in the six months ended June 30, 2020 from RMB489.2 million in the corresponding period in 2019. Increases in both utility costs and depreciation and amortization costs were largely a result of an increase in new data center facilities and higher area utilized, partially offset by lower unit power costs as a result of government concessions in response to the COVID-19 pandemic. In addition, the increase in cost of revenue was also due to (i) an increase of RMB92.4 million in rental expense for operating lease and service fees for third-party data centers, (ii) an increase of RMB49.6 million for network cost, (iii) an increase in personnel costs of RMB31.1 million in connection with more data centers coming into service, (iv) an increase of RMB19.6 million for share-based compensation expenses, (v) an increase of RMB13.6 million for equipment cost and (vi) an increase of RMB1.4 million for maintenance and other costs. Cost of revenue as percentage of net revenue decreased to 72.5% in the six months ended June 30, 2020 from 74.8% in the corresponding period in 2019.

Operating Expenses

Our total operating expenses increased by 40.3% to RMB352.8 million (US$49.9 million) in the six months ended June 30, 2020 as compared to RMB251.5 million in the corresponding period in 2019. The increase was primary due to an increase in share-based compensation expenses of RMB51.3 million, depreciation and amortization expense and operating lease expenses related to land use rights of RMB12.6 million. Our total operating expenses as a percentage of our net revenue slightly increased to 13.6% in the six months ended June 30, 2020 from 13.4% in the corresponding period in 2019.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 4.2% to RMB60.1 million (US$8.5 million) in the six months ended June 30, 2020 from RMB57.6 million in the corresponding period in 2019. This increase was primarily attributable to an increase in share-based compensation expenses of RMB11.4 million, partially offset by the decrease in other expenses as a result of a reduced level of marketing activities and travel expenses due to the COVID-19 pandemic.

General and Administrative Expenses. Our general and administrative expenses increased by 48.0% to RMB273.7 million (US$38.7 million) in the six months ended June 30, 2020 from RMB185.0 million in the corresponding period in 2019. This increase was primarily a result of (i) an increase in share-based compensation expenses of RMB39.0 million, (ii) an increase in depreciation and amortization expenses of RMB36.0 million and (iii) an increase in operating lease expenses related to land use rights of RMB12.6 million primary for the area under construction or held for future development.

Research and Development Expenses. Our research and development expenses increased by 114.8% to RMB19.0 million (US$2.7 million) in the six months ended June 30, 2020 from RMB8.8 million in the corresponding period in 2019, which was primarily due to an increase in personnel and costs for the research and development projects to enhance our existing operations.

Other Income (Expenses)

Interest Income. Our interest income decreased by 69.7% to RMB7.8 million (US$1.1 million) in the six months ended June 30, 2020 from RMB25.7 million in the corresponding period in 2019. The decrease was primarily a result of a comparatively higher average cash balance raised from our public offering and issuance of redeemable preferred shares in the first quarter of 2019.

Interest Expenses. Our interest expenses increased by 22.0% to RMB569.3 million (US$80.6 million) in the six months ended June 30, 2020 from RMB466.7 million in the corresponding period in 2019. This increase was primarily a result of an increase of borrowings, finance lease and other financing obligations.

Government Grants. Income from government grants increased by 952.6% to RMB12.6 million (US$1.8 million) in the six months ended June 30, 2020 from RMB1.2 million in the corresponding period in 2019, primarily due to the additional deduction of input value-added tax.

Foreign Currency Exchange (Loss) Gain, Net. Changes in currency rates resulted in a loss of RMB17.2 million (US$2.4 million) in the six months ended June 30, 2020 as compared to a loss of RMB2.8 million in the corresponding period in 2019, primarily due to the appreciation of the U.S. dollar against Renminbi.

Gain from Purchase Price Adjustment. Gain from purchase price adjustment of RMB55.2 million (US$7.8 million) in the six months ended June 30, 2020 arose because of a reduction in cash consideration pursuant to a supplemental agreement entered into with the seller related to acquisition of GZ3.

Income Tax Benefits (Expenses)

Income tax expenses were RMB42.1 million (US$6.0 million) in the six months ended June 30, 2020, compared to RMB12.8 million in the corresponding period in 2019. The income tax expenses were primarily due to the profit generated in certain of our subsidiaries as a result of increase in utilization in the related data centers.

Net Loss

As a result of the foregoing, net loss decreased to RMB193.1 million (US$27.3 million) in the six months ended June 30, 2020 from RMB229.8 million in the corresponding period in 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net Revenue

Our net revenue increased by 47.6% to RMB4,122.4 million (US$583.5 million) in 2019 from RMB2,792.1 million in 2018. This increase was due to increases in service revenue of RMB1,335.1 million, partially offset by the decrease in IT equipment sales of RMB4.8 million. The increase in service revenue consisted of an increase in revenue from colocation services of RMB1,157.5 million and an increase in revenue from managed services and other services of RMB177.6 million. These increases in service revenue were mainly due to (i) an increase in area utilized from 108,326 sqm as of December 31, 2018 to 156,022 sqm as of December 31, 2019, as customers with commitments moved into the data center area, (ii) the signing of new service contracts by customers who commenced utilizing services during the period, (iii) the commencement of operations of new data centers since December 31, 2018 and (iv) the acquisition of two data centers in Guangzhou and Shanghai in 2018, and of a data center in Guangzhou in 2019, respectively.

Cost of Revenue

Our cost of revenue increased by 41.9% to RMB3,079.7 million (US$435.9 million) in 2019 from RMB2,169.6 million in 2018. This increase was primarily due to an increase of 40.6% in utility costs to RMB922.8 million (US$130.6 million) in 2019 from RMB656.1

million in 2018, and an increase of 57.5% in depreciation and amortization costs to RMB1,071.7 million (US$151.7 million) in 2019 from RMB680.3 million in 2018. Increases in both utility costs and depreciation and amortization costs were largely a result of an increase in new data center facilities. In addition, the increase in cost of revenue was also due to (i) an increase in personnel costs of RMB47.9 million in connection with more data centers coming into service, (ii) an increase of RMB30.6 million in rental expense for operating lease and service fees for third-party data centers, (iii) an increase of RMB28.0 million for share-based compensation expenses, (iv) an increase of RMB19.5 million for network cost and (v) an increase of RMB126.0 million for maintenance and other costs. Cost of revenue as percentage of net revenue decreased to 74.7% in 2019 from 77.7% in 2018.

Operating Expenses

Our total operating expenses increased by 24.0% to RMB562.9 million (US$79.7 million) in 2019 as compared to RMB454.1 million in 2018. The increase was primary due to an increase in share-based compensation expenses of RMB55.9 million, personnel cost of RMB16.4 million, depreciation and amortization expenses of RMB9.1 million and office and traveling expenses of RMB7.5 million. Our total operating expenses as a percentage of our net revenue decreased to 13.7% in 2019 from 16.3% in 2018.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 17.5% to RMB129.9 million (US$18.4 million) in 2019 from RMB110.6 million in 2018. This increase was primarily attributable to (i) an increase in share-based compensation expenses of RMB14.2 million and (ii) an increase in personnel costs of RMB4.4 million, related to bonuses and the hiring of sales personnel.

General and Administrative Expenses. Our general and administrative expenses increased by 24.8% to RMB411.4 million (US$58.2 million) in 2019 from RMB329.6 million in 2018. This increase was primarily a result of (i) an increase in share-based compensation expenses of RMB40.2 million, (ii) an increase in personnel costs of RMB8.7 million, (iii) an increase in depreciation and amortization expenses of RMB8.4 million and (iv) an increase in office and traveling expenses of RMB7.2 million due to the expansion of our business.

Research and Development Expenses. Our research and development expenses increased by 55.4% to RMB21.6 million (US$3.1 million) in 2019 from RMB13.9 million in 2018, which was primarily due to an increase in research and development projects to enhance our existing operations.

Other Income (Expenses)

Interest Income. Our interest income increased by 175.9% to RMB53.0 million (US$7.5 million) in 2019 from RMB19.2 million in 2018. The increase was primarily a result of an increase in cash balance raised from our public offering and issuance of preferred shares.

Interest Expenses. Our interest expenses increased by 47.6% to RMB968.7 million (US$137.1 million) in 2019 from RMB656.2 million in 2018. This increase was primarily a result of an increase of borrowings, finance lease and other financing obligations and convertible bonds payable.

Government Grants. Income from government grants increased by 207.7% to RMB9.9 million (US$1.4 million) in 2019 from RMB3.2 million in 2018, primarily due to the additional deduction of input value-added tax.

Foreign Currency Exchange Gain (Loss), net. Changes in currency rates resulted in a loss of RMB6.0 million (US$0.8 million) in 2019 as compared to a gain of RMB20.3 million in 2018, primarily due to the appreciation of the U.S. dollar relative to Renminbi.

Income Tax Benefits (Expenses)

Income tax expenses were RMB15.7 million (US$2.2 million) in 2019, compared to the income tax benefits of RMB9.4 million in 2018. The income tax expenses in 2019 were primarily due to the profit generated in certain of our subsidiaries as a result of increase in utilization in the related data centers.

Net Loss

As a result of the foregoing, net loss increased to RMB442.1 million (US$62.6 million) in 2019 from RMB430.3 million in 2018.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Revenue

Our net revenue increased by 72.8% to RMB2,792.1 million in 2018 from RMB1,616.2 million in 2017. This increase was due to increases in service revenue and IT equipment sales of RMB1,167.6 million and RMB8.3 million, respectively. The increase in service revenue consisted of an increase in revenue from colocation services of RMB885.1 million, an increase in revenue from managed services of RMB274.9 million and an increase in revenue from consulting services of RMB7.6 million. These increases in service revenue were mainly due to (i) an increase in area utilized from 61,713 sqm as of December 31, 2017 to 108,326 sqm as of December 31, 2018, as customers with commitments moved into the data center area, (ii) the signing of new service contracts by customers who commenced utilizing services during the period, (iii) the commencement of operations of new data centers since December 31, 2017 and (iv) the acquisition of two data centers in Shenzhen and Guangzhou in 2017, and two data centers in Guangzhou and Shanghai in 2018, respectively.

Cost of Revenue

Our cost of revenue increased by 79.7% to RMB2,169.6 million in 2018 from RMB1,207.7 million in 2017. This increase was primarily due to an increase of 80.6% in utility costs to RMB656.1 million in 2018 from RMB363.3 million in 2017, and an increase of 97.0% in depreciation and amortization costs to RMB680.3 million in 2018 from RMB345.4 million in 2017. Increases in both utility costs and depreciation and amortization costs were largely a result of an increase in new data center facilities. In addition, the increase in cost of revenue was also due to (i) an increase of RMB66.0 million in rental expense for operating lease and service fees for third-party data centers, (ii) an increase in personnel costs of RMB36.8 million in connection with more data centers coming into service, (iii) an increase of RMB13.1 million for network cost, (iv) an increase of RMB8.0 million for cost of equipment sold and (v) an increase of RMB210.3 million for maintenance and other costs. Cost of revenue as percentage of net revenue increased to 77.7% in 2018 from 74.7% in 2017.

Operating Expenses

Our total operating expenses increased by 39.2% to RMB454.1 million in 2018 as compared to RMB326.2 million in 2017. The increase was primary due to an increase in share-based compensation expenses of RMB38.0 million, personnel cost of RMB28.2 million, depreciation and amortization expenses of RMB28.4 million and professional service fees of RMB11.8 million. Our total operating expenses as a percentage of our net revenue decreased to 16.3% in 2018 from 20.2% in 2017.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 22.7% to RMB110.6 million in 2018 from RMB90.1 million in 2017. This increase was primarily attributable to (i) an increase in personnel costs of RMB13.3 million, related to bonuses and the hiring of sales personnel, and (ii) an increase in share-based compensation expenses of RMB6.8 million.

General and Administrative Expenses. Our general and administrative expenses increased by 44.0% to RMB329.6 million in 2018 from RMB228.9 million in 2017. This increase was primarily a result of (i) an increase in share-based compensation expenses of RMB30.8 million, (ii) an increase in depreciation and amortization expenses of RMB28.4 million, (iii) an increase in personnel costs of RMB14.0 million and (iv) an increase in professional service fees of RMB11.8 million due to the expansion of our business.

Research and Development Expenses. Our research and development expenses increased by 91.6% to RMB13.9 million in 2018 from RMB7.3 million in 2017, which was primarily due to an increase in research and development projects to enhance our existing operations.

Other Income (Expenses)

Interest Income. Our interest income increased by 243.1% to RMB19.2 million in 2018 from RMB5.6 million in 2017. The increase was primarily a result of an increase in cash balance raised from our public offering and issuance of convertible bonds.

Interest Expenses. Our interest expenses increased by 59.3% to RMB656.2 million in 2018 from RMB412.0 million in 2017. This increase was primarily a result of an increase of borrowings, finance lease and other financing obligations and convertible bonds payable.

Government Grants. Income from government grants increased by 5.1% to RMB3.2 million in 2018 from RMB3.1 million in 2017.

Foreign Currency Exchange Gain (Loss), net. Changes in currency rates resulted in a gain of RMB20.3 million in 2018 as compared to a loss of RMB12.3 million in 2017, primarily due to the appreciation of the U.S. dollar relative to Renminbi.

Income Tax Benefits (Expenses)

Income tax benefits increased to RMB9.4 million in 2018 from RMB6.1 million in 2017. This increase was primarily due to the realization of deferred tax liabilities arising from acquisitions.

Net Loss

As a result of the foregoing, net loss increased to RMB430.3 million in 2018 from RMB326.9 million in 2017.

Liquidity and Capital Resources

Our primary sources of liquidity have been cash flow from short-term and long-term borrowings, issuance of debt and equity securities, including in our initial public offering, follow-on public offering, private placement (including convertible preferred shares) and convertible bonds, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements. Historically, we also have had finance lease and other financing obligations. As of June 30, 2020, we had cash of RMB7,742.1 million (US$1,095.8 million). In addition, as of June 30, 2020, total short-term debt was RMB1,912.5 million (US$270.7 million), comprised of short-term borrowings and the current portion of long-term borrowings of RMB1,681.8 million (US$238.0 million) and the current portion of finance lease and other financing obligations of RMB230.7 million (US$32.7 million). As of the same date, total long-term debt was RMB18,525.5 million (US$2,622.1 million), comprised of long-term borrowings (excluding current portion) of RMB9,337.9 million (US$1,321.7 million), the non-current portion of finance lease and other financing obligations of RMB7,101.4 million (US$1,005.1 million) and convertible bonds payable of RMB2,086.2 million (US$295.3 million).

Based on our current level of operations and available cash, including the proceeds we received from our initial public offering, follow-on public offerings, private placement and offering of convertible bonds, we believe our available cash, cash flows from operations, will provide sufficient liquidity to fund our current obligations, projected working capital requirements, debt service requirements and capital spending requirements at least for the next 12 months. However, we may require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to selectively pursue. If our existing cash resources are insufficient to meet our requirements, we may seek to sell equity or equity-linked securities, debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would result in additional dilution to our shareholders. The incurrence of indebtedness and issuance of debt securities would result in debt service obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we were unable to obtain additional equity or debt financing as required, our business, operations and prospects and our ability to maintain our desired level of revenue growth may suffer materially.

As a holding company with no material operations of our own, we are a corporation separate and apart from our subsidiaries and our consolidated VIEs and, therefore, provide for our own liquidity. We conduct our operations primarily through our PRC subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. If our PRC subsidiaries, or any newly formed PRC subsidiaries, incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their respective retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under applicable PRC laws and regulations, our PRC subsidiaries are each required to set aside a portion of their after-tax profits each year to fund certain statutory reserves, and funds from such reserves may not be distributed to us as cash dividends except in the event of liquidation of such subsidiaries.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any of our cash and financing requirements. Under China's existing foreign exchange regulations, our PRC subsidiaries are able to make payments of current accounts, such as dividends, to their offshore holding companies, in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities will be required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. There is no requirement imposed on investors to complete registration or obtain approval from appropriate government authorities before they can receive dividend payments from our company in the Cayman Islands. See "Risk Factors — Risks Related to

Doing Business in the People's Republic of China — Restrictions on currency exchange may limit our ability to utilize our net revenue effectively." These statutory limitations affect, and future covenant debt limitations might affect our PRC subsidiaries' ability to pay dividends to us.

As of June 30, 2020, our cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong, United States and Singapore. We currently believe that such limitations will not impact our ability to meet our ongoing short-term cash obligations although we cannot assure you that such limitations will not affect our ability in the future to meet our short-term cash obligations and to distribute dividends to our shareholders. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements" and "— Statutory Reserves."

We do not plan for our PRC subsidiaries to pay dividends in the foreseeable future and we intend for those subsidiaries to retain any future earnings for use in the operation and expansion of our business in China. Accordingly, our ability to pay dividends and finance debt will be affected by this current plan. In the future, we may take advantage of financing options available to us in connection with any dividend payments we may make or repayments of any offshore indebtedness we may incur. For example, we may fund dividend payments through offshore debt, whether unsecured or secured by the assets of our onshore consolidated entities. In order to service offshore debt, we may rely upon financing options through the capital markets, including issuances of equity or debt securities, the proceeds of which we may use to service offshore debt.

Pursuant to the PRC Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC "resident enterprise" to a foreign enterprise investor, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Accordingly, if in the future our PRC subsidiaries that are considered "resident enterprises" pay dividends to the Hong Kong subsidiary that holds such PRC subsidiary, any such dividend may be subject to a withholding tax of 10%. Such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — We may not be able to obtain certain benefits under the relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary."

As a result of these laws, rules and regulations relating to statutory reserves, foreign exchange conversion and withholding taxes described above, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their offshore holding companies as dividends, loans or advances. As of June 30, 2020, the restricted net assets were RMB8,437.7 million (US$1,194.3 million), which mainly consisted of paid-in registered capital.

The following table sets forth a summary of our cash flows for the periods indicated.

	Year Ended December 31,				Six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)		
	(in thousands)						
Net cash (used in) provided by operating activities	(167,816)	(12,910)	293,436	41,533	56,104	16,238	2,298
Net cash used in investing activities	(2,005,054)	(4,733,050)	(5,131,231)	(726,279)	(1,373,593)	(3,884,836)	(549,863)
Net cash provided by financing activities	2,355,728	4,876,806	8,361,939	1,183,556	4,769,377	5,872,392	831,182
Effect of exchange rate changes on cash and restricted cash	(74,250)	206,302	164,370	23,265	113,320	49,487	7,006
Net increase in cash and restricted cash	108,608	337,148	3,688,514	522,075	3,565,208	2,053,281	290,623
Cash and restricted cash at beginning of year/period	1,838,992	1,947,600	2,284,748	323,385	2,284,748	5,973,262	845,460
Cash and restricted cash at end of year/period	1,947,600	2,284,748	5,973,262	845,460	5,849,956	8,026,543	1,136,083

Notes:

(1) We adopted Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash on January 1, 2018 and retrospectively adjusted the consolidated statements of cash flows for each period prior to January 1, 2018 by excluding the movement of restricted cash of (i) RMB46.5 million, comprising the cash outflow of operating activities of RMB9.8 million, the cash outflow of investment activities of RMB3.6 million and the cash outflow of financing activities of RMB33.1 million, for the year ended December 31, 2017.

(2) We adopted ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments on January 1, 2018. As a result, the consolidated statement of cash flows for the year ended December 31, 2017 has been retrospectively adjusted by reclassifying the payments of contingent consideration for acquisition of subsidiaries, which amounted to RMB27.1 million, from investing activities to operating activities in the amount of RMB3.0 million and financing activities in the amount of RMB24.1 million, respectively.

Operating Activities

Net cash provided by operating activities was RMB16.2 million (US$2.3 million) in the six months ended June 30, 2020, primarily due to a net loss of RMB193.1 million (US$27.3 million), adjusted for (i) depreciation and amortization of RMB709.2 million (US$100.4 million), primarily relating to our data center property and equipment, (ii) share-based compensation expenses of RMB133.8 million (US$18.9 million), (iii) amortization of debt issuance cost and debt discount of RMB57.1 million (US$8.1 million), (iv) gain from purchase price adjustment of RMB55.2 million (US$7.8 million), (v) deferred tax benefits of RMB60.3 million (US$8.5 million) and (vi) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase in accounts receivable of RMB427.8 million (US$60.6 million) and decrease in deferred revenue of RMB31.2 million (US$4.4 million) due to increased revenue and slower cash collection process as a result of the COVID-19 pandemic, (ii) an increase in VAT recoverable of RMB149.6 million (US$21.2 million) mainly as a result of the capital expenditures, (iii) operating lease impact of RMB35.4 million (US$5.0 million), (iv) an increase in other non-current assets of RMB50.7 million (US$7.2 million) primary for rental deposits and (v) an increase in prepaid expenses of RMB23.3 million (US$3.3 million) for operating expenses, partially offset by (vi) an increase in accounts payable of RMB94.5 million (US$13.4 million), (vii) an increase in accrued expenses and other payables of RMB23.0 million (US$3.3 million) and (viii) an increase in other long-term liabilities of RMB23.1 million (US$3.3 million) primarily due to slower cash payment process as a result of the COVID-19 pandemic.

Net cash provided by operating activities was RMB293.4 million (US$41.5 million) in 2019, primarily due to a net loss of RMB442.1 million (US$62.6 million), adjusted for (i) depreciation and amortization of RMB1,142.0 million (US$161.6 million), primarily relating to our data center property and equipment; (ii) share-based compensation expenses of RMB189.8 million (US$26.9 million), (iii) amortization of debt issuance cost and debt discount of RMB99.4 million (US$14.1 million), (iv) deferred tax benefits of RMB50.2 million (US$7.1 million) and (v) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase in accounts receivable of RMB342.2 million (US$48.4 million) due to increased revenue, (ii) an increase in VAT recoverable of RMB323.0 million (US$45.7 million) mainly as a result of the capital expenditures, (iii) the increase in prepaid expenses of RMB13.3 million (US$1.9 million) for operating expenses and (iv) increases in other current assets and other non-current assets of RMB8.1 million (US$1.1 million) and RMB8.7 million (US$1.2 million), respectively, mainly due to the increase in rental and other deposits, partially offset by (v) an increase in deferred revenue of RMB31.4 million (US$4.4 million) due to the increase in sales, (vi) an increase in accounts payable of RMB22.5 million (US$3.2 million).

Net cash used in operating activities was RMB12.9 million in 2018, primarily due to a net loss of RMB430.3 million, adjusted for (i) depreciation and amortization of RMB741.5 million, primarily relating to our data center property and equipment, (ii) share-based compensation expenses of RMB105.9 million, (iii) amortization of debt issuance cost and debt discount of RMB61.4 million, (iv) deferred tax benefits of RMB36.6 million, (v) net loss on disposal of property and equipment of RMB2.2 million, (vi) allowance for doubtful accounts of RMB0.2 million and (vii) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase in accounts receivable of RMB157.7 million due to increased revenue, (ii) an increase in VAT recoverable of RMB221.4 million as a result of the expansion of our business, (iii) a decrease in accrued expenses and other payables of RMB56.7 million mainly due to the settlement of interest expenses in the period and (iv) increases in other current assets and other non-current assets of RMB11.5 million and RMB37.0 million, respectively, mainly due to the increase in rental and other deposits, partially offset by (i) an increase in accounts payable of RMB25.3 million for operating expenses, and (ii) an increase in deferred revenue of RMB17.5 million due to the increase in sales.

Net cash used in operating activities was RMB167.8 million in 2017, primarily due to a net loss of RMB326.9 million, adjusted for (i) depreciation and amortization of RMB378.1 million, primarily relating to our data center property and equipment, (ii) share-based compensation expenses of RMB59.8 million, (iii) amortization of debt issuance cost and debt discount of RMB48.1 million, (iv) deferred tax benefits of RMB11.6 million, and (v) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase in accounts receivable of RMB134.6 million due to increased revenue, (ii) an increase in VAT recoverable of RMB194.3 million as a result of the expansion of our business, and (iii) a decrease in accrued expenses and other payables of RMB83.3 million mainly due to the settlement of interest in the period, partially offset by (i) an increase in other long-term liabilities of RMB59.1 million primarily for the interest of the convertible bonds before conversion into ordinary shares in November 2017, (ii) an increase in accounts payable of RMB33.9 million for operating expenses, and (iii) a decrease in other current assets of RMB11.5 million primary for receipt of deposits.

Investing Activities

Net cash used in investing activities was RMB3,884.8 million (US$549.9 million) in the six months ended June 30, 2020, which was primarily due to the payments for purchase of property and equipment and land use rights of RMB3,547.6 million (US$502.1 million) for the development of our data centers and net of the proceeds from disposal of property and equipment, and payments for acquisitions of RMB337.2 million (US$47.7 million).

Net cash used in investing activities was RMB5,131.2 million (US$726.3 million) in 2019, which was primarily due to the payments for purchase of property and equipment and land use rights of RMB4,552.6 million (US$644.4 million) for the development of our data centers, including the deposit paid and net of the proceeds from disposal of property and equipment, and payments for acquisitions of RMB578.6 million (US$81.9 million).

Net cash used in investing activities was RMB4,733.1 million in 2018, which was primarily due to the payments for purchase of property and equipment and land use rights of RMB4,258.0 million for the development of our data centers, including the deposit paid and net of the proceeds from disposal of property and equipment, and payments for acquisitions of RMB475.1 million.

Net cash used in investing activities was RMB2,005.1 million in 2017, which was primarily due to the deposits and payments for purchase of property and equipment of RMB1,760.2 million for the development of our data centers, including the deposit paid, and payments related to acquisitions of RMB244.9 million.

Financing Activities

Net cash provided by financing activities was RMB5,872.4 million (US$831.2 million) in the six months ended June 30, 2020, which was primarily due to net proceeds from issuance of ordinary shares of RMB3,560.0 million (US$503.9 million), proceeds from borrowings, net of issuance cost, of RMB3,143.5 million (US$445.0 million), proceeds from other financing arrangements of RMB621.2 million (US$87.9 million) and proceeds from exercise of stock options of RMB77.4 million (US$11.0 million), partially offset by repayment of short-term and long-term borrowings of RMB1,354.6 million (US$191.7 million), payment under finance lease and other financing obligations of RMB78.9 million (US$11.2 million), payment of redeemable preferred shares dividends of RMB40.1 million (US$5.7 million), deferred payments for purchase of property and equipment of RMB34.4 million (US$4.9 million) and payment of contingent consideration for acquisitions of RMB21.7 million (US$3.1 million).

Net cash provided by financing activities was RMB8,361.9 million (US$1,183.6 million) in 2019, which was primarily due to proceeds from borrowings, net of issuance cost, of RMB5,311.5 million (US$751.8 million), net proceeds from issuance of ordinary shares of RMB4,934.1 million (US$698.4 million), net proceeds from issuance of redeemable preferred shares of RMB989.3 million (US$140.0 million), proceeds from a financial institution of RMB302.8 million (US$42.9 million), partially offset by repayment of short-term and long-term borrowings of RMB2,727.9 million (US$386.1 million), payment under finance lease and other financing obligations of RMB289.5 million (US$41.0 million) and payment of contingent consideration for acquisitions of RMB120.1 million (US$17.0 million).

Net cash provided by financing activities was RMB4,876.8 million in 2018, which was primarily due to proceeds from borrowings and convertible bonds, net of issuance cost, of RMB5,533.5 million, net proceeds from issuance of ordinary shares of RMB1,283.3 million, partially offset by repayment of short-term and long-term borrowings of RMB1,610.4 million, payment under finance lease and other financing obligations of RMB190.7 million and payment of contingent consideration for acquisitions of RMB155.7 million.

Net cash provided by financing activities was RMB2,355.7 million in 2017, which was primarily due to proceeds from short-term and long-term borrowings, net of issuance cost, of RMB3,577.4 million and net proceeds from issuance of ordinary shares to CyrusOne of RMB649.8 million, partially offset by repayment of short-term and long-term borrowings of RMB1,782.1 million, payment under finance lease and other financing obligations of RMB68.7 million and payment of contingent consideration for acquisitions of RMB24.1 million.

Statutory Reserves

Under applicable PRC laws and regulations, foreign-invested enterprises in China are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. Pursuant to such laws and regulations, we may pay dividends only out of our after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Further, we are required to allocate at least 10% of our after-tax profits to fund the general reserve until such reserve has reached 50% of our registered capital. In addition, we may also set aside, at our or our Board's discretion, a portion of our after tax profits to fund the employee welfare and bonus fund. These reserves may only be used for specific purposes and are not distributable to us in the form of loans, advances, or cash dividends.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had RMB0.2 million, RMB0.6 million, RMB15.7 million (US$2.2 million) and RMB15.7 million (US$2.2 million), respectively, in our statutory reserves.

Capital Expenditures

We had capital expenditures, excluding payments related to acquisitions, of RMB1,760.2 million, RMB4,258.0 million, RMB4,552.6 million (US$644.4 million) and RMB3,547.6 million (US$502.1 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. Our capital expenditures were primarily for the purchase of equipment as well as land use rights and leasehold-improvement of data centers. Our capital expenditures have been primarily funded by net cash provided by financing activities.

Holding Company Structure

As a holding company with no material operations of our own, we are a corporation separate and apart from our subsidiaries and our consolidated VIEs and, therefore, provide for our own liquidity. We conduct our operations primarily through our PRC subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. If our PRC subsidiaries, or any newly formed PRC subsidiaries, incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their respective retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under applicable PRC laws and regulations, our PRC subsidiaries are each required to set aside a portion of their after-tax profits each year to fund certain statutory reserves, and funds from such reserves may not be distributed to us as cash dividends except in the event of liquidation of such subsidiaries.

For 2017, 2018 and 2019 and the six months ended June 30, 2020, our consolidated VIEs contributed 91.0%, 97.2%, 97.4% and 96.4%, respectively, of our total net revenue.

Off-Balance Sheet Arrangements

Other than the obligations set forth in the table below, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2020:

	Payment due by period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
			(unaudited) (in thousands)		
Short-term borrowings and interests[(1)]	760,091	760,091	–	–	–
Long-term borrowings and interests[(1)]	12,734,031	1,621,575	5,158,856	3,660,460	2,293,140
Finance lease and other financing obligations[(2)]	11,954,054	710,324	1,614,597	1,747,634	7,881,499
Operating lease obligations[(2)]	1,984,284	140,967	224,682	206,865	1,411,770
Capital commitments[(3)]	3,343,911	3,073,969	268,954	840	148
Other liabilities[(4)]	1,116,901	815,220	48,921	27,357	225,403
Total	31,893,272	7,122,146	7,316,010	5,643,156	11,811,960

Notes:

(1) The interests are calculated using the effective interest rate as of June 30, 2020 for each loan.

(2) Represent minimum lease payments.

(3) Capital commitments primarily represent purchases of equipment and maintenance services.

(4) Other liabilities include consideration payables for the acquisition of SZ5, GZ3, GZ6, BJ10, BJ11 and BJ12, and the minimum lease payments for the leases not yet commenced.

Indebtedness

As of August 31, 2020, total short-term debt was RMB2,105.2 million (US$298.0 million), comprised of short-term borrowings and the current portion of long-term borrowings of RMB1,881.1 million (US$266.3 million) and the current portion of finance lease and other financing obligations of RMB224.1 million (US$31.7 million). Total long-term debt was RMB19,765.2 million (US$2,797.5 million), comprised of long-term borrowings (excluding current portion) of RMB10,184.3 million (US$1,441.5 million), the non-current portion of finance lease and other financing obligations of RMB7,557.2 million (US$1,069.6 million) and convertible bonds payable of RMB2,023.7 million (US$286.4 million).

Except for our indebtedness as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of August 31, 2020, being the latest practicable date for our indebtedness statement.

Since August 31, 2020 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

Contingent Liabilities

As of the Latest Practicable Date, we did not have significant contingent liabilities.

Project Financing Structure

Our data center projects are financed with both equity and debt. We typically capitalize a portion of our data center projects' funding requirements with proceeds raised from financing offshore that is injected into China as registered capital through each of our data center project-specific legal entities. Under SAFE and PRC regulations, registered capital for each legal entity can only be used for its own business use or project-designated purposes, which also follows under its registered business scope. Once the registered capital is injected into China, it is often difficult to remit the proceeds back offshore or to lend it to our other onshore subsidiaries. Thus, we inject registered capital only as needed throughout the development phase of the data center project to remain flexible with our offshore capital. Concurrently, we capitalize each data center project through onshore project-specific loan facilities from banking or other financial institutions in China to finance the remaining capital required in completing the data center project. Under this arrangement, each data center's estimated cash flows are matched and committed to service its own debt obligations during the term of its loan facilities.

In conjunction with the registered capital injected, we sometimes inject a portion of our offshore capital to our onshore project entities through shareholder's loans. In these instances, we utilize the shareholder's loans as a temporary bridge to capitalize our projects until project-specific loan facilities have been obtained. Once the project loans are in place, subject to the agreement by lending bank(s), the shareholder's loans are repaid back offshore.

Convertible Bonds and Convertible Notes

On December 30, 2015 and January 29, 2016, we issued and sold convertible bonds due in 2019 in an initial aggregate principal amount of US$150.0 million, which were subscribed by Ping An Insurance and STT GDC, as to US$100.0 million and US$50.0 million, respectively.

On November 17, 2017, the full principal amount of the outstanding US$150.0 million convertible bonds was voluntarily converted into ordinary shares by Ping An Insurance and STT GDC at a set conversion price of US$1.675262 per ordinary share, or US$13.40 per ADS. Upon conversion of the principal amount of and interest accrued on the convertible bonds, we issued approximately 97.9 million additional Class A ordinary shares, representing 10.4% of our then-enlarged issued share capital.

On June 5, 2018, we issued and sold convertible senior notes due in 2025 in an aggregate principal amount of US$300 million, which bear interest at a rate of 2% per year, payable on June 1 and December 1 of each year, beginning on December 1, 2018. The convertible senior notes will mature on June 1, 2025, unless earlier redeemed, repurchased or converted in accordance with their terms. The convertible senior notes may be converted into our ADSs, at the option of the holders, at an initial conversion rate of 19.3865 of our ADSs per US$1,000 principal amount of notes, or approximately 5,815,950 ADSs, representing 46,527,600 Class A ordinary shares, assuming conversion of the entire US$300 million aggregate principal amount at the initial conversion rate.

Convertible Preferred Shares

In March 2019, Ping An Overseas Holdings made an investment in us, and we issued 150,000 Series A convertible preferred shares to an affiliate of Ping An Overseas Holdings for a total consideration of US$150 million. Pursuant to the terms of the investment, during the first eight years from their issuance date, the convertible preferred shares accrue a minimum 5.0% per annum dividend, payable quarterly in arrears, in cash or in kind in the form of additional convertible preferred shares, at our option. As of the eighth anniversary of the issuance date, the convertible preferred shares accrue a 7.0% per annum minimum dividend, payable quarterly in arrears, in cash only, which dividend rate will further increase by 50 basis points per quarter thereafter for so long as any convertible preferred shares remain outstanding. The convertible preferred shares are convertible into 33,707,864 Class A ordinary shares at the option of their holder, at a conversion rate corresponding to a conversion price of US$35.60 per ADSs, representing a premium of 13.3% to the volume weighted average price of our ADSs for the 30 trading days immediately preceding the date of signing the definitive agreement, subject to customary anti-dilution adjustments. Assuming conversion of all the Series A convertible preferred shares held by its affiliate, Ping An Overseas Holdings would have beneficially owned 2.7% of our Class A ordinary shares as of the Latest Practicable Date. We have the right to trigger a mandatory conversion at our election, beginning on March 15, 2022, provided certain conditions are met, including our Class A ordinary shares achieving a specified price threshold of 150% of the conversion price for a specified period. Holders will not have any redemption right or put option over the convertible preferred shares, except upon (i) the occurrence of a change of control, or (ii) our ADSs ceasing to be listed for trading on any of the New York Stock Exchange, the Nasdaq Global Select Market or the Nasdaq Global Market. Assuming that either of the two foregoing events occurred on June 30, 2020 and that all holders exercised their redemption right to require our Company to purchase all of the convertible preferred shares, the total purchase price would have been RMB2.4 billion and total cash would have been reduced by the same amount in the event of such redemption. After eight years, we will have certain rights in connection with the redemption of the convertible preference shares at 100% of their face value, plus accrued and unpaid dividends. In addition, Ping An Overseas Holdings has the right to designate one non-voting observer to attend any meetings of our board of directors, subject to maintaining its shareholding at or above a specified percentage threshold.

Loans and borrowings

As of June 30, 2020, we had short-term borrowings of RMB734.2 million (US$103.9 million) with weighted average interest rate of 5.40%, and long-term borrowings (including current portion) of RMB10,285.5 million (US$1,455.8 million) with weighted average interest rate of 7.02%.

Our company, as of June 30, 2020, through one or more of our subsidiaries, entered into secured and unsecured loan agreements with various financial institutions for project development and working capital purpose with terms ranging from 1 to 13 years. More specifically, the terms of these secured loan facility agreements generally include one or more of the following conditions. If any of the below conditions were to be triggered, we could be obligated to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule. See "Risk Factors — Risk Relating to Our Business and Industry — Our substantial level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our indebtedness."

- STTC ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC;
- STT GDC (a) is not or ceases to, directly or indirectly, be the beneficial owner of at least 25% of the issued share capital of our company, or (b) does not or ceases to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, at least 25% of the votes that may be cast at a meeting of the board of directors (or similar governing body) of our company, or (c) is not or ceases to be the single largest shareholder of our company;

- our company and GDS Investment Company are not or ceases to be, directly or indirectly, the legal and beneficial owner of 100% of equity interests of, and have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to control, GDS Investment Company (in the case of our company), GDS Beijing, GDS Suzhou and the relevant borrowing subsidiaries;

- Management HoldCo ceases to, directly or indirectly, own at least 100% of the equity interests of and have the power to control GDS Beijing or GDS Suzhou;

- GDS Beijing, GDS Suzhou and the relevant borrowing subsidiaries cease to, directly or indirectly, be the legal and beneficial owner of 100% of equity interests of, and have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to control, their consolidated subsidiaries;

- there are changes in the shareholding structure of a principal operating subsidiary of ours, as defined in the relevant loan facility agreement; and

- the IDC license of GDS Beijing or the borrowing subsidiaries, or the authorization by GDS Beijing to one such subsidiary to operate the data center business and provide IDC services under the auspices of the IDC license held by GDS Beijing, is cancelled or fails to be renewed on or before the expiry date.

There are certain other events in the loan facility agreements the occurrence of which could obligate us to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule, including, among others, if our borrowing subsidiary fails to use the loan in accordance with the use of proceeds as provided in the loan facility agreement, the borrowing subsidiary violates or fails to perform any of its commitments under the loan facility agreement, or if we are delisted before the maturity date under the relevant loan facility agreement. In addition, the terms of these loan agreements include financial covenants that limit certain financial ratios, such as the interest coverage ratio and gross leverage ratio, during the relevant period, as defined in the agreements. The terms of these loan agreements also include cross default provisions which could be triggered if our company (i) fails to repay any financial indebtedness in an aggregate amount exceeding US$4.5 million, or, in some cases, RMB50 million (US$7.1 million), when due or within any originally applicable grace period; (ii) fails to repay any financial indebtedness or perform any of its obligations under any agreement which could have a material adverse effect on its performance of the loan facility agreements; (iii) fails to repay any financial indebtedness raised with any financial institution; or (iv) fails to perform any loan facility agreement with any financial institution which could result in immediate or accelerated repayment of the financial indebtedness or downgrading of the borrowing subsidiary by any credit rating agency administered by the PBOC in accordance with the regulations promulgated by PBOC governing loan market rating standards. As of June 30, 2020, our company was in compliance with all of the abovementioned covenants.

As of June 30, 2020, we had total working capital and project financing credit of RMB17,814.9 million (US$2,521.6 million) from various financial institutions, of which the unused amount was RMB6,555.3 million (US$927.8 million). As of June 30, 2020, we had drawn down RMB11,259.6 million (US$1,593.7 million) under these loan facilities, of which RMB734.2 million (US$103.9 million), net of debt issuance cost of RMB0.7 million (US$0.1 million), was recorded in short-term borrowings and RMB10,285.5 million (US$1,455.8 million), net of debt issuance costs of RMB239.2 million (US$33.9 million), was recorded in long-term borrowings, respectively. Drawdowns from these credit facilities are subject to the approval of the relevant lending financial institution and are subject to the terms and conditions of each loan agreement.

Below is a summary of the key material terms of the abovementioned secured and unsecured borrowings, which are in RMB, USD and HKD denominations:

Loan Facilities up to June 30, 2020

RMB Loan Facilities in Millions:

Data Center and Corporate	Facility Type	As of June 30, 2020 Facility Amount	Drawdown Amount[e]	Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		RMB (US$)	RMB (US$)			
BJ1-3	Term Loan	528.3 (74.8)	528.3 (74.8)	LPR[f] over 5-Year +25 Basis Points	September 2019	September 2027
	Term Loan	59.0 (8.4)	59.0 (8.4)	LPR[f] over 5-Year +25 Basis Points	September 2019	September 2027
BJ4	Term Loan	237.0 (33.5)	194.2 (27.5)	LPR[f] over 5-Year +125 Basis Points	October 2019	October 2024
	Revolving Credit Facility[a]	29.0 (4.1)	15.4 (2.2)	LPR[f] 1-Year +190 Basis Points	October 2019	October 2024
BJ5	Term Loan	484.0 (68.5)	484.0 (68.5)	Fixed Rate at 6.3%	December 2018	December 2023
	Revolving Credit Facility[a]	60.0 (8.5)	26.8 (3.8)	Fixed Rate at 6.3%	December 2018	December 2023

Data Center and Corporate	Facility Type	As of June 30, 2020 Facility Amount	Drawdown Amount[e]	Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		RMB (US$)	RMB (US$)			
BJ6	Term Loan	318.0 (45.0)	318.0 (45.0)	PBOC 1 to 5-Year Lending Rate*130%	August 2019	August 2024
	Revolving Credit Facility[a]	23.0 (3.3)	12.1 (1.7)	PBOC 1-Year Lending Rate*130%	August 2019	August 2024
BJ7-8	Term Loan	977.0 (138.3)	161.7 (22.9)	LPR[f] over 5-Year +152.5 Basis Points	April 2020	April 2025
	Revolving Credit Facility[a]	119.0 (16.8)	13.9 (2.0)	LPR[f] 1-Year +180.5 Basis Points	April 2020	April 2025
CD1-2	Term Loan [b]	845.0 (119.6)	845.0 (119.6)	LPR[f] over 5-Year +15 Basis Points	April 2020	April 2030
GZ1	Term Loan	138.0 (19.5)	138.0 (19.5)	LPR[f] over 5-Year +181.8 Basis Points	November 2018	November 2025
GZ2	Term Loan	104.0 (14.7)	104.0 (14.7)	PBOC 1 to 5-Year Lending Rate*130%	November 2017	November 2022
	Revolving Credit Facility[a]	20.0 (2.8)	— (—)	PBOC 1-Year Lending Rate*130%	November 2017	November 2022
GZ3	Term Loan	366.8 (51.9)	366.8 (51.9)	LPR[f] over 5-Year +152.5 Basis Points	June 2018	June 2023
	Term Loan	193.0 (27.3)	193.0 (27.3)	LPR[f] over 5-Year +132.5 Basis Points	June 2018	June 2023
	Revolving Credit Facility[a]	41.0 (5.8)	39.3 (5.6)	LPR[f] 1-Year +180.5 Basis Points	June 2018	June 2023

Data Center and Corporate	Facility Type	As of June 30, 2020		Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		Facility Amount	Drawdown Amount[e]			
		RMB (US$)	RMB (US$)			
GZ6	Term Loan	150.0 (21.2)	114.5 (16.2)	LPR[f] over 5-Year +35 Basis Points	November 2019	November 2026
	Term Loan	50.0 (7.1)	34.9 (4.9)	LPR[f] 1-Year +100 Basis Points	November 2019	November 2022
KS1	Term Loan	86.3 (12.2)	86.3 (12.2)	PBOC over 5-Year Lending Rate	July 2009	December 2022
	3rd Party Financing	150.0 (21.2)	150.0 (21.2)	Fixed Rate at 9.7%	November 2017	January 2023
KS2-3.............	Term Loan	568.0 (80.4)	393.7 (55.7)	LPR[f] 1-Year +59 Basis Points	June 2019	July 2027
SH1-3.............	Term Loan	269.3 (38.1)	269.3 (38.1)	PBOC over 5-Year Lending Rate	June 2019	June 2027
	Term Loan	504.0 (71.3)	504.0 (71.3)	PBOC over 5-Year Lending Rate	June 2019	June 2027
SH5	Term Loan	93.8 (13.3)	93.8 (13.3)	LPR[f] over 5-Year +123 Basis Points	December 2017	December 2027
SH6-7.............	Term Loan	229.8 (32.5)	229.8 (32.5)	Fixed Rate at 6.8%	September 2018	June 2023
	Term Loan	282.0 (39.9)	226.0 (32)	Fixed Rate at 6.7925%	September 2018	June 2022
	Revolving Credit Facility[a]	80.0 (11.3)	17.7 (2.5)	Fixed Rate at 5.655%	September 2018	June 2023

Data Center and Corporate	Facility Type	As of June 30, 2020		Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		Facility Amount	Drawdown Amount[(e)]			
		RMB (US$)	RMB (US$)			
SH8	Term Loan	220.0 (31.1)	220.0 (31.1)	LPR[(f)] over 5-Year +74 Basis Points	July 2018	August 2028
SH9-10	Term Loan	278.0 (39.3)	278.0 (39.3)	Fixed Rate at 6.3%	January 2019	January 2024
	Revolving Credit Facility[(a)]	31.0 (4.4)	10.0 (1.4)	Fixed Rate at 6.3%	January 2019	January 2024
SH11	Term Loan	180.8 (25.6)	180.8 (25.6)	LPR[(f)] over 5-Year +176.25 Basis Points	August 2018	August 2023
	Revolving Credit Facility[(a)]	28.0 (4.0)	— (—)	LPR[(f)] 1-Year +202.25 Basis Points	August 2018	August 2023
SH12	Term Loan	230.0 (32.6)	40.1 (5.7)	LPR[(f)] over 5-Year +103 Basis Points	April 2020	April 2030
SH14	Term Loan	560.0 (79.3)	— (—)	LPR[(f)] over 5-Year +135 Basis Points	June 2020	84 months after drawdown
	Revolving Credit Facility[(a)]	40.0 (5.7)	— (—)	LPR[(f)] 1-Year +180 Basis Points	June 2020	84 months after drawdown
SH16-17	Term Loan	720.0 (101.9)	709.6 (100.4)	Fixed Rate at 5.88%	April 2020	April 2032
SZ1-3	Term Loan	305.3 (43.2)	305.3 (43.2)	LPR[(f)] 1-Year +207 Basis Points	November 2017	December 2023
SZ4	Term Loan	250.0 (35.4)	233.6 (33.1)	LPR[(f)] over 5-Year +115 Basis Points	June 2020	June 2028

Data Center and Corporate	Facility Type	As of June 30, 2020		Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		Facility Amount	Drawdown Amount[e]			
		RMB (US$)	RMB (US$)			
SZ5	Term Loan	572.3 (81)	572.3 (81.0)	Fixed Rate at 6.3%	June 2017	December 2023
	Term Loan	291.0 (41.2)	291.0 (41.2)	Fixed Rate at 6.3%	June 2017	December 2023
	Revolving Credit Facility[a]	60.0 (8.5)	22.2 (3.1)	Fixed Rate at 6.3%	June 2017	December 2023
ZB1-4	Term Loan	739.5 (104.7)	704.9 (99.8)	LPR[f] over 5-Year +152.5 Basis Points	March 2019	March 2024
	Term Loan	243.8 (34.5)	115.1 (16.3)	LPR[f] over 5-Year +152.5 Basis Points	March 2019	March 2024
	Revolving Credit Facility[a]	30.0 (4.2)	9.8 (1.4)	LPR[f] 1-Year +180.5 Basis Points	March 2019	March 2024
JV1	Term Loan[c]	100.0 (14.2)	85.3 (12.1)	PBOC 1-Year Lending Rate*140%	August 2019	August 2020[g]
	Term Loan[c]	10.0 (1.4)	— (—)	PBOC 1-Year Lending Rate*140%	August 2019	August 2020[g]
JV2	Term Loan[c]	80.0 (11.3)	73.1 (10.3)	LPR[f] 1-Year +198 Basis Points	March 2020	March 2021
JV3	Term Loan[c]	80.0 (11.3)	— (—)	LPR[f] 1-Year +198 Basis Points	March 2020	1 year after drawdown
JV4	Term Loan[c]	110.0 (15.6)	— (—)	LPR[f] 1-Year +198 Basis Points	March 2020	1 year after drawdown

Data Center and Corporate	Facility Type	As of June 30, 2020 Facility Amount	Drawdown Amount[e]	Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		RMB (US$)	RMB (US$)			
JV5	Term Loan[c]	115.0 (16.3)	56.3 (8.0)	LPR[f] 1-Year +225 Basis Points	January 2020	January 2021
Corporate	Term Loan[d]	27.5 (3.9)	27.5 (3.9)	PBOC 1 to 5-Year Lending Rate*135%	July 2019	January 2021
	Term Loan[d]	30.0 (4.2)	30.0 (4.2)	LPR[f] 1-Year +100 Basis Points	August 2019	December 2020
	Term Loan[d]	20.0 (2.8)	20.0 (2.8)	Fixed Rate at 5.5%	November 2019	November 2020
	Term Loan	30.0 (4.2)	30.0 (4.2)	LPR[f] 1-Year +107 Basis Points	December 2019	December 2020
	Term Loan	40.0 (5.7)	40.0 (5.7)	LPR[f] 1-Year +107 Basis Points	January 2020	January 2021
	Term Loan	30.0 (4.2)	30.0 (4.2)	LPR[f] 1-Year +117 Basis Points	March 2020	January 2021
	Term Loan	30.0 (4.2)	30.0 (4.2)	Fixed Rate at 5.7%	March 2020	April 2021
	Term Loan[d]	50.0 (7.1)	50.0 (7.1)	Fixed Rate at 5.7%	May 2020	May 2022
	Term Loan[d]	20.0 (2.8)	20.0 (2.8)	LPR[f] 1-Year +65 Basis Points	April 2020	April 2021
	Term Loan[d]	50.0 (7.1)	50.0 (7.1)	Fixed Rate at 5.4%	June 2020	June 2022

USD Loan Facilities in Millions:

Data Center and Corporate	Facility Type	As of June 30, 2020 Facility Amount	Drawdown Amount[f]	Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		US$	US$			
GZ2	Term Loan	15.9	15.9	3-Month Libor +425 Basis Points	October 2017	April 2021
SH14	Term Loan	35.0	—	3-Month Libor +250 Basis Points	June 2020	24 months after drawdown
Corporate	Term Loan	100.0	100.0	3-Month Libor +485 Basis Points	April 2018	April 2022
	Uncommitted Revolving Credit Facility[c]	75.0	21.6	3-Month Libor +220 Basis Points	December 2019	12 months after each drawdown with option to extend
	Uncommitted Revolving Credit Facility[c]	75.0	—	3-Month Libor +220 Basis Points	April 2020	12 months after each drawdown with option to extend
	Revolving Credit Facility[a]	300.0	—	3-Month Libor +400 Basis Points	June 2020	18 months after the date of facility with option to extend

HKD Loan Facilities in Millions:

Data Center	Facility Type	As of June 30, 2020 Facility Amount	Drawdown Amount[e]	Interest Rate	Facility Agreement Original Begin Date	Facility Agreement Maturity Date
		HKD (US$)	HKD (US$)			
HK1	Term Loan	1,043.7 (134.9)	472.4 (61.0)	3-Month Hibor +187.5 Basis Points	March 2019	March 2023

Notes:

(a) Revolving Credit Facility allows our company to borrow, repay and reborrow.

(b) New facilities drawn down to refinance previous project term loans.

(c) These loan facilities are dedicated to support the development and construction of our build-to-suit, or BTS data centers, and the term of each loan facility is no longer than 12-24 months. These facilities are expected to be refinanced upon the completion of certain conditions under the strategic cooperation framework agreement between GIC and us.

(d) Unsecured loans.

(e) Drawdown amount does not deduct debt issuance costs of RMB239.9 million (US$34.0 million) in total.

(f) LPR refers to Loan Prime Rate.

(g) This facility has been extended to February 2021 as of the Latest Practicable Date.

Working Capital

We recorded net current assets of RMB31.0 million as of December 31, 2017, net current liabilities of RMB470.5 million as of December 31, 2018, net current assets of RMB3,085.2 million (US$436.7 million) as of December 31, 2019, net current assets of RMB3,149.9 million (US$445.8 million) as of June 30, 2020 and RMB2,669.6 million (US$377.9 million) as of August 31, 2020, respectively. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,				As of June 30,		As of August 31,	
	2017	2018	2019		2020		2020	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
							(unaudited)	
	(in thousands)							
Current Assets								
Cash	1,873,446	2,161,622	5,810,938	822,485	7,742,082	1,095,821	6,898,964	976,485
Restricted cash	10,837	87	34,299	4,855	112,756	15,960	89,843	12,716
Accounts receivable, net of allowance for doubtful accounts	364,654	536,842	879,962	124,551	1,388,535	196,534	1,576,099	223,082
Value-added-tax ("VAT") recoverable	112,067	163,476	129,994	18,399	114,575	16,217	110,196	15,597
Prepaid expenses	50,373	64,843	80,913	11,452	104,357	14,771	113,454	16,058
Other current assets	42,651	110,526	148,603	21,033	155,782	22,049	138,363	19,584
Total current assets	**2,454,028**	**3,037,396**	**7,084,709**	**1,002,775**	**9,618,087**	**1,361,352**	**8,926,919**	**1,263,522**

	As of December 31,				As of June 30,		As of August 31,	
	2017	2018	2019		2020		2020	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
							(unaudited)	
				(in thousands)				
Current Liabilities								
Short-term borrowings and current portion of long-term borrowings ...	790,484	1,283,320	1,137,737	161,036	1,681,787	238,041	1,881,131	266,257
Accounts payable	1,110,411	1,508,020	1,675,966	237,218	2,880,745	407,743	2,847,157	402,989
Accrued expenses and other payables	368,624	476,564	817,883	115,764	1,541,688	218,212	1,144,908	162,051
Deferred revenue	55,609	73,077	90,316	12,783	59,826	8,468	79,867	11,304
Operating lease liabilities, current	—	—	55,139	7,804	73,362	10,384	80,168	11,347
Finance lease and other financing obligations, current	97,943	166,898	222,473	31,489	230,746	32,660	224,098	31,719
Total current liabilities ..	**2,423,071**	**3,507,879**	**3,999,514**	**566,094**	**6,468,154**	**915,508**	**6,257,329**	**885,667**
Net current assets/(liabilities)	**30,957**	**(470,483)**[(1)]	**3,085,195**[(2)]	**436,681**	**3,149,933**	**445,844**	**2,669,590**	**377,855**

Notes:

(1) The net current liability position as of December 31, 2018 was mainly due to that the timing gap existed when we refinanced one existing short-term borrowings. In March 2019, we successfully refinanced a short-term borrowing of RMB500 million with long-term borrowings under new facilities with 5-year maturity period.

(2) Our positive operating cash flows, ensuring the debts are financed at a longer period to match the life cycle of our data centers and capital raising through public and private offerings resulted in the net current assets position in 2019.

Taking into account cash and cash equivalents on hand, cash flows from operations and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus. After due and careful inquiry, and independent due diligence, the Joint Sponsors are satisfied with the abovementioned confirmation given by the directors.

Quantitative And Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest expenses incurred in respect of bank borrowings, bonds payable and capital lease and other financing obligations and interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments and interest-bearing obligations carry a degree of interest rate risk. We have not been exposed to material risks due to changes in market interest rates. However, our future interest income and interest expenses may fluctuate due to changes in market interest rates.

Foreign Exchange Risk

All of our revenue and substantially all of our expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our Shares and/or ADSs will be affected by the exchange rate between the U.S. dollar, Hong Kong dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our Shares will be traded in Hong Kong dollars and our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It remains unclear what further fluctuations may occur or what impact this will have on our results of operations.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert

Renminbi into U.S. dollars for the purpose of making payments for dividends on our Shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Dividend Policy and Distributions

Since our inception, we have not declared or paid any dividends on our Shares. We do not have any present plan to pay any dividends on our Shares or ADSs in the foreseeable future. We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Any future determination to pay dividends will be made at the discretion of our board of directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Shares, if any, will be paid in U.S. dollars.

For information concerning dividends on our outstanding Series A convertible preferred shares, see "— Indebtedness — Convertible Preferred Shares."

We are an exempted company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we may rely on dividends distributed by our PRC subsidiaries. Certain payments from our PRC subsidiaries to us may be subject to PRC withholding income tax. As of June 30, 2020, we did not have any reserves at the holding company level available for distributions to shareholders. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends.

No Material Adverse Change

After due and careful consideration, our directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2020, and there is no event since June 30, 2020 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

Listing Expenses

We expect to incur listing expenses of approximately RMB443.4 million after June 30, 2020 (assuming that the Global Offering is conducted at the maximum Public Offer Price per Offer Share of HK$86.00 and the Over-allotment Option is not exercised). We expect to recognize RMB1.9 million as general and administrative expenses in the fiscal year ending December 31, 2020 and RMB441.5 million as a deduction in equity directly.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to our shareholders as of June 30, 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Company had the Global Offering been completed as of June 30, 2020 or at any future date.

	Consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2020[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted net tangible assets attributable to shareholders of the Company as of June 30, 2020	Unaudited pro forma adjusted net tangible			
				assets per Share[(3)]	assets per ADS[(4)]	assets per Share[(5)]	assets per ADS[(5)]
	(in thousands of RMB)	(in thousands of RMB)	(in thousands of RMB)	(RMB)	(RMB)	(HK$)	(HK$)
Based on the indicative maximum offer price of HK$86.00 per Offer Share...............	10,861,366	12,100,405	22,961,771	16.24	129.91	17.81	142.50

(1) The consolidated net tangible assets attributable to the shareholders of our Company as of June 30, 2020 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated net assets attributable to the shareholders of our Company as of June 30, 2020 of RMB13,828,662 thousands, after deduction of goodwill of RMB2,409,325 thousands and intangible assets RMB557,971 thousands, respectively.

(2) The estimated net proceeds from the Global Offering is based on the issuance of 160,000,000 Shares at the maximum indicative offer price of HK$86 per Offer Share after deduction of the estimated underwriting fees and other related expenses related to Global Offering and does not take into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued on conversion of convertible bonds and convertible preferred shares, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by our Company.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments for the estimated net proceeds from the Global Offering as described in note (2) and on the basis of 1,414,041,827 Shares in issue (excluding the 24,544,736 Class A ordinary shares held by JPMorgan Chase Bank, N.A. as of June 30, 2020, as depositary, which are reserved for future delivery upon exercise or vesting of share awards granted under the Company's Share Incentive Plans) assuming that the Global Offering had been completed on June 30, 2020, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued on conversion of convertible bonds and convertible preferred shares, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by our Company.

(4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents eight Shares.

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in RMB are converted into Hong Kong dollars at the rate of RMB1.00 to HK$1.0970, the respective exchange rates on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that RMB amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of our Company entered into subsequent to June 30, 2020.